



Reforming the Value-Added Tax Regulation on Electronic Commerce in Indonesia: Advancing Fairness in Digital Taxation

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Article History Received : 2026-07-30 Revised: 2026-08-12 Published: 2026-09-30 Keywords: <i>Digital Taxation;</i> <i>Electronic Commerce;</i> <i>Tax Fairness; Tax</i> <i>Neutrality; Value-</i> <i>Added Tax.</i>	The transformation of electronic commerce has created new challenges for the Value Added Tax (VAT) system, especially in ensuring fair taxation of domestic and cross-border digital transactions. Indonesia has developed a VAT regime for Trade Through Electronic Systems (PMSE), but the development of digital business models raises issues regarding neutrality, distribution of obligations, proportionality of compliance burdens, and legal certainty. This study aims to analyze the adequacy of electronic trade VAT regulations in Indonesia and formulate reform directions that can strengthen fairness in digital taxation. The research uses normative legal methods with legislative, conceptual, comparative, and analytical approaches through studies of primary, secondary, and international digital tax policy developments. The results of the study show that Indonesian regulations have improved the effectiveness of collection, but still face the asymmetry of responsibility between platforms, merchants, foreign digital providers, and consumers. The research produced a <i>Fair Digital VAT Regulatory Model</i> based on <i>destination-based taxation, functional platform liability, tax neutrality, proportional compliance, and accountable digital administration</i> . The model is recommended as a reform direction to integrate fiscal effectiveness with substantive justice, legal certainty, and competitive neutrality in Indonesia's digital trade ecosystem.

I. INTRODUCTION

The transformation of trade from the physical space to the digital space has changed the way economic value is created, transacted and consumed. Trade through electronic systems allows goods and services, including digital products from abroad, to be consumed by users in Indonesia without the physical presence of business actors within Indonesia's jurisdiction. (Hallan et al., 2026) These changes present a fundamental problem for tax law, how the state maintains the principles of

justice and legal certainty when economic activities are increasingly less dependent on the physical existence of business actors. In the context of Value Added Tax (VAT), this issue has become increasingly important because the nature of VAT which is basically imposed on consumption requires a balance of treatment between conventional transactions and digital transactions.

Indonesia has basically responded to these changes through the establishment of the VAT regime on Trade Through Electronic Systems

(PMSE). The reform gained an important foundation through Law Number 7 of 2021 concerning the Harmonization of Tax Regulations which, among other things, made changes to VAT provisions and emphasized the importance of expanding the tax base accompanied by the principles of justice and legal certainty. Furthermore, Minister of Finance Regulation Number 60/PMK.03/2022 provides a mechanism for collecting VAT on the use of Intangible Taxable Goods and/or Taxable Services from outside the customs area through PMSE by placing certain digital business actors as VAT collectors.(Santosa et al., 2026) The model represents an important shift from a tax collection mechanism that relies on physical presence to a digital and consumption-based mechanism in Indonesian jurisdictions.

However, the existence of a collection instrument does not by itself prove the achievement of tax justice. This is precisely where regulatory issues become more complex. PMK No. 60/PMK.03/2022 has been repealed since January 1, 2025 and its regulations were then integrated in PMK No. 81 of 2024 concerning Tax Provisions in the context of the Implementation of the Core System of Tax Administration. These changes show that Indonesia's digital tax law is still in the process of adapting to technological developments, business models, and the needs of tax administration that

are increasingly digitalized. At the same time, changes in the tariff mechanism and the basis for the imposition of VAT since 2025 show that the issue of fairness is not only related to who is obliged to collect taxes, but also how the tax burden is calculated and distributed to consumers in various digital transaction models.(Affila et al., 2026, p. 5) The Directorate General of Taxes, for example, explained that in the digital VAT regime, a rate of 12% applies with a certain imposition basis of 11/12 of the payment value for the relevant object.(Georgina Anggrenyta Putri, 2023)

This problem has become increasingly significant because there are differences in character between domestic digital business actors, foreign business actors, electronic commerce platforms, digital service providers, and traders who use platforms only as a means of transactions.(Heng & Lie, 2025) The disparity in economic and legal positions has the potential to create *regulatory asymmetry* if the VAT obligation is not designed based on the principles of neutrality, proportionality, legal certainty, and equality of tax burden. From a tax law perspective, the problem is not only how the state increases revenue, but whether the regulatory design is able to ensure that business actors in substantially comparable economic conditions receive comparable tax treatment.

Thus, the main problem of VAT in Indonesian electronic commerce is no longer just the absence of regulations, but the adequacy of existing regulatory designs in responding to the ever-changing structure of the digital economy. Legal reform is needed to re-examine the limits of collection authority, the criteria for subject matter to be subject to obligations, the mechanism for determining the basis for imposing taxes, the relationship between platforms and business actors, and the principle of fairness that is the basis for the distribution of VAT burdens. This research therefore views VAT reform on electronic commerce not only as an administrative agenda to improve *tax compliance*, but as a legal issue directly related to *tax neutrality*, *fairness*, and state legitimacy in collecting taxes in the digital economy. On this basis, this study analyzes the adequacy of VAT regulations on electronic commerce in Indonesia and formulates a direction for legal reform that can strengthen tax fairness without reducing legal certainty and the effectiveness of tax administration.

II. RESEARCH METHODS

This study uses normative legal research methods (*Normative Legal Research*) which is oriented to a doctrinal analysis of the norms, principles, concepts, and legal policies that govern Value Added Tax (VAT) in electronic commerce in Indonesia. The selection of normative methods is

based on the character of the research problem which is not primarily directed to measure taxpayer behavior empirically, but to test the adequacy, consistency, and fairness of positive legal design in responding to the characteristics of the digital economy. Normative legal research is used to identify *Legal Problems*, interpret applicable norms, test the relationship between norms, and formulate prescriptive arguments regarding the direction of the necessary legal reform.(Sonata, 2014) Such an approach is relevant because the study of digital taxation requires an analysis of the law as a system of norms that must provide certainty, consistency, and fair treatment of legal subjects under comparable conditions.

This research uses four complementary approaches, namely *Statute approach*, *conceptual approach*, *Comparative Approach*, and *Analytical Approach*.(Jonaedi Efendi & Rijadi, 2022, p. p. 20) *Statute approach* is used to identify and analyze the construction of VAT law that applies to electronic transactions, including the provisions of the Constitution of the Republic of Indonesia of 1945, Law Number 6 of 1983 concerning General Provisions and Tax Procedures as amended several times, Law Number 8 of 1983 concerning Value Added Tax and Sales Tax on Luxury Goods as last amended through Law Number 7 of 2021 concerning the Harmonization of Tax Regulations, as well as implementing

regulations related to digital transactions. Law No. 7 of 2021 is one of the main instruments because it makes changes to the VAT system, including objects, facilities, and VAT rates.

The analysis also pays attention to the development of administrative regulations after the enactment of the Tax Administration Core System. In particular, the study places the Minister of Finance Regulation Number 81 of 2024 as one of the important sources of law because the regulation integrates various provisions for tax administration electronically and at the same time repeals PMK Number 60/PMK.03/2022 regarding the VAT mechanism for the use of intangible taxable goods and/or taxable services from outside the customs area through PMSE. The development of regulatory changes up to PMK Number 1 of 2026 is also taken into account so that the analysis does not rely on norms that are no longer applicable.

The conceptual approach is used to test the legal concepts that are parameters in assessing the fairness of digital VAT regulations. The main concepts used include *tax fairness*, *tax neutrality*, *equal treatment*, *legal certainty*, *proportionality*, and *tax jurisdiction*. These concepts are used as evaluative parameters to determine whether the differences in tax treatment between conventional business actors, domestic digital business actors, foreign digital service

providers, and business actors operating through electronic platforms have an objective and proportionate legal basis. The conceptual approach is also used to distinguish between formal justice, which emphasizes equal treatment based on norms, and substantive justice, which takes into account differences in economic position and transaction character in the digital ecosystem.

Furthermore, the *comparative approach* is used in a limited way to obtain a comparative perspective on the design of consumption taxation in the digital economy. The comparison is directed at relevant international jurisdictions and developments, especially the OECD's approach to the challenges of taxation of the digital economy and the implementation of consumption tax collection mechanisms for cross-border digital services or products. The comparative approach is not intended to transplant the rules of other countries directly into the Indonesian legal system, but rather to identify regulatory practices that can be used as a reference in building a legal design that is in accordance with the institutional character and taxation system of Indonesia. Thus, the comparison is used as an instrument of evaluation and development, not as a substitute for analysis of national law.

Research legal materials consist of primary, secondary, and tertiary legal materials. Primary legal materials include the constitution, tax

laws, government regulations, regulations of the minister of finance, regulations of the Directorate General of Taxes, and other legal instruments that have direct relevance to VAT and trade through electronic systems. Secondary legal materials include scientific journal articles, law books, tax doctrines, research results, international institution reports, and academic publications that discuss tax justice, digital economy, and tax reform. Tertiary legal materials are used as supporting materials in the form of legal dictionaries, encyclopedias, and reference sources that help provide definitions of terminology used in research.

The collection of legal materials is carried out through library *research* with inventory, classification, and systematization techniques based on their relevance to the research problem. The collected legal materials are then analyzed qualitatively using juridical reasoning, systematic interpretation, teleological interpretation, and prescriptive argumentation. The analysis stage begins with identifying the norms that regulate VAT in electronic commerce, mapping the relationship and potential disharmony between norms, testing these norms based on the principles of fairness and tax neutrality, comparing them with the development of international approaches, and evaluating the juridical consequences of the applicable regulatory design.

In the final stage, the research uses a prescriptive analysis method to formulate the direction of VAT regulation reform in electronic commerce. The reforms formulated are not solely directed at increasing state revenue, but at creating a balance between the state's fiscal interests, legal certainty, ease of administration, taxpayer protection, and equal treatment between business actors in the digital ecosystem. With this approach, the research is expected to be able to produce a construction of legal reform that not only answers normative weaknesses in the applicable digital VAT regulations, but also provides a conceptual basis for the establishment of an Indonesian digital taxation system that is more fair, neutral, proportional, and adaptive to the development of electronic commerce.

III. RESULTS AND DISCUSSION

A. Construction of VAT Regulation in Electronic Commerce in Indonesia

The results of the study show that Indonesia has built a legal basis that allows the collection of Value Added Tax (VAT) on electronic commerce activities, although the construction still faces problems in terms of norm coherence, distribution of responsibilities, and regulatory ability to follow the development of digital business models. VAT is essentially a tax on consumption that should follow the substance of the transaction, not just the form or

medium used to conduct transactions.(Utomo, 2017) This character is becoming increasingly important in electronic commerce because a single transaction can involve consumers in Indonesia, overseas merchants, digital platforms, payment providers, and technology providers simultaneously. The existence of these various actors makes the effectiveness of regulations not sufficiently assessed from the existence or absence of VAT obligations. The quality of regulation is also determined by the ability of the law to identify consumption points, determine responsible parties, classify tax objects, and provide an effective and proportionate collection mechanism.(Siahaan & Salsabila, 2026) The problem of Indonesia's digital VAT regulation ultimately lies in the legal ability to distribute tax obligations fairly among actors who carry out different economic functions.

The evolution of PMSE VAT regulations shows that there are efforts by the government to adjust tax laws to changes in trade structure. PMK No. 60/PMK.03/2022 was previously a special instrument to regulate the collection of VAT on the use of Intangible Taxable Goods and/or Taxable Services from outside the customs area through PMSE.(Ramadani & Pramukti, 2023) These provisions were then repealed and integrated into PMK No. 81 of 2024 which regulates the implementation of the Core System of

Tax Administration. PMK No. 81 of 2024 is effective from January 1, 2025 and has undergone several changes, including changes through PMK No. 1 of 2026. These developments show that the Indonesian tax system is moving towards digital-based administrative consolidation. Administrative consolidation provides benefits in the form of process and system integration, but it has not automatically resolved the issue of substantive justice in digital VAT collection. The ongoing regulatory changes actually show that the law is still making adjustments to technological dynamics, business models, and tax administration needs.

The structure of electronic commerce shows significant functional differences between digital service providers, *Online Marketplace*, merchants, payment providers, and consumers. These differences in functions have consequences for determining the most appropriate party to carry out VAT collection obligations. Platforms that control the transaction process and have access to payment information have different administrative capacities than small merchants who only use platforms as a means of marketing.(Manurung, 2024) The use of formal categories solely as a basis for attribution of obligations has the potential to produce inaccuracies in determining the parties who are economically most capable of carrying out the collection function.(Muhammad et al., 2025, p. p. 32) Two transactions that have

similar economic substance can also receive different treatment if the structure of the platform used is different. The regulatory approach based on economic functions becomes more relevant because it is able to connect legal obligations with the actual role of each actor in the transaction.

The principle of tax neutrality reinforces this need. The VAT system should ideally not create distortions to consumers' choices between conventional transactions and digital transactions if the two transactions economically have the same consumption character.(Junianto & Ardiansyah, 2026) The OECD places neutrality as one of the key principles in the design of VAT/GST and encourages taxation systems that do not give undue competitive advantages to certain business models. The OECD also identifies digital platforms as strategic actors in VAT/GST collection because they are positioned to enable the collection of transaction information and the execution of collection on a large scale.(Hikmah, 2020) This principle shows that digitalization should not be the basis for the emergence of different tax treatment without objective reasons. Equality of treatment should be determined based on the economic substance of the transaction and not just on the basis of the trade channels used.

PMSE VAT revenue data provides evidence that the collection mechanism through the digital

ecosystem has had considerable fiscal effectiveness. The government recorded PMSE VAT revenue of IDR 37.40 trillion until February 28, 2026. In the same period, 260 business actors have been appointed as PMSE VAT Collectors and 223 collectors have collected and paid VAT.(Tax, 2026) This figure shows that the government has succeeded in building *Tax Collection Leverage* through digital actors who have technological capacity and access to consumer transactions. The effectiveness of revenue still has limitations as an indicator of regulatory success. The amount of revenue does not provide sufficient information about the distribution of tax burden between large and small business actors, domestic and foreign actors, or between platforms and traders. Evaluation of digital VAT needs to include dimensions *Regulatory Fairness, Competitive Neutrality*, and the proportionality of compliance costs.

The function of platforms in the digital tax system shows a change in the relationship between the state and private actors. Platforms no longer solely act as commercial intermediaries when regulations provide certain responsibilities in the VAT collection process.(Gafur et al., 2025, p. p. 34) OECD gets to know the model *VAT/GST liability platform* which places the platform as the party responsible for calculating, collecting, and depositing VAT/GST on certain transactions it facilitates.(Wijaya &

Utamawati, 2018) The model has administrative rationality because the state can reach many transactions through a number of platforms with lower supervision costs. Giving the collection function to the platform also creates the need for limitation of legal liability. System errors, data errors, transaction cancellations, and misclassifications of tax objects can raise problems regarding the party that must be responsible. The efficiency of the collection must therefore be balanced with certainty regarding the scope of the platform's obligations.

Regulatory changes through PMK No. 81 of 2024 and various regulations that change show the adaptive character of the Indonesian tax system. **Dhaniel Hutagalung et al., "Reconstructing the Legal Certainty of Corporate Tax Compliance in the Era of the Coretax System: Between Administrative Efficiency and Protection of Taxpayer Rights," Jhukbis 1, no. 1 (2026): pp. 1-18, <https://jurnal.unipem.ac.id/index.php/jhukbis/article/view/575>.**

Adaptability has a positive value because the law must be able to respond to the rapid development of digital transactions. Normative stability is still needed so that business actors have certainty in designing compliance systems, contracts, and technology. Too frequent changes to technical aspects without a stable policy framework can increase *Regulatory Uncertainty*. This

condition shows that digital VAT reform requires a balance between *Regulatory Adaptability* and *Legal Stability*. (Kriswandaru, 2026) Good regulation is not regulation that does not change, but regulation whose substance changes are predictable and remain in a consistent policy direction.

The legal construction shows that the consolidation of tax administration is not yet synonymous with the consolidation of the principle of justice. An increasingly integrated system can strengthen the state's capacity to collect taxes, but the quality of the distribution of liabilities still depends on the substance of the norms used. Digital tax law requires broader parameters than just revenue effectiveness. The principles of neutrality, equality, proportionality, legal certainty, and accountability must be part of the measure of regulatory success. These findings serve as a basis for further testing whether Indonesia's digital VAT mechanism has been able to provide balanced treatment to all actors in the e-commerce ecosystem.

B. Taxation Asymmetry and Justice Issues in the Digital Ecosystem

The fairness of taxation in electronic commerce cannot be equated with the application of identical tariffs to all transactions. Tariff similarity only reflects *formal equality*, while substantive justice requires the division of obligations

based on the economic function and legal capacity of each actor. (Al Huda & Furqon, 2026) Large-scale digital platforms have payment systems, technological infrastructure, data analysis capabilities, and direct relationships with consumers. Micro-merchants who use marketplaces do not have the same administrative capacity. Legal treatment that is completely identical to the two groups can actually result in injustice because the relative burden of compliance borne by each is different. Equality in the digital tax system should be understood as proportionate treatment of actors who have different economic positions and legal functions.

The platform's strategic position in VAT collection is supported by international policy developments. The OECD notes that about two-thirds of cross-border e-commerce sales of goods are made through *Online marketplaces*. (Putri et al., 2024) This position makes the platform a strategic point in VAT/GST collection because a single mechanism applied to the platform can reach a large number of sellers and transactions. This condition provides a strong reason for the country to use the platform as a *Compliance Intermediary*. The use of the platform as a fixed collection point requires clear limits so that liability does not extend to all types of platforms without considering the level of involvement in the transaction. The basis for the imposition of liability

should be linked to the function and level of control of the platform over transactions.

The difference in position between domestic and foreign business actors is another problem in the design of digital VAT. Business actors located in Indonesia are relatively easier to supervise through national administrative mechanisms because they have a physical presence and direct legal relationship with Indonesian jurisdiction. Overseas digital service providers can provide services to Indonesian consumers without having comparable physical infrastructure in Indonesia. (Fitrianti et al., 2025) These differences can create *competitive imbalance*. If the transaction is substantially the same, it receives different tax treatment. The destination principle becomes relevant in this situation because the consumption that occurs in Indonesia remains consumption within the Indonesian jurisdiction even if the provider of the goods or services is abroad. (Julianti & Subekti, 2018) Taxation rights based on consumption location can reduce distortions arising from reliance on physical presence.

The OECD has developed a range of approaches to address these challenges, including a simple registration mechanism for overseas providers and the use of platforms as a party to collect VAT/GST. These approaches show that the principle of fairness can go hand in hand with administrative efficiency. Foreign business actors can still be subject to

tax obligations without always having to be treated the same as domestic business actors in all aspects of administration.(Fredlyna et al., 2025) Procedural differences can be justified as long as the substantive obligations to consumption remain balanced. Indonesian regulations can take advantage of this principle by distinguishing administrative mechanisms based on the character of business actors, but still maintain an equal tax burden on economically equivalent consumption.

Compliance costs are an important part of the issue of justice. Data collection, reporting, documentation, reconciliation, and retention obligations can be a relatively small burden for large tech companies, but they can be a significant burden for small businesses.(Brigitta & Maratno, 2025) This burden is not always reflected in the nominal tax paid. A tax system that nominally provides the same rate can result in inequality if the cost to fulfill these obligations differs extremely. Digital VAT regulations therefore need to pay attention *Compliance capacity* as part of the design of justice. Administrative differentiation based on the scale of business or economic function can be justified as long as it is based on objective criteria, transparent, and has a rational relationship with the purpose of taxation.(Furqon et al., 2022, p. 44)

The issue of data adds a new dimension to the relationship between justice and digital tax

administration. Platforms have much more detailed information about transactions than tax authorities that only receive information through reporting mechanisms.(Amelia et al., 2021) This information can include the identity of the seller, the value of the transaction, the payment method, the time of the transaction, as well as the characteristics of the consumer. The OECD places the exchange of information and cooperation between platforms and tax authorities as important instruments in improving VAT/GST compliance.(Lubis et al., 2023) The use of data can indeed improve the state's ability to identify transactions that were previously difficult to monitor. Access to data must remain limited by the principles of purpose of use, proportionality, security, and accountability so that fiscal interests do not develop into uncontrolled access to information.

Consumers are also part of the digital VAT justice structure. VAT is ultimately a consumption tax so transparency about prices and taxes has direct consequences for consumers.(Kodu et al., 2025) Consumers need to know if the price displayed includes VAT, who collects it, and how corrections are made when transactions are cancelled or refunded.(Lamsah, 2025) Digital commerce structures can make consumers interact primarily with the platform, rather than with sellers directly. Such a position has the potential to create confusion regarding who is responsible for

collection errors. Tax transparency should therefore be seen as part of *Consumer Fairness*, not just the administrative obligations of the platform.

This condition shows that the main problem with Indonesia's digital VAT does not lie in the absence of collection instruments. The state already has mechanisms that are able to generate revenue while reaching digital actors. A more fundamental problem is how these responsibilities are distributed among the state, platforms, traders, and consumers. A tax system that succeeds in increasing revenue does not necessarily meet the principle of fairness if the administrative and substantive burdens are not shared proportionately. The orientation of reform therefore needs to be directed towards *the fair allocation of tax responsibilities*. Increasing revenue is an important consequence, but it is not the only measure of the success of reform.

C. Fairness and Tax Neutrality-Based VAT Regulation Reform Model

Reform of e-commerce VAT regulations needs to be directed at legal constructions that link economic functions, consumption locations, compliance capacity, and proportionality of liabilities. Such an approach is necessary because e-commerce models do not have a uniform structure. Platforms can function as mere meeting spaces

between sellers and buyers, but certain platforms can also control payments, transaction settlement, promotions, delivery, and consumer relationships.(Firdaus et al., 2026) These differences in levels of control have direct relevance to the determination of tax liability. Regulations that use one category for all types of platforms risk being too broad or too narrow. A function-based model allows the law to maintain flexibility without losing certainty.

The platform's responsibilities as *Tax Collection Intermediary* can be one of the main pillars of reform.(Utami et al., 2025) The model allows countries to concentrate the collection function on the actors with the greatest technological capacity and access to data. The OECD has developed an approach *VAT/GST liability platform* which gives the platform the responsibility of collecting for certain transactions it facilitates.(Pratiwi, 2021) The application of these principles in Indonesia needs to be accompanied by *functional threshold* which determines when a platform is considered to have sufficient involvement to carry out its collection obligations. A platform that only provides communication facilities cannot be automatically equated with a platform that controls payments and transaction settlements. Such differentiation is necessary to maintain proportionality of liability.

Principle *equal treatment for economically equivalent transactions* It

needs to be a key parameter in reform. Transactions that generate the same type of consumption should not earn tax benefits just because they are done through certain digital channels.(Hidayat, 2026) This principle can be applied to domestic and cross-border transactions, digital goods and services, as well as direct transactions and platform-facilitated transactions. The destination approach supports this principle because taxation rights are linked to the place of consumption. Indonesian reform can make this principle as *Normative Benchmark* when establishing exceptions, thresholds, collection mechanisms, and treatment of foreign providers. Equality of the substance of transactions should be the basis for evaluation, while procedural differences can only be maintained if there are objective administrative reasons.

The design of the reform also needs to take into account the proportionality of compliance costs. Small traders should not bear the same administrative obligations as multinational platforms when their technical capabilities and economic capacity are different. A proportional system can place collection and reporting obligations on the platform for specific transactions, while traders still have substantive obligations in accordance with their tax status.(Ismuhadi, 2026, p. p. 53) Such an approach can reduce duplication of obligations and prevent excessive compliance costs. Principles

Substantive equality provides a theoretical basis for the differentiation because equality does not necessarily mean the identity of treatment. The criteria of differentiation must remain objective and can be tested so that they do not turn into preferential treatment that has no legal basis.

The integration of VAT with data governance is another component of reform. The digital collection system requires a fast and accurate exchange of data between platforms and tax authorities. The Core System of Tax Administration developed through PMK No. 81 of 2024 provides the foundation for such administrative integration.(Rinawati et al., 2026) Technology integration can improve the state's ability to verify transactions and reduce the information gap between taxpayers and authorities. The mechanism must be equipped with limits on the type of data, purpose of use, access to officials, information security, and accountability for errors. *Digital tax governance* that effectively requires a combination of supervisory capacity and legal protection.

Legal certainty should be the principle that controls the reform process. Regulatory changes are necessary as business models and technologies change, but fundamental norms regarding tax objects, points of consumption, responsible subjects, and the principle of neutrality should have greater stability. Technical provisions regarding reporting,

system integration, and electronic procedures can be adjusted through implementing regulations. These patterns create divisions between *Stable Legal Principles* and *Adaptive Administrative Rules*. Such a structure allows the law to respond to technological changes without sacrificing predictability for business actors.(Hermanto et al., 2026)

Correction and dispute resolution mechanisms also require adjustments. Electronic transactions may be canceled, *Refund*, price changes, system errors, or payment failures that affect the amount of VAT payable.(Siregar, 2026) A system that is only oriented towards initial collection without a clear correction mechanism can cause injustice. Platforms that carry out the collection function must have correction procedures that are integrated with the transaction system and tax administration.(Fajriyah, 2025) Consumers and merchants also need a mechanism to file an objection if there is a collection error. Certainty about who is responsible for each type of error will strengthen the legitimacy of the system while reducing disputes.

Based on the overall findings, this study offers *the Fair Digital VAT Regulatory Model* as a direction for reforming Indonesia's VAT e-commerce regulations. The model is based on five interrelated principles, namely *destination-based taxation*, *functional platform liability*, *tax neutrality*, *proportional compliance*, and *accountable digital*

administration. The first principle determines the location of consumption as the basis of taxation jurisdiction. The second principle determines responsibility based on the economic function of the platform. The third principle prevents distortion between substantially equivalent transactions. The fourth principle limits the administrative burden based on the capacity and function of business actors. The fifth principle ensures that the use of technology and data remains within the framework of legal certainty and accountability. The integration of these five principles provides a more comprehensive structure than an approach that only focuses on increasing the number of tax collectors.

The model places fairness as a substantive goal and efficiency as a supporting instrument. Data on PMSE VAT revenue of IDR 37.40 trillion until February 2026 shows that the digital mechanism has made a significant fiscal contribution.(et al., n.d., p. 33) These fiscal achievements should be the foundation for improving the quality of regulation, not a reason to stop reforms. The state has an interest in maintaining revenue, while business actors need certainty and consumers need transparency. The balance of these three interests determines the legitimacy of digital taxation in the long term.

Electronic commerce VAT reform thus does not require a complete replacement of the system

that has been built. A more needed change is a shift in regulatory orientation from *Collection-Centered Regulation To fairness-centered digital taxation*. (Joko Ismuhadi, n.d., p. 60) The state still has the right to collect VAT on consumption that occurs in Indonesia. The platform can still be used as an efficient collection instrument. Traders continue to carry out their tax obligations based on their economic status and functions. Consumers gain transparency regarding the taxes charged. The division of functions creates a more proportionate relationship between state authority and the responsibilities of private actors.

The construction results in the conclusion that fairness in digital taxation cannot be achieved through uniform tariffs alone. Fairness requires substantial equality, a distribution of obligations based on functions, neutral treatment of comparable transactions, proportionate compliance costs, and accountable administrative mechanisms. Reform of Indonesia's VAT law needs to move towards a system that is able to maintain fiscal effectiveness while ensuring normative legitimacy. *The Fair Digital VAT Regulatory Model* offers such a framework by placing the law not only as a revenue collection tool, but as an instrument to ensure that the transformation of electronic commerce does not create new forms of inequality in the national tax system.

IV. CONCLUSION

The transformation of trade towards a digital ecosystem has changed the character of the relationship between the state, business actors, platforms, and consumers in the collection of Value Added Tax (VAT). Indonesia has responded to these changes through the establishment and improvement of VAT regulations on Trade Through Electronic Systems (PMSE), including the integration of tax administration through the Regulation of the Minister of Finance Number 81 of 2024 and its amendments. These developments show that the state already has a legal instrument that allows the collection of VAT on domestic and cross-border digital transactions. The problem found in this study is no longer the lack of a legal basis for digital taxation, but the limitations of regulatory design in ensuring a fair, proportional, neutral, and legal certainty distribution of tax obligations amid the diversity of electronic business models.

The analysis shows that the effectiveness of PMSE VAT collection cannot be used as the only indicator of the success of digital tax reform. The growth in revenue and the increase in the number of business actors designated as VAT collectors prove that there is an increasingly strong *tax collection capacity*. The fiscal effectiveness still leaves the problem of the distribution of tax burden between digital platforms, merchants,

digital service providers, and consumers. The difference in economic and technological capacity between actors also results in different levels of compliance capabilities. The uniform implementation of obligations without considering economic functions and administrative capacity can create a *disproportionate compliance burden*, especially for business actors with a more limited scale and technological capacity.

The issue of fairness also arises in the relationship between domestic business actors and foreign digital providers. Reliance on physical presence as a basis for supervision is no longer adequate in electronic transactions that allow foreign providers to serve Indonesian consumers without a significant physical presence. The destination principle is important to ensure that consumption that occurs in Indonesia remains within the scope of Indonesia's tax rights. The principle of *tax neutrality* is also needed so that transactions that are substantially equivalent do not receive different tax treatment simply because they use different trade channels. Tax fairness in the digital economy must therefore be understood as substantive equality, not just the same tariff or formal treatment.

This study offers a *Fair Digital VAT Regulatory Model* that relies on five main principles, namely *destination-based taxation*, *functional platform liability*, *tax neutrality*,

proportional compliance, and *accountable digital administration*. The model places consumption locations as the basis for taxation jurisdiction, economic function as the basis for platform responsibility attribution, neutrality as an instrument to prevent competitive distortions, proportionality as a compliance burden limit, and accountability as the basis for data management and digital tax administration. The model allows fiscal effectiveness to be maintained without neglecting legal certainty and substantive justice.

Reform of Indonesia's VAT regulations on electronic commerce is recommended to be directed at strengthening platform responsibilities based on the function and level of control over transactions, simplifying obligations for business actors with limited capacity, strengthening destination-based taxation mechanisms for foreign providers, and integrating data exchange systems with legal protection and accountability. Fundamental norms regarding tax objects, jurisdictions, neutrality, and responsibilities need to have stability, while administrative procedures can be designed to be more adaptive to technological developments. This approach will shift the orientation of digital taxation from mere *revenue collection* to a system that is able to combine fiscal effectiveness, fairness, neutrality, proportionality, and legal certainty. Digital VAT reform must

ultimately be positioned as a legal reconstruction to ensure that the growth of the electronic economy does not result in new forms of inequality in Indonesia's tax system.

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