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TAX REGULATIONS ON CRYPTOCURRENCY TRANSACTIONS IN INDONESIA

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ABSTRACT

This study explores the evolving landscape of cryptocurrency taxation in Indonesia, focusing on regulatory developments and challenges. Tracing the trajectory from the introduction of Bitcoin in 2009 to the establishment of a formal crypto exchange in 2023, this research emphasizes the government's commitment to regulate and facilitate crypto asset trading. Despite this progress, challenges such as regulatory uncertainties, and security concerns, necessitate a profound understanding of cryptocurrency dynamics to navigate the global financial landscape. This research focuses on exploring Indonesia's regulatory response, particularly in taxation, employing a qualitative descriptive methodology that integrates primary data from legal frameworks and secondary data through literature reviews, document analyses, and interviews with cryptocurrency traders and tax officials. So that the evaluation results can be a basis for recommending improvements to tax regulations to make them more effective and efficient. This study contributes not only to academic discourse but also provides insights for fostering the growth of the cryptocurrency ecosystem while managing potential tax-related risks.

INTRODUCTION

Cryptocurrency has emerged as a phenomenon dominating the global financial landscape in recent years (Anastasia & Saptono, 2023). With the development of blockchain technology, this digital currency presents a revolutionary alternative to traditional financial systems (Noor et al., 2023). Since the introduction of Bitcoin in 2009 by an entity using the pseudonym Satoshi Nakamoto, the cryptocurrency market has experienced rapid growth, giving rise to various other digital currencies such as Ethereum, Ripple, and Litecoin (Fang et al., 2022).

The evolution of cryptocurrency extends beyond technical aspects, influencing various economic, social, and legal dimensions. The fluctuating market value of cryptocurrency has captured the attention of numerous investors and traders. Meanwhile, its underlying blockchain technology offers innovative solutions to security and transparency issues in financial transactions. Additionally, the phenomenon of Decentralized Finance (DeFi) has emerged as a new branch that combines cryptocurrency with the concept of decentralized finance, providing fresh opportunities for financing and investment without the need for traditional intermediaries (Sukomardojo et al., n.d.).

Based on Finder survey data from 27 countries in December 2021, Indonesia holds the fourth position as the largest cryptocurrency user, comprising 22.4 percent, following Vietnam

(28.6 percent), India (23.4 percent), and Australia (22.9 percent). Crypto ownership is predominantly among young individuals aged between 18-34 years. Indonesia also recorded a six percent increase compared to the previous year (16.4 percent). However, it is crucial to acknowledge that with the increasing utilization of crypto assets and their market value, the potential for unlawful acts and crimes in the cryptocurrency industry is also inevitable (Widhiyanti et al., 2023).

On February 8, 2019, the Commodity Futures Trading Regulatory Agency of Indonesia (Bappebti), under the Ministry of Trade, issued Regulation BAPPEBTI No. 5 of 2019—a bold step aimed at directly regulating the cryptocurrency ecosystem within the country. This decision marks a significant move for Indonesia, aligning with global trends in establishing a clear national legal framework related to cryptocurrency. The enforcement of these regulations and corresponding enforcement provisions reflects the government's response to the dynamics of the global market, providing a robust legal foundation to manage and oversee the development of cryptocurrency in Indonesia. On July 28, 2023, the government officially inaugurated a crypto exchange through Decision of the Head of Bappebti No. 01/BAPPEBTI/SP-BBAK/07/2023. This decision establishes a new legal basis and signifies the government's commitment to regulate and facilitate the trade of crypto assets in the country. Until September, records indicate active participation from 27 Prospective Physical Traders of Crypto Assets (CPFAK) who have registered as members of the Indonesian crypto exchange.

However, like any new development, cryptocurrency faces several challenges, including uncertain regulations, security concerns, and high value fluctuations. Therefore, a deep understanding of cryptocurrency developments is crucial in responding to the dynamics of the global financial market (Chang, 2019).

Tax regulation on cryptocurrency in Indonesia has become a crucial aspect receiving increasing attention in line with the rapid growth of the digital currency market. The Indonesian government, in collaboration with tax authorities, has responded to the cryptocurrency phenomenon by specifying tax obligations for crypto transaction participants. In recent years, efforts to comprehend and adjust tax regulations related to cryptocurrency have been a focal point in creating a transparent and fair business environment (Ayu & Wati, 2022). In this context, this article aims to explore the developments in tax regulations concerning cryptocurrency in Indonesia. The research encompasses an understanding of the policies and actions taken by tax authorities to ensure tax compliance in the digital currency sector. Through a deeper understanding of cryptocurrency tax regulations in Indonesia, we can construct a framework that aids in fostering the growth of this ecosystem while mitigating potential tax risks faced by industry participants.

RESEARCH METHODS

The method utilized in this research is the qualitative descriptive research method. This study involves the collection of descriptive data, employing a method of presenting words or sentence frameworks to delve into a specific phenomenon by referring to observed field facts. These observations are then represented through a structured arrangement of sentences. This approach enables a meticulous investigation of a phenomenon, using sentence structure as an analytical tool and visualizing findings based on field observations clearly and systematically (Moleong, 2021). The study was conducted through the collection of primary and secondary data. Primary data is obtained from a specific group of elements or units of analysis utilizing techniques and data collection tools such as interviews, questionnaires, or surveys. Meanwhile, secondary data involved the analysis of data previously collected by others, including literature reviews, document analysis, or the utilization of secondary data from sources such as previous research, archives, or other legal information sources (Mahadianto & Setiawan, 2013).

Meanwhile, this qualitative approach enables researchers to leverage existing knowledge and conduct more in-depth data analysis on the gathered information. By combining primary and secondary data, qualitative research can achieve a higher level of depth in understanding the investigated phenomenon. This approach provides flexibility to explore various dimensions and contexts of an issue, allowing researchers to craft a more profound narrative regarding the research findings. In the context of this study, the population and sample are obtained through the distribution of questionnaires to cryptocurrency traders and interviews with tax officials. This qualitative approach allows researchers to holistically utilize both primary and secondary data, providing a comprehensive understanding of the issues and facilitating the creation of a more in-depth research narrative (Wati, 2018).

RESULTS AND DISCUSSION

Regulation is defined as regulatory actions carried out by the public sector, involving intentional interventions in economic activities, particularly related to the target population (Koop & Lodge, 2017). Tax regulation in the context of blockchain and cryptocurrency refers to a set of policies and norms related to the imposition of duties and taxes on transactions and ownership of cryptocurrency. Tax regulation on cryptocurrency involves specific aspects, including the taxation of capital gains from cryptocurrency transactions, the levying of taxes on income derived from mining or staking cryptocurrency activities, and responsibilities related to reporting cryptocurrency ownership in annual tax reports (Peláez-Repiso et al., 2021).

In the contemporary era, many individuals in various countries, including Indonesia, express their interest in transactions involving cryptocurrency. However, cryptocurrency is not recognized as a valid means of payment, in accordance with regulations in Indonesia that stipulate provisions regarding recognized currencies, as mandated by Law No. 7 of 2011. There is a clear clarification in these regulations stating that the Rupiah is the sole legal currency as a means of payment in Indonesia (Nitha & Westra, 2020). The Financial Services Authority also prohibits digital currency as the underlying asset for issuing securities and as a means of payment. Due to the increasing interest of investors and the public in crypto investments, the government has established Regulation No. 5 of 2019 by the Commodity Futures Trading Regulatory Agency (BAPPEBTI), allowing digital currencies to be treated as commodities. The objective is to provide legal certainty for the development of crypto asset businesses and legal protection for the public engaged in transactions through the specified provisions (Serfiyani, 2019).

A study by PwC (2022) indicates that 65% of investors in Indonesia are uncertain about the legality of crypto. However, with the approval of PT Bursa Komoditi Nusantara as a Cryptocurrency Futures Exchange by BAPPEBTI on July 17, 2023, a significant increase in the total number of investors is recorded. In August 2022, there were a total of 16.1 million cryptocurrency investors, and by November 2023, this number increased to 18.25 million, showing a growth of 13.35%, indicating increased trust among Indonesian investors following the government's recognition of crypto commodities (Bappebti, 2022; Bappebti, 2023).

According to the Regulation of the Commodity Futures Trading Supervisory Agency Number 5 of 2019 concerning Technical Provisions for the Implementation of Physical Crypto Asset Markets on Futures Exchanges, it regulates the requirements to be fulfilled by Physical Crypto Asset Traders, including the obligation to notify changes in systems, business processes, and regulations, as well as provide access to all systems used to Bappebti. This is intended to ensure transparency and supervision of crypto asset trading activities. Furthermore, the regulation also sets requirements for Crypto Asset Storage Place Managers, including minimum capital requirements that must be met. With the minimum capital requirements, it is expected that crypto asset businesses can operate stably and provide protection for individuals transacting in the physical crypto asset market. Additionally, this regulation establishes criteria that must be met by crypto assets to be traded, including market capitalization, economic benefits, and risk assessments. With these criteria, it is expected that traded crypto assets in the physical market can provide economic benefits and have been assessed for their risks, thus providing protection for individuals transacting with these crypto assets.

The government's efforts to regulate and facilitate crypto asset trading began with the establishment of regulations by Bappebti governing the Implementation of Commodity Physical Market on Futures Exchange in Bappebti Regulation No. 2 of 2019, Bappebti Regulation No. 5 of 2019, subsequently amended by Regulation Bappebti No. 9 of 2019, Bappebti Regulation No. 2 of 2020, and Bappebti Regulation No. 3 of 2020 regarding Technical Provisions for the Implementation of Physical Crypto Asset Market on Futures Exchange, as well as the Determination of Crypto Assets List that can be traded in the Physical Crypto Asset Market regulated in Bappebti Regulation No. 7 of 2020. These regulations are based on other legal foundations, including Law No. 32 of 1997, further amended by Law No. 10 of 2011 concerning Commodity Futures Trading, Government Regulation No. 49 of 2014 concerning the Implementation of Commodity Futures Trading, and Minister of Trade Regulation No. 99 of 2018 concerning the General Policy for the Implementation of Crypto Asset Futures Trading. According to Bappebti Regulation No. 7 of 2020, there are 229 crypto assets that can be traded in the physical crypto asset market. The government also strives to control and ensure the security of crypto asset trading by establishing a series of provisions and regulations in Regulation Bappebti No. 5 of 2019. Furthermore, the government mandates crypto asset traders to create and submit daily and monthly reports of crypto asset transactions, provide daily, monthly, and annual financial reports, and submit quarterly company activity reports to Bappebti as stipulated in Bappebti Regulation No. 5 of 2019 (Bintarto, 2022).

A study by Chainalysis (2022) indicates that the crypto trading volume in Indonesia reached US$4.3 billion or IDR 60.2 trillion in 2022, making Indonesia one of the countries with the largest crypto trading volumes in the world. Given the extraordinary growth of crypto and to maximize tax revenue for the country, the government enacted PMK 68/PMK.03/2022 regarding value-added tax and income tax on crypto asset trading transactions. The tax collection process for crypto asset trading transactions, based on the Minister of Finance Regulation No. 68/PMK.03/2022, involves two main types of taxes: Value-Added Tax (VAT) and Income Tax (IT). A 0.11% VAT on the transaction value is imposed on the delivery of crypto assets, with Electronic System Trading Organizers (PPMSE) as sellers or intermediaries required to collect and remit the VAT to the government. Additionally, a 0.15% Article 22 Income Tax (IT) on the transaction value is levied on the income received from crypto asset transactions by PPMSE, which must also be withheld and remitted to the government. In general, the VAT and IT withdrawal process involves recording crypto asset transaction receipts, calculating the applicable taxes, tax collection or deduction by PPMSE from the seller or buyer, tax remittance to the government, and reporting VAT and IT in the designated Tax Return (SPT). Based on these calculations, the Indonesian Finance Minister, Sri Mulyani, stated that the country received IDR 231.75 billion in crypto taxes, obtained from IT, and self-reported IT with a nominal amount of IDR 110.44 billion, along with domestic VAT of IDR 121.31 billion. (CNN Indonesia, 2022)

In a brief interview with one of the local tax officials, Riza Savitri, she mentioned that with Indonesia's adopted self-assessment tax system, taxpayers are required to calculate, pay, and report taxes and profits from crypto transactions themselves. Income from the sale of crypto currencies is reported in the "other income" column on the Annual Tax Return (SPT). If the taxpayer, as an investor, holds Crypto Assets, whether as remnants from sales or unpurchased acquisitions, they must list them in the asset column, similar to the treatment of other assets. Crypto Assets as assets in the Annual Tax Return fall under the investment category alongside other types of investments. In imposing taxes on crypto asset trading transactions, the Indonesian government aims to: (1) Investigate crypto asset trading transactions; (2) Increase state revenue; (3) Prevent the misuse of crypto assets.

Riza asserts that the cryptocurrency tax regulations in Indonesia embody legal and justice principles in various dimensions:

a. Legal Certainty Principle

The cryptocurrency tax regulations in Indonesia have been clearly and definitively outlined in Minister of Finance Regulation Number 68/PMK.03/2022 of 2022 regarding Value Added Tax and Income Tax on Crypto Asset Trading Transactions. This regulation meticulously governs the tax object, tax rates, and tax collectors for transactions involving the trading of cryptocurrencies

b. Balance Principle

The cryptocurrency tax regulations in Indonesia exemplify a balance between the interests of the government and those of the public. The government aims to generate national revenue from the cryptocurrency sector, while the public desires the freedom to engage in cryptocurrency trading activities.

c. Justice Principle

The cryptocurrency tax regulations in Indonesia are implemented impartially and without discrimination. All taxpayers, including those participating in cryptocurrency transactions, are obligated to fulfill their tax responsibilities. This ensures that all taxpayers, including cryptocurrency transactors, contribute to the country's development. In her interview, Riza mentioned that;

"Generally, I assess that the effectiveness of current tax regulations related to cryptocurrency in Indonesia is quite satisfactory. These regulations clearly and firmly define the tax objects, tax rates, and tax collectors for cryptocurrency trading transactions.

Additionally, they provide legal certainty for all parties involved in cryptocurrency trading activities."

Furthermore, Riza added that there are several aspects to be improved in the future, namely;

a. Information Transparency

Enhancing information transparency regarding cryptocurrency tax regulations to ensure that all parties involved in cryptocurrency trading understand the regulations well**.**

b. Supervision Effectiveness

Increasing supervision of tax compliance in the cryptocurrency sector is necessary to ensure that all taxpayers, including those involved in cryptocurrency transactions, fulfill their tax obligations.

Subsequently, we collected respondent data from local cryptocurrency traders through a Google Form, with a total of nine respondents willing to participate. All respondents have undergone verification, with each individual being mandated to submit evidence showcasing their previous trading activities within locally registered markets supervised by BAPPEBTI.. This was done to compare two different perspectives. From the obtained data, 44.4% answered that they rarely report taxes, and even 55.6% answered that they never report taxes.

Furthermore, in response to the question regarding how tax regulations related to cryptocurrency affect their investment and trading decisions, eight respondents stated that they do not have any impact, while one respondent mentioned that it is somewhat detrimental.

CONCLUSION

Overall, the development of cryptocurrency in Indonesia reflects global dynamics, with the government attempting to regulate and facilitate the crypto asset market through various regulations, including the establishment of crypto exchanges and the enactment of tax rules. Despite a significant increase in investor participation and trading volume growth, challenges such as legal uncertainty, value fluctuations, and security concerns remain the focus of attention. In terms of tax regulation, concrete steps have been taken to ensure tax compliance in the cryptocurrency sector, but there is a discrepancy between regulatory implementation and the reality of tax reporting by industry players.

Although tax regulations have been deemed effective in providing legal certainty, the response from some cryptocurrency traders who rarely or never report taxes indicates that further efforts are needed to improve compliance and tax awareness among industry participants. Therefore, a deep understanding of tax regulations, education, and socialization related to tax obligations in the cryptocurrency sector can be key to responding to the development of this ecosystem sustainably.

The implications of cryptocurrency development in Indonesia encompass two main aspects: first, economic and financial impacts, and second, changes in regulatory and policy domains. Economically, cryptocurrency has opened new opportunities for investment and financing through the DeFi phenomenon, providing a new alternative outside the traditional financial system. The significant growth in crypto trading volume can also contribute to state revenue through taxation, as demonstrated by the government's tax regulation measures. However, challenges persist, including high value fluctuations that can affect market stability.

On the regulatory front, the implementation of rules and the establishment of crypto exchanges create a clearer legal framework, providing the basis for the government to manage and oversee the development of cryptocurrency in Indonesia. Its primary contribution lies in creating a transparent and fair business environment while establishing legal protection for individuals involved in crypto asset trading. However, this contribution still requires further steps to enhance tax compliance and legal awareness among industry participants. Therefore, education and socialization remain crucial factors to ensure that the development of cryptocurrency in Indonesia can proceed sustainably and positively contribute to the national economy.

In this research, we faced challenges due to a lack of interest from traders in completing the questionnaire, prompting the need to offer cash incentives before they were willing to participate. We hope that in the future, traders will be more proactive and willingly contribute to upcoming research endeavors.

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