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The Implementation of Tax Laws on Cryptocurrencies and NFTS in Indonesia is Progressing Well

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ABSTRACT

This study investigates the possibility of taxing digital assets such as cryptocurrency and NFT in order to raise funds for the government. Using normative research approaches, it is possible to determine if cryptocurrencies and other digital assets (NFT) should be subject to high or low tax rates. The study looked at the tax policies of numerous countries addressing cryptocurrencies and digital assets, in addition to studying bitcoin tax laws and NFT. Different laws, methods, and issues apply to the regulation of cryptocurrencies and NFT depending on the jurisdiction. There is no universal agreement on this.

Keywords: *taxes, cryptocurrencies, digital assets, NFT*

INTRODUCTION

Technology in particular, new items, can cause conflict in addition to their benefits. This holds true for the development of digital assets and currencies as well. The history of this product is the consequence of advancements in information technology, which gave rise to the Blockchain system, which cryptographically joins data blocks without the need for middlemen to send information in real time (Arslanian & Fischer,2019).

In recent years, blockchain has emerged as one of the most popular and promising technologies. Following the introduction of a new currency called Bitcoin, its popularity and value exploded in an instant. Blockchain was formerly only closely associated with Bitcoin. Blockchain technology, on the other hand, has matured into a stand-alone system that can be used for a variety of other purposes, such as improving payment procedures and storing data and transactions. In contrast to other centralized systems, security remains a major priority. It makes no difference if individual connections fail. The lack of intermediaries further improves data security. We are all aware that third-party data misuse is a criminal offense. One issue that still occurs on a regular basis is the trading of client credit card information. In contrast, blockchain does not fall under this category. (Kwak, 2019).

This is undeniably appropriate in some domains, and the financial sector makes substantial use of the blockchain concept. Because financial reporting on blockchain differs from that in traditional systems, bitcoin is by far the most extensively used use. Where separate institutions' regulations and directions must be followed. Bitcoin blocks are created by "miners," who are also responsible for validating blocks and are compensated in Bitcoin or other cryptocurrencies such as Ethereum (Omote&Yano,2020). Excavators are dedicated computational machines used by miners to validate blocks. The entire process is frequently referred to as "cryptocurrency mining," and Bitcoin

exemplifies how blockchain concepts might transform the nature of money transactions. The banking industry will soon be able to replace the majority of its processes with blockchain technology, greatly boosting payment processing. Credit card payments are now processed within hours, if not days. In blockchain, such delays are unnecessary because payments may be made in real time via the so-called universal ledger (Ajao et al., 2019). Blockchain has the ability to disrupt the entire traditional transaction process by automatically executing contracts in a cost-effective, transparent, and secure manner (Reinhard, 2019).

A survey of the literature revealed that blockchain has more uses. As an illustration, N. Szabo put up the idea of "smart contracts," which link computer protocols to user interfaces to carry out contract conditions (Westerkamp, 2019). Due to the blockchain system's ability to construct smart contracts more quickly with blocks, they are becoming more and more popular. The authors claim that such a novel approach might do away with the need for banks and attorneys to be engaged in the settlement of real estate contracts. Real and intangible property management could be improved via smart contracts (Jung,2018). A notable example of blockchain technology managing smart contracts in the paradigm described above is Buterin's decentralized system Ethereum (Tarkhanov, 2019). Ethereum can be seen as a blockchain fork of the Bitcoin network that offers a wider variety of applications. Gunay claims that contracts may now be created using encryption without the need for third parties like notaries, which was previously necessary to establish confidence, to be involved. Peer-to-peer networks and cryptography now allow users to trust one another and transfer different types of resources across the Internet (Gunay & Kaşkalolu, 2019). Wang claims that Georgia is the first nation to use blockchain to reintroduce its land registration system, doing away with the previous system's reliance on traditional bureaucracy (Wang et al., 2020).

NFTs are non-exchangeable tokens that are primarily used to establish digital asset ownership using Ethereum's blockchain technology. Assets include music, films, photos, collectibles, and other types of digital data, such as images of tools or in-game characters. Although they are occasionally advertised as proof of ownership of physical objects, each token acts as proof of ownership of an object, most often a digital asset. Others in the cryptocurrency community utilize an “immutable and cryptographically secured blockchain record,” comparable to a "digital certificate of title or stamp of authenticity," to confirm ownership of NFTs (Muthe et al., 2020).

Although the blockchain includes records of this ownership, the digital assets themselves are stored on "separate, non-cryptographically secured computers owned by the host platform." In a word, NFT is the tokenization of art-derived rights, such as a license to a certain combination. Having an NFT entitles you to the rights described in the NFT. Art collections and NFTs tend to be the most popular NFT categories, especially since Gozali and Ahmed and someone who was able to earn millions of dollars by selling his images on the NFT marketplace (Penowo, 2022).

This study will focus on how tax rules are applied on cryptocurrencies and NFTs, which are traded and used as digital assets and currency on a large scale. There is a substantial possibility to boost state revenue. It is legal to utilize it as an investment instrument as a commodity that may be exchanged on a futures exchange. The Indonesian Commodity Futures Trading Regulatory Agency (CoFTRA/Bappebti) has authorized and is in charge of supervising cryptocurrency trading.

MATERIALS & METHODS

The descriptive normative legal research approach was applied in this work. Legal research (legal study) is the investigation of

whether or not there are laws that govern a specific action. In this case, the author looks into the interaction between tax rules and a digital product, in this case bitcoin and digital assets. Given that bitcoin transactions are not particularly restricted by any legislative laws in Indonesia.

DISCUSSION

Cryptocurrency is a peer-to-peer network currency having an open source, mathematical underpinning. This currency lacks centralized management power as well as centralized control and monitoring. Cryptographic concepts are used in cryptocurrencies to build a secure information economy that may operate autonomously without being tied to a central authority (Busulwa & Evans, 2021). It is a virtual currency issuance system that acts as a standard currency and provides a virtual way to pay for goods and services without the need for a trustworthy central authority, according to some definitions (Al-Rawy & Elci, 2018).

There are no worldwide or domestic rules that govern the definition and use of cryptocurrencies. Because of the absence of regulatory rules, cryptocurrencies have a space in which they can operate independently, as well as the notion that they are an autonomous structure independent of legal authority. However, this is merely a temporary situation because many countries' main authorities and international organizations are still looking for legal foundations for these entities. Several aspects of cryptocurrencies are ambiguous, including whether they are legal in some countries but not in others. While some countries are still looking for the legal and technological infrastructure needed for cryptocurrencies and their technologies, others have already begun the process.

There are several areas in the national economy where there exist gaps due to the characteristics of cryptocurrencies and technological needs. This gap creates numerous opportunities and difficulties. Economic theory's infrastructure for economic authorities and policymakers to close this gap and make the best judgments is limited (Chiu & Koepl, 2017: 2)

Based on the search for legal regulations on cryptocurrencies, it can be stated that the idea that it provides a sound reflection of the impact of this technological innovation on the national and international dimensions of social, political, economic, and financial life and prevents its misuse is very important because cryptocurrencies are a decentralized system whose existence is created by individuals or institutions outside of the authority and control of the government. These characteristics provide a suitable environment for the execution of a variety of criminal operations that are sensitive to the international community, such as money laundering from illegal enterprises, illegal trade, illegal gaming, tax evasion, and terrorism financing (Reinhard,2019; Riehl& Ward, 2020).

Numerous corporate transactions involving cryptocurrency have the potential to cause significant losses to the national economy. The environment created by cryptocurrency systems, as well as different activities such as mining and user-accessible blockchain architecture, creates uncertainty when it comes to the formation of a legal and regulatory framework for tax reasons (Yano et al., 2020).

Another problem comes when attempting to tax a new activity that lacks a legal grounding. To solve this issue, many countries have increased their efforts to replace cryptocurrencies with their own digital currency. Cryptocurrencies bring both opportunities and risks for developing countries.

In developing countries, the crypto coin market and transaction volume differ. The country's new crypto coin trading platforms have propelled India's cryptocurrency business, which began earlier in 2012 and has a very small area of use. People are starting to use cryptocurrencies, and even Indians are withdrawing funds from the digital currency. As a result, it is

unsurprising that the Narendra Modi administration enacted new legislation imposing high taxes on cryptocurrencies up to NFT (Melani,2022).

Many developing countries regard cryptocurrencies as an alternative trading option and a solution to issues like weakened national currencies and speculative attacks. Several developing countries, however, are suspicious of cryptocurrencies, and some even forbid certain types of transactions. In 2017, China, for example, began prohibiting specific bitcoin market behavior. Thailand and South Korea are conducting research in order to establish rules. Because bitcoin is not regarded as an asset, Vietnamese law bans the levy of taxes on it. At the end of 2017, it was decided that cryptocurrencies are not recognized legal money there (Le et al.,2018).

If cryptocurrency legalization is included in 1 Number 7 of the Commodity Futures Trading Supervisory Agency Regulation Number 5 of 2019 concerning Technical Provisions for the Implementation of the Physical Market for Crypto Assets (Cryto Assets) on the Futures Exchange, it is clearly stated that Crypto Assets also include commodities where the digital assets are connected via peer-to-peer networks and distributed ledgers.

Additionally, cryptocurrency is a sort of crypto asset. As a result of this explanation, we can infer that a cryptocurrency is a system that employs cryptographic technology to ensure secure data transmission and the establishment of a digital currency exchange. Simply put, bitcoin is a virtual money system that performs similar responsibilities to traditional currencies while also being utilized for virtual business transactions. Despite the fact that there are other sorts of cryptocurrencies, Bitcoin is the first and most well-known on the online market. Ethreum, Ripple, and LiteCoin are some more cryptocurrencies. The peer-to-peer cryptocurrency payment network or system is entirely user-controlled, decentralized, and exempt from Commodity Futures Trading Commission Regulation 5 of 2019. Indonesia, as a potential market for bitcoin investment, will benefit greatly from cryptocurrency taxation if the government enacts the necessary regulations. As stated in Article 4A paragraph (2) of Law Number 42 of 2009 on VAT and PPnBM, cryptocurrency, which is part of crypto assets, is not an item that cannot be subject to VAT, hence cryptocurrency is a VAT object in Indonesian tax code. However, cryptocurrencies are classified as commodities in Article 2 of the Regulation of the Minister of Trade of the Republic of Indonesia Number 99 of 2018 on the General Policy for the Implementation of Crypto Asset Futures Trading (Crypto Assets). As a result, as an update to the existing law, Law Number 36 of 2008, financial gains from cryptocurrency trades may be taxable as indicated in Article 17 Paragraph 1.

If cryptocurrencies are used as an investment option in Indonesia, taxes may be levied. The number of trades is increasing in tandem with the number of users. According to data from the Indonesian Ministry of Trade's Commodity Futures Trading Supervisory Agency (CoFTRA), the number of investors surpassed 10 million as of December 31, 2021, with a trading volume of close to Rp 500 trillion (Olavia, 2022).

There are two perspectives on the possibility of tax withdrawals on digital currencies and assets. On the sales side, there is the potential for VAT to be collected from Taxable Entrepreneurs (PKP) enterprises, and then there is the potential for PPh to be collected from capital gains generated by bitcoin investors, or NFT, on margin from the selling and purchasing rates.

The difference in buying and selling rates is a taxable gain that must be taxed. In this paper, the researcher offers his perspective on the subject of income tax withdrawal on cryptocurrency and NFT transactions in Indonesia. Taxpayers are tax subjects who already have a legal obligation to pay

income tax when it comes to bitcoin transactions, including NFT and the individual category. Following that, it must be reported in the yearly tax return.

However, due to tax literacy limitations, the general people and users of currencies, digital assets, cryptocurrencies, and NFTs have not reported. This will likely reduce state tax revenue from bitcoin investments in Indonesia. Other countries appear to be having challenges with the regulation and taxation of digital assets and digital currencies as well. Each country appears to have a different perspective on cryptocurrencies. Some countries regard bitcoin transactions as barter exchanges, while others regard them as property. There is clearly no global agreement on the framework for taxing cryptocurrencies.

We will look at other countries below to show that developing countries like Indonesia are not the only ones with weak tax regulations when it comes to digital commodities. Even stable economies are still figuring out how to deal with taxes, laws, and regulations.

The great majority of countries emphasize the significant risk of cryptocurrency. The system's transaction mechanism is clearly uncontrolled, and bitcoin investors who experience losses have no legal recourse. Furthermore, some people see cryptocurrencies as a platform for illegal activities such as tax evasion, money laundering, and terrorism.

Certain countries, including Australia, Canada, and Iceland, have recently expanded their cryptocurrency regulations in order to reduce market losses. The nomenclature used by various countries to refer to cryptocurrencies is currently being debated. Table 1 shows a few names for cryptocurrencies in various countries:

Table1. Countries with the term cryptocurrency

Country Name	Terms Used
Argentina, Thailand, and Australia	digital currency
Canada, China, Taiwan	virtual commodity
German	crypto-token
Swiss	payment tokens
Italia, Lebanon	cyber currency
Honduras, Mexico	virtual assets

Source: Researcher from various sources.

While there is disagreement about bitcoin taxation, there is no consensus among states regarding the legal status of cryptocurrencies. For instance, even though some nations expressly exclude cryptocurrencies, others do so inherently. Furthermore, countries such as France, Finland, Belgium, Denmark, Mozambique, Namibia, and South Africa lack a legislative framework wholly or in part.

Because of the huge potential of the technology underlying cryptocurrency systems, some countries, including Spain, Belarus, and Luxembourg, are enacting legislation to encourage investment in technology enterprises. Taxation is an important topic. It is unclear how to classify cryptocurrencies for tax purposes. Many countries classify cryptocurrencies in various ways for taxes purposes. In Israel, Bulgaria, and Switzerland, for example, cryptocurrencies are taxed as assets, financial assets, and foreign currencies. Argentina, Spain, and Denmark all have cryptocurrency income taxes. The corporation also pays corporate tax.

In the United Kingdom, bitcoin investment profits are not subject to VAT. Table 2 shows the taxation situation of cryptocurrencies in a variety of nations.

Table 2. Tax Status on Cryptocurrencies in SomeCountry

Country	Tax Status
United States	In the United States, cryptocurrencies do not have legal tender status. They are also considered property for federal tax purposes in the United States. Regardless of the tax legislation in place for real estate purchases, the same tax rules apply to cryptocurrency transactions. Employees who are paid in cryptocurrencies are liable to withholding of federal income tax and payroll taxes. Payments made in cryptocurrencies to independent contractors and other service providers are subject to taxes, and self-employment tax requirements apply. If payments made with cryptocurrencies must be reported.
Russia	Cryptocurrency transactions were prohibited in 2015, but the Russian Ministry of Finance revealed in early 2018 that they are working on a law to regulate cryptocurrency transactions without completely prohibiting them, and that through this law, it is possible to tax cryptocurrency transactions to support the state budget. .
Australia	Every bitcoin transaction in this nation must be documented in order to determine its tax status, and in 2014, standards for cryptocurrency taxes were released. The guidelines acknowledge cryptocurrency transactions as barter transactions. People who buy, sell, trade, or exchange cryptocurrencies (including the release of one cryptocurrency for another).

Canada	Cryptocurrency is referred to as virtual money that can be used to buy and sell goods and services online and is recognized as a form of payment. You can buy and sell cryptocurrency, often known as digital currency. There may be tax liabilities in this situation. According to the implementation, cryptocurrency usage in Canada is governed by the Income Tax Act. Additionally, it is prohibited to use cryptocurrencies without reporting them to the Canadian Revenue Agency.
Cyprus	Cryptocurrencies are known as virtual currencies in Cyprus. The purchase, holding, or exchange of virtual currency is not considered to be the use of legal tender, according to the Central Bank of Cyprus. Additionally, there is no established legal framework for cryptocurrencies, and the general public is aware of their potential downsides. Trading profits in cryptocurrencies are tax-free, as are trading profits in conventional instruments like stocks and money.
France	A virtual money without any assurance of replacement is referred to as cryptocurrency. Virtual currencies are neither authorized nor governed. Additionally, cryptocurrency has come under fire for supporting unlawful conduct. The Banque of France stated in a 2018 report that cryptocurrencies are not recognized as legal tender. There is therefore no assurance of security, convertibility, or value. The Banque de France does, however, provide a controlled structure for handling bitcoin losses. One-time cryptocurrency earnings are treated as capital gains and are subject to taxation.
United Kingdom	In the United Kingdom, bitcoin is not considered legal tender, and no cryptocurrency legislation exist. If individuals in the UK hold cryptocurrencies for investment, this is considered an asset, and the profits to be earned are subject to capital gains taxation. Individuals who trade in cryptocurrencies are taxed as income on their profits. Profits or losses on cryptocurrencies are taxed as income in the case of corporations. The UK Tax Authority has issued guidance on cryptocurrency' interim VAT classification. Finally, there is no transfer tax in the United Kingdom.
Spain	Cryptocurrencies are not permitted by Spanish law. However, the government intends to create some provisions for cryptocurrencies, including prospective tax breaks for enterprises in the blockchain technology sector. Individual Income Tax Act applies to cryptocurrency profits.
Argentina	Because it is not issued by the government, cryptocurrency is not a legal tender in Argentina. As a result, the profit increases the value or the outcomes of the trade are not taxed.
China	Initial coin offerings and cryptocurrencies were not considered legal cash in China, according to the Chinese government's declaration in 2017.

Source;(Barth,2019)

It is obvious that each country has a different cryptocurrency taxation policy; this is related to how those countries see cryptocurrencies and other digital assets. The preceding summary shows that there is no worldwide agreement on the legitimacy of cryptocurrencies. Furthermore, there is dispute on tax laws and cryptocurrency policies. Only a few countries have comprehensive regulatory frameworks for cryptocurrency ownership, trade, and assets, while others only have partial ones.

CONCLUSION

According to the preceding remark, legislation governing the usage of digital currency and assets are required. The provisions of the Income Tax legislation on transactions for one of the crypto assets, namely cryptocurrency in Indonesia, are derived from these regulations.

Due to the lack of taxes legislation for cryptocurrencies and digital assets, also known as NFTs, the possibility of tax avoidance exists in Indonesia. One could argue that, despite the high potential, state revenues from taxes on cryptocurrency investment transactions and NFT digital assets are currently low in Indonesia due to a legislative vacuum or a lack of tax legislation that explicitly apply to actors who invest in cryptocurrencies. It is still far from perfect.

Declaration by Authors

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