

A Proposed Implementation of Final Income Tax on Cashback

Sekar Mayangsari^{ID}, Winda Hidayanti^{*ID}, Oktaviasari Wanitaningrum Estiani

Department of Accounting, Faculty of Economic and Business, Universitas Trisakti, Indonesia

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ABSTRACT

This research aims to evaluate the imposition of income tax (*Pajak Penghasilan*—PPh) on cashback transactions based on the hard-to-tax theory, and explore the implementation of final income tax (*Pajak Penghasilan Final*—PPh *final*) as an alternative taxation mechanism for cashback transactions, aligned with basic taxation principles and the hard-to-tax theory. A qualitative case study design was employed. This involved in-depth interviews with an Account Representative from the Directorate General of Taxes, a taxation academic, and several active e-commerce users. The findings confirm that cashback transactions fall within the hard-to-tax (HTT) sector, thereby justifying the proposal of a final income tax as a more administratively feasible and equitable solution. To ensure fairness in tax collection, it is important to consider taxpayers' payment capacity, applicable tax rates, and the involvement of third parties—such as platforms—in tax withholding responsibilities. As a reference, the study benchmarks the application of final income tax on lottery prizes, while proposing necessary contextual adjustments for the digital economy. The recommended policy is expected to safeguard potential state revenue from cashback incentives without disrupting the continued growth of Indonesia's e-commerce sector or its broader digital economy ecosystem.

1. INTRODUCTION

E-commerce transactions in Indonesia are experiencing rapid growth and expansion. In 2023, the Indonesian value of e-commerce transactions has reached IDR 474 trillion (Kontan, 2024), and the potential for Indonesia's digital economic growth in 2025 is estimated to reach around IDR 503 trillion (Tribunnews, 2024). The rise in e-commerce usage is partly driven by various promotions, including cashback incentives. This is one of the promotional tools that attracts consumer interest (Muhammad, Amboala, Salleh, Abdullah, Tahrim, & Nawati, 2019). The rapid growth of Indonesia's e-commerce sector—valued at IDR 474 trillion in 2023 and projected to reach IDR 503 trillion by 2025—has not been matched by clear taxation rules, particularly regarding cashback incentives. The absence of specific regulation creates a legal vacuum that risks revenue loss, widens the digital tax gap, and distorts market fairness. Consequently, without prompt policy intervention, cashback may continue to go untaxed, undermining tax compliance and equity in the digital economy.

Several problems related to the absence of specific regulations governing the means of reporting cashback, both in the Tax Return (SPT) of the cashback giver and in the Annual Income Tax Return (SPT) of the cashback recipient, transaction data collection, and the number of human resources to carry out supervision make taxpayers are not fully supervised, and there is a lack of certainty in taxation (Indrayani & Suhendra, 2018). The existing regulation concerning prizes as outlined in PER-11/PJ/2015 cannot be effectively applied to cashback transactions due to the high volume of such transactions. Implementing this regulation would impose a substantial recording burden for both the income derived from cashback and the associated costs incurred to generate cashback in each transaction. This would inevitably increase the cost of compliance for taxpayers. At the same time, it would also create a significant administrative burden for the tax authority. Moreover, cashback received by end consumers does not fall within the scope of specific transactional conditions regulated in SE-24/PJ/2018, as these consumers are not resellers who purchase products or services with the intention of resale.

These transactions are also classified as hard-to-tax (HTT) sectors based on one of the criteria provided they have the characteristics of a large number of transactions with relatively small individual transactions (Bujaki et al., 2017). This classification aligns with Thuronyi's criteria, but beyond theoretical

*Corresponding author.

E-mail: hidayantiwinda07@gmail.com (Winda Hidayanti)

alignment, the practical implications are significant. The absence of specific regulation for cashback taxation has created a compliance gap that may lead to substantial tax revenue leakage. For example, based on the 2023 Annual Report of e-commerce company X, their platform facilitated approximately 50.8 million transactions with a total gross transaction value of Rp 606.5 trillion, including Rp 9.4 trillion in customer incentives. Using the lower bracket of the individual income tax rate (5%), the estimated potential tax loss amounts to Rp 473.74 billion ($5\% \times \text{Rp } 9.4 \text{ trillion}$). Considering that company X holds a market share of around 50% (CNBC, 2024), the total estimated potential tax loss for the entire market could reach approximately Rp 1.18 trillion ($\text{Rp } 473.74 \text{ billion} \div 50\%$). This illustrates the fiscal risk of inaction and underscores the need for targeted and enforceable tax policy measures to address this growing segment of the digital economy. Thus, it is not possible to carry out intensive supervision because these trade transactions are commonly recorded in a system owned by a third party (e-commerce or other parties) (Zhang, Tan, & Lin, 2021).

Overcoming the HTT sector of lower taxpayer compliance requirements, the use of third parties and lower standards of evidence are also required. Therefore, there are general approaches that can be followed, including through presumptive tax and withholding tax (Zhou, Sun, Fu, Jiang, & Xue, 2019). In Indonesia, the strategy to overcome HTT through presumptive tax and withholding tax can be found in the final income tax regime due to its advantages, including simplicity in tax collection and reduced administrative burden for both Taxpayers and the Directorate General of Taxes (Kristiaji & Mukarromah, 2020). One notable example is the imposition of final income tax on crypto asset transactions under Minister of Finance Regulation No. 68/PMK.03/2022. As a hard-to-tax sector due to its decentralized, pseudonymous, and cross-border nature, the crypto industry presents noteworthy tax compliance challenges. By applying a fixed rate and utilizing withholding mechanisms through digital asset traders and exchanges, the government aims to ensure tax compliance while minimizing administrative complexity.

In addition, the imposition of final income tax on cashback will also be identical to the imposition of final income tax on lottery prizes as referred to in Government Regulation Number 132 of 2000 concerning Income Tax on Lottery Prizes (PP Number 132 of 2000) (Donelson, Koutney, & Mills, 2024). Income in the form of cashback is not a direct reward for work or services performed by the Taxpayer, and the method of obtaining it also does not require much cost and effort as occurs in compensation for work. This is identical to the characteristics of lottery prizes (Drake, Hess, Wilde, & Williams, 2022). From a regulatory standpoint, cashback differs from compensation or wages, as it does not constitute a direct exchange for work performed. According to the general explanation of Government Regulation No. 132 of 2000, income classified as prizes or awards, which is subject to final income tax under Article 4 paragraph (2) of the Income Tax Law, refers to income that does not originate from employment or professional services. This supports classifying cashback similarly—particularly when it is given randomly or as part of a promotional event without requiring performance or skill. Therefore, it would be more appropriate to impose final income tax on income in the form of cashback (Peprah, Abdulai, & Agyemang-Duah, 2020). In addition, if in the Annual Income Tax Return the recipient of cashback is subject to income tax at the normal rate, some difficulties appear in determining the costs incurred to obtain income of cashback (Murorunkwere, Tuyishimire, Haughton, & Nzabanita, 2022).

This study analyzed how the implementation of the concept of final income tax as an alternative to taxation of cashback transactions based on the hard-to-tax theory, where final income tax is considered appropriate to address the HTT sector (Sharma, 2022). However, before policy recommendations that advocate lower compliance requirements and standards of proof can be made, consideration of their benefits on the basis of fairness, equality, and efficiency are necessary (Das-Gupta, 1994). In this study, these considerations were expanded by using the basic principles of digital economy taxation issued by the OECD (2015), namely neutrality, efficiency, certainty and simplicity, effectiveness and fairness, as well as flexibility. Previously, this study first evaluated the current taxation of cashback transactions based on the hard-to-tax theory and analyzed how the implementation of the final income tax concept on cashback transactions using justification that is identical to the final income tax on lottery prizes.

Research on the taxation aspect related to cashback generally only discusses the evaluation and analysis of taxation on cashback (Kusumawardhani & Gunadi, 2021; Sharma, 2022; Yerikho & Wijaya, 2021). According to Kusumawardhani & Gunadi (2021), the most effective policy recommendation is to adopt a withholding tax mechanism under a Final Income Tax scheme, that calculates the tax payable based on the gross income on the amount of cashback received. However, the study did not discuss in depth how to impose Final Income Tax on cashback transactions. Research related to the taxation aspect of cashback is still minimal and there has been no research proposing how taxation should be applied to cashback transactions, particularly through the application of the final Income Tax concept, both in terms of conformity with existing theories, imposition on subjects, objects imposed, rates, and withholding and/or collection mechanisms.

2. METHODS

The research strategy used in this study is a case study with a qualitative approach (Sugiyono, 2023). The decision to use a qualitative case study design was driven by the nature of the research problem, which requires an in-depth, contextualized understanding of both policy aspects and practical implications related to the imposition of final income tax on cashback transactions. A case study was considered the most suitable because it allows for a holistic and intensive analysis of contemporary phenomena within their real-life context, especially where the boundaries between the phenomenon and its environment are not clearly defined.

The data collection process combined multiple instruments to ensure triangulation and richness of data. These included semi-structured interviews, online questionnaires, and document analysis. Interviews were conducted in 2025 through direct, face-to-face meetings using a semi-structured format that provided flexibility to probe deeper into specific topics. The informants comprised a tax official from the Directorate General of Taxes—specifically an Account Representative managing an e-commerce platform—and an academic with expertise in taxation and the digital economy. Participants were selected using purposive sampling based on their relevance to the research topic and their experience with e-commerce taxation, platform operations, or user behavior. In parallel, questionnaires were distributed online in 2025 to users of e-commerce platforms to capture broader public perspectives regarding cashback. The questionnaire consisted of both structured and open-ended questions, enabling the researcher to obtain not only quantifiable feedback but also richer qualitative insights. For community respondents, purposive random sampling was used to reach more active users across various platforms. Document analysis was also conducted by reviewing relevant legal and policy documents, as well as the 2023 Annual Report of e-commerce company X. These documents were analyzed for their relevance and connection to the research objectives, particularly in identifying patterns in promotional expenditures, user behavior, and business practices related to cashback distribution.

The data analysis process began by compiling interview transcripts, which were then coded to group data into relevant categories. A thematic analysis approach was employed to identify recurring patterns and meanings within the qualitative data. Themes were developed based on their relevance to the research questions and the frequency of their appearance in the data. These themes formed the foundation of interpretation and analysis, providing insight into the problem formulation.

This research is designed as a single-case study with multiple units of analysis. The main case in this study is the implementation potential of final income tax policy on cashback transactions, with the units of analysis consisting of the Directorate General of Taxes as the tax authority and e-commerce company X as a representative business actor engaged in providing cashback incentives. This design enabled the study to examine the interaction between tax policy and industry practice comprehensively, within a focused and relevant context.

3. RESULTS AND DISCUSSIONS

Evaluation of Income Tax Imposition Practices on Cashback using Hard-to-tax Theory

Hard-to-tax groups are taxpayers who have many transactions, so that this makes their income more difficult to be observed by tax authorities (Das-Gupta, 1994). Thuronyi (2004) explains the factors that cause the existence of a hard-to-tax (HTT) sector so that it can easily hide their income from tax authorities, including large numbers, making it impossible to study more than a small percentage of them intensively; small incomes, often below the poverty level; not compelled by business (i.e., nontax) reasons to keep adequate books; sell mostly at retail for cash, making the application of withholdings to collect taxes impractical and can easily hide their income. These theoretical characteristics are strongly reflected in the findings of this study, based on interviews with tax officers and platform representatives, questionnaire responses from e-commerce users, and document analysis of annual reports and financial data from e-commerce company X, as well as relevant tax regulations. The research instruments included semi-structured interviews and open-ended questionnaires. These were reviewed by subject-matter experts to ensure content validity and clarity, with revisions made based on their feedback. While pilot testing was deemed unnecessary due to the qualitative nature and targeted scope of the instruments, careful attention was paid to aligning questions with the research objectives to ensure relevance. In particular, the high frequency of low-value cashback transactions and limited traceability in accounting systems confirm the classification of cashback in e-commerce as part of the HTT sector. Additionally, the absence of tax reporting mechanisms for end-user incentives further supports this classification. Each of these criteria will be further explained in the following paragraph to contextualize how cashback transactions align with the attributes of HTT sectors in the Indonesian digital economy.

Cashback transactions fall into the first criterion of the HTT sector from Thuronyi (2004), namely their large number, making it impossible to study them intensively. Cashback transactions have a high number of transactions, a relatively large number of individuals or customers making transactions, and relatively small transactions per individual. Based on the 2023 Annual Report of e-commerce company X, promotional incentives provided to users—including customers, merchants, and driver-partners—amounted to approximately IDR 9.47 trillion. Meanwhile, the number of Annual Transacting Users (ATU) was reported at 50.1 million. From this, the average cashback per consumer can be estimated at around IDR 186 thousand per year. Although the data is limited to a single company's disclosure, it provides a reasonable indication that the cashback amount per individual is relatively small, consistent with the second characteristic of the Hard-to-Tax (HTT) sector as defined by Thuronyi (2004). This is presented in **Table 1**.

Table 1. Transaction Data and-Estimated Incentives per Customer

Indicator	Amount 2023	Description
Gross Transaction Value (GTV)	IDR 606.5 trillion	Annual Report 2023, Page 142
Annual Transacting Users (ATU)	50.8 million	Annual Report 2023, Page 142
Incentives to Customers	IDR 9.47 trillion	Annual Report 2023, Page 150
Estimated Incentives per Customer	IDR 186 thousand	IDR 9.47 trillion / 50.8 million

Source: E-commerce company X annual report 2023

Cashback transactions are also included in the second criterion of the HTT sector from Thuronyi (2004), namely the income per individual who makes a transaction is relatively small. Based on the 2023 financial report data from e-commerce company X, on average, the cashback received per consumer is only IDR 189 thousand per year. As of the time of writing, only one e-commerce platform company is publicly listed on the IDX, making it the sole viable sample for this analysis. Although limited to a single company's disclosure, the data offers indicative insights into the relatively small individual income value typically associated with cashback schemes. The additional income from the cashback is of course relatively small. Cashback transactions are also included in the third criterion of the HTT sector from Thuronyi (2004), namely not being forced by business reasons (i.e. reasons other than tax) to keep adequate bookkeeping. Until now, there are no regulations that specifically require individual cashback recipients to keep bookkeeping or recording of cashback, other than for tax reasons or if the cashback recipient is a company that is required to keep bookkeeping.

Thuronyi (2004) also mentioned that cashback transactions are also included in the fourth criteria of the HTT sector, namely they sell most of it in retail to get cash so that the application of deductions to collect taxes becomes impractical and difficult to supervise. Although most of the cashback is done non-cash, most of the cashback recipients are retail consumers who are end users. The terminology retail can be interpreted as trade carried out in small amounts to end users. The number of retail transactions is quite large and is carried out in a relatively short time so that normal deductions and collections are also impractical. In addition, if in the Annual Income Tax Return the cashback recipient is subject to Income Tax at a normal rate, there is an impracticality in determining the costs incurred to obtain income in the form of cashback.

Cashback transactions are also included in the fifth criteria of the HTT sector from Thuronyi (2004), namely they can easily hide income. Transaction data is on the other side and information exchange is needed to obtain it. In addition, there is no specific means of reporting cashback either in the PPh periodic SPT of the cashback giver or in the PPh Annual SPT of the cashback recipient. Therefore, cashback recipients can easily hide their income from cashback. This is reflected in the results of interviews conducted with respondents from the Directorate General of Taxes (DGT) as follows:

"[...] ...Currently, the issue in the field and the main obstacle in imposing Income Tax (PPh) on cashback incentives is that cashback is not granted to all consumers, as it is subject to specific criteria and/or conditions determined by the e-wallet provider. In addition, the e-wallet taxpayer does not withhold or collect income tax on such activities...[...]" (Respondent 1)

Based on the HTT sector criteria by Thuronyi (2004), it can be concluded that cashback transactions are included in the HTT sector category. Therefore, based on its theory, lower taxpayer compliance requirements and proof standards are required, as well as the involvement of third parties in handling the HTT sector (Das-Gupta, 1994).

Implementation of Final Income Tax on Cashback Based on Basic Tax Principles and Hard-To-Tax Theory

In Indonesia, the policy to tax hard to tax sectors through presumptive tax is implemented through Article 4 paragraph (2) of the Income Tax Law with the imposition of final taxes (Kristiaji & Mukarromah, 2020). Therefore, Final Income Tax is appropriate to be implemented in order to overcome the problems of the HTT sector in cashback transactions. However, before policy recommendations advocating lower compliance requirements and evidentiary standards can be made, consideration of their benefits on the basis of fairness, equity, and efficiency is required (Das-Gupta, 1994). In this study, these considerations are expanded by using the taxation principles issued by the OECD (2015), including neutrality, efficiency, certainty and simplicity, effectiveness and fairness, flexibility, and equity.

Neutrality

The concept of final income tax would be appropriate if applied to cashback transactions as it would not distort the choice of e-commerce users to seek other forms of trade incentives. In general, cashback is provided by third parties that facilitate trade, such as e-commerce platforms or payment platforms. Currently, the form of incentive that can be given by third parties to consumers is mostly only in the form of cashback, either in cash or in other forms. From the capital export neutrality perspective, the imposition of final income tax certainly has the potential to distort the choice of Taxpayers to use foreign e-commerce. However, the obstacles in conducting trade compared to the value of the cashback received or obtained will certainly be a concern for e-commerce users to use foreign e-commerce. Based on the responses from e-commerce platform users, all respondents stated that the implementation of a final income tax (PPh final) would not affect their decision to use a particular e-commerce platform.

Efficiency

In terms of administration costs, final income tax (with withholding tax) can improve taxpayer compliance because supervision by the Directorate General of Taxes will also be easier. The Directorate General of Taxes only needs to monitor the compliance of the withholding agents or collectors of final income tax. In terms of compliance costs for taxpayers using e-commerce, final income tax will make it easier for them to carry out their tax obligations because they do not need to combine income from cashback with other income. In terms of compliance costs for third parties facilitating transactions or sellers, the appointment to be a withholding agent or tax collector has the potential to be a burden. However, considering that some of them have also been appointed as PMSE VAT collectors, of course this will not be too burdensome for them. This is reflected in the results of interviews conducted with respondents from the Directorate General of Taxes (DGT) as follows:

"[...] with the potential implementation of a final income tax (PPh final), the Directorate General of Taxes (DGT) would be able to entrust the exchanges with collecting the PPh final, allowing the DGT to simply supervise the exchanges, making the process easier and more effective. The expectation is that it would not cause any disruption [...]" (Respondent 1)

Certainty and Simplicity

Current tax regulations related to cashback do not provide legal certainty. Current taxation creates uncertainty, especially in terms of the application of provisions related to cashback and reporting facilities. Besides, there are no specific regulations regarding the imposition of tax on cashback transactions and no tax provisions that specifically define cashback. This is compounded by the absence of specific cashback reporting facilities, either in the Tax Return (SPT) of the cashback giver or in the Annual Income Tax Return (SPT) of the cashback recipient.

In terms of simplicity, final income tax is certainly simpler compared to the current taxation because it uses 1 (one) rate and is final so it does not need to be combined with other income. In addition, if in the Annual Income Tax Return the recipient of cashback is subject to income tax at a normal rate, there is difficulty in determining the costs incurred on the income in the form of cashback. Based on the questionnaire results from respondents, all stated that the imposition of a final income tax (PPh final) would be easier to understand and implement, especially with the assistance of third parties in carrying out tax withholding and collection.

Effectiveness and Fairness

Currently, there are no regulations that specifically regulate cashback in the context of final income tax, especially for end consumers. Although general tax provisions such as PER-11/PJ/2015 and SE-24/PJ/2018 address reward mechanisms and certain transaction adjustments, they do not explicitly define

or govern cashback schemes that are widely used in e-commerce. The application of PER-11/PJ/2015, for example, creates a significant recordkeeping burden for both the cashback income and the related costs incurred per transaction, which adds to the cost of compliance for taxpayers. Moreover, cashback received by final consumers does not fall under the scope of SE-24/PJ/2018, which governs specific price adjustments in a resale context, where the buyer resells the goods or services. In cashback schemes, however, the recipient is typically the end consumer, who does not resell the item. Therefore, despite the presence of related regulations, there remains a regulatory gap in the specific treatment of cashback, underscoring the need for clearer, targeted provisions in the tax system. The reporting facilities for the cashback provider's periodic tax return are also still cumulative with other income. The creation of withholding evidence will also incur compliance costs for the provider and recipient of cashback, considering the large number of transactions. Supervision of these transactions will certainly be less effective.

Through the implementation of final income tax, it is likely to increase participation from cashback providers and cashback recipients in carrying out their tax obligations. This is because final income tax is known to be easier, for reasons other than being collected using a withholding tax system through withholding agents, the imposition of final tax will also make it easier for cashback recipients to report income from cashback in the Annual Income Tax Return. All respondents indicated their willingness to report income derived from cashback if the final income tax (PPH final) were implemented.

Flexibility

In order to capture the existing tax potential, the Directorate General of Taxes should be able to work together with the cashback provider to implement withholding tax. Currently, there are several difficulties in implementing withholding tax because the withholding tax evidence is not supportive for relatively large and fast transactions. The difficulty in obtaining data directly also requires the Directorate General of Taxes to carry out withholding or tax collection so that they can adapt to developments in relatively fast cashback transactions. Therefore, final income tax will be able to enable the Directorate General of Taxes to capture the tax potential for these cashback transactions, so that it can increase state revenue from cashback transactions. However, support is needed in the form of simplifying withholding/collection evidence to facilitate the withholding tax mechanism.

Equity

The implementation of the final income tax concept will certainly have challenges in terms of the horizontal equity principle. The implementation of the final income tax will ignore the principle of the Taxpayer's ability to pay because it does not consider the costs incurred to obtain the cashback, and the Taxpayer will be considered to always receive benefits from the transaction. From the international equity side, there are no noteworthy issues related to the distribution of taxation rights. This is because Indonesia does have the right to impose taxes and it is the place where the income from the cashback is obtained, while the distribution of taxation rights has been regulated in the P3B owned by Indonesia with other countries.

In addition, final income tax will also ignore the principle of vertical equity. In this principle, Taxpayers who have higher economic capacity should be taxed at a higher rate. The application of a final income tax aims to standardize tax rates for both high-income and low-income taxpayers. Consequently, cashback recipients with greater economic capacity will be subject to the same tax rate as those with lesser economic capacity.

Implementation of Final Income Tax on Cashback

This section explains how to determine the definition, tax subject, tax object, tax base, tax rate, and obligations of the tax withholding party for the proposed application of final income tax on cashback. The analysis was carried out by benchmarking with the regulation of final income tax on lottery prizes as referred to in Government Regulation Number 132 of 2000 concerning Income Tax on Lottery Prizes (PP Number 132 of 2000), and considering the business process, related parties, and income streams related to cashback. The justification for imposing final income tax on cashback is identical to the justification for imposing final income tax on lottery prizes, where income in the form of cashback is not a direct reward for work or services performed by the Taxpayer, and the method of obtaining it does not require as much cost and effort as occurs in compensation for work. We also compared it with the implementation of PER-11 as the existing regulation. As shown in Table 2, PER-11/PJ/2015 adopts a global income tax approach—Article 21 or 26 for individuals and Article 23 for companies—classifying cashback as prizes linked to employment, services, or activities that require effort, with recipients consolidating such income in their Annual Tax Return. PP 132/2000 instead applies a schedular (final) tax under Article 4(2) for both individuals and

companies on lottery prizes, which generally require less effort, and are reported as final income. The proposed scheme follows PP 132/2000's schedular approach but specifically targets e-commerce cashback, which, like lottery prizes, is not a direct reward for work, requires minimal effort, and has costs that are difficult to quantify. Benchmarking against PP 132/2000 supports subjecting cashback to final income tax, with withholding and Monthly Unification Tax Return reporting by agents, and final income reporting by recipients. Therefore, for income in the form of cashback, final income tax is required.

The implementation of Final Income Tax on cashback has become a noteworthy topic of discussion in tax policy circles (Inasius, Darijanto, Gani, & Soepriyanto, 2020). Cashback, a popular incentive offered by credit card companies and retailers, has traditionally been viewed as a rebate or discount rather than taxable income. However, recent proposals suggest treating cashback as a form of income subject to Final Income Tax. This approach requires financial institutions and businesses to report cashback amounts to tax authorities and withhold a percentage of the tax at the source. Proponents argue that this measure increases tax revenue and ensures fairness in the tax system. Critics, on the other hand, contend that taxing cashbacks could discourage consumer spending and complicate the already complex tax code (Prasetyo, 2022). The implementation of such a policy would necessitate careful consideration of its economic impact, administrative feasibility, and potential unintended consequences on consumer behavior and business practices. Critics argue that taxing cashbacks could have unintended negative consequences on the economy. They contend that such a policy might discourage consumer spending, potentially leading to reduced economic activity and lower overall tax revenue (Dewi & Dewi, 2022; Matheus & Delicia, 2023). Furthermore, implementing this tax could create additional administrative burdens for businesses and financial institutions, potentially outweighing the benefits of increased tax collection (Gunawan & Sari, 2023).

Table 2. Comparison of Regulatory Frameworks on Cashback Taxation

Aspects	PER-11/PJ/2015	PP 132/2000	Proposed Tax Treatment
Tax System Type	Global Tax System	Schedular Tax System (Final Income Tax)	Schedular Tax System (Final Income Tax)
Subject	Individual (Art. 21/26), Company (Art. 23)	Individual and Company (Art. 4(2))	Individual and Company (Art. 4(2))
Object	Income in the form of prizes related to employment, services, and/or activities	Income from lottery prizes	Income from prizes provided by e-commerce platforms
Effort to Obtain Income	Requires effort through performing work, services, and/or activities	Less effort	Mostly less effort
Mechanism	Withholding Tax	Withholding Tax	Withholding Tax
Reporting by Withholding Agent	Using Monthly Income Tax Return (Art. 21) / Monthly Unification Tax Return	Using Monthly Unification Tax Return	Using Monthly Unification Tax Return
Reporting by Recipient	Consolidated with other non-final income; withholding slip can be used as tax credit	Reported under Final Income category in Annual Income Tax Return	Reported under Final Income category in Annual Income Tax Return

Determining the Definition of Cashback

The regulation in PP Number 132 of 2000 defines a lottery prize as a prize with any name and in any form given through a lottery. Therefore, benchmarking cannot be carried out against this provision because further restrictions are needed for the definition of cashback to provide more certainty. In general, cashback is a reward that can be in the form of cash, points, vouchers, or discounts given, either by the seller or another party, after making a transaction with certain criteria. When viewed based on the provisions of SE-24/PJ/2018, cashback can include awards where the reward received or obtained by the buyer in connection with the achievement of certain requirements and is included in the definition of awards. However, taxation provisions have not yet defined the definition of cashback. The provisions in SE-24/PJ/2018 also only regulate the correlation between the seller and the buyer. However, the correlation between the buyer/seller and the third-party providing cashback is not regulated in SE-24/PJ/2018.

In order to provide regulations related to third parties (other than sellers/buyers) who provide cashback, and the possibility of cashback being received by the seller (trader), the definition of cashback that is in accordance with current practices is compensation received or obtained in the form of money, a means of payment that can be equated with money, and/or a reduction in certain obligations in connection with trade transactions of goods and/or services with certain criteria provided by the seller and/or other parties. The clause on reducing obligations needs to be limited to provide space for sellers to provide discounts for buyers. In the case of a reduction in obligations made by the seller to the buyer, it is not included in the definition of cashback. This definition does not apply to direct prizes provided in the sale of goods or services, as long as the prizes are distributed to all buyers or end consumers without a lottery mechanism and are received directly by the end consumer at the time of purchase. This ensures compliance with the regulations outlined in PER-11/PJ/2015.

Determination of Tax Subject

Based on benchmarking of the final income tax imposition regulation on lottery prizes in PP Number 132 of 2000, the tax subjects to final income tax on lottery prizes are individuals or entities on income in the form of lottery prizes in any name and any form (Schoeman, Evans, & Du Preez, 2022). This regulation does not limit the tax subjects who receive income in the form of lottery prizes. The determination of tax subject is a crucial aspect of taxation systems worldwide. It involves identifying individuals, entities, or organizations that are liable to pay taxes according to the relevant tax laws and regulations. Tax subjects can include natural persons, corporations, partnerships, trusts, and other legal entities (Syahyu, 2023). The process of determining tax subjects typically considers factors such as residency status, source of income, and the nature of economic activities conducted. Tax authorities must carefully assess these elements to ensure fair and accurate tax collection. Additionally, international tax agreements and treaties play a significant role in resolving potential conflicts arising from cross-border transactions and multinational operations. Understanding the complexities of tax subject determination is essential for both taxpayers and tax administrators to maintain compliance and prevent issues such as double taxation or tax evasion (Nara, Nurdin, & Nur, 2021). Therefore, based on the above explanation, the tax subject to final income tax on cashback transactions is an individual or entity that receives or obtains income in the form of cashback. This is a party that obtains additional economic capacity as referred to in Article 4 paragraph (1) of the Income Tax Law.

Determination of Tax Objects

The taxable object in cashback transactions should be income in the form of cashback in any name and any form. Income in the form of cashback is compensation received or obtained in the form of money, a payment instrument that can be equated with money, and/or a reduction in certain obligations in connection with trade transactions of goods and/or services with certain criteria provided by the seller and/or other parties. Definition limitations are needed to provide more legal certainty. In addition, regulations are needed regarding direct prizes that in the case of the sale of goods and/or services as long as they are given to all buyers or end consumers without being drawn and the prize is received directly by the end consumer at the time of purchase of goods or services, it also needs to be excluded from the taxable object in order to remain in accordance with PER-11/PJ/2015.

Determination of Tax Base

Based on benchmarking of the final income tax imposition regulation on lottery prizes in PP Number 132 of 2000, the tax base imposed on final income tax on lottery prizes is the gross amount of the lottery prize. The prize value is the cash value or market value if the prize is given in kind. The tax base for cashback transactions should be the gross amount of the cashback transaction value. This amount is the total of income given by the cashback provider to the cashback recipient. There is no need for cashback arrangements in kind because cashback can generally be denominated in rupiah. Determining the tax base is a crucial aspect of taxation systems worldwide. It involves identifying and quantifying economic activities, assets, or transactions that are subject to taxation (Lampenius, Shevlin, & Stenzel, 2021). The tax base serves as the foundation upon which tax rates are applied to calculate the amount of tax owed. Governments and tax authorities carefully define the tax base to ensure fairness, efficiency, and alignment with economic and social policy objectives (Ilzetzki, 2018). Factors considered in determining the tax base may include income levels, property values, consumption patterns, and business revenues. The scope and definition of the tax base can noteworthy impact tax revenue collection, economic behavior, and wealth distribution within a society. As such, policymakers must strike a balance between broadening the tax base to increase revenue and maintaining incentives for economic growth and investment (Ly & Paty, 2020). Critics argue that an overly broad tax base can stifle economic growth by reducing disposable income and discouraging

investment. Some contend that a more targeted approach, focusing on specific sectors or high-income earners, could be more effective in achieving policy goals while minimizing negative economic impacts (Nyabwengi & K'Akumu, 2019). Additionally, the tax base may disproportionately affect lower-income individuals and small businesses, potentially exacerbating income inequality rather than addressing it (Artemov & Golenev, 2022).

Determining the Amount of Tax Rates

Based on benchmarking of the final income tax imposition regulation on lottery prizes in PP Number 132 of 2000, the tax rate imposed on final income tax on lottery prizes is 25% (twenty five percent). The justification for imposing this rate is because lottery prizes are a direct reward for work or services performed by Taxpayers, and the method of obtaining them does not require much cost and effort as occurs in compensation for work.

Promotion to customers provides an average additional income from cashback of IDR189 thousand, and will include the income in the first layer of the PPh rate, which is 5% (taxable income between 0 to 60,000,000) for individual Taxpayers and 7% effective for Corporate Taxpayers (obtained from the Corporate PPh rate of 22% minus the PPh Article 23 Award rate of 15%). This assumption does not consider tax deductions, such as Non-Taxable Income (PTKP) and so on. Based on the calculation assumption, the most appropriate final PPh rate is 5%. The PPh rate with the lowest layer is needed to introduce final PPh to cashback recipients. In addition, because the method of obtaining it does not require too much cost and effort as is the case in compensation for work, this rate is quite feasible to apply and is sufficient to provide justice.

Based on the 2023 Annual Report of e-commerce company X, their platform facilitated approximately 50.8 million transactions with a total gross transaction value of Rp 606.5 trillion, including Rp 9.4 trillion in customer incentives. Using the lower bracket of the individual income tax rate (5%), the estimated potential tax loss amounts to Rp 473.74 billion (5% x Rp 9.4 trillion). Considering that company X holds a market share of around 50% (CNBC, 2024), the total estimated potential tax loss for the entire market could reach approximately Rp 1.18 trillion (Rp 473.74 billion ÷ 50%).

Table 3. Estimated Potential Tax Loss from Cashback Transaction

Indicator	Amount 2023	Description
Gross Transaction Value (GTV)	IDR 606.5 trillion	Annual Report 2023, Page 142
Annual Transacting Users (ATU)	50.8 million	Annual Report 2023, Page 142
Incentives to Customers	IDR 9.47 trillion	Annual Report 2023, Page 150
Potential Tax Revenue Loss	IDR 473,74 billion	(Estimated Tax Rate 5%) x Rp 9,47 Triliun *)
Company X Market Share	50%	-
Estimated Total Tax Revenue Loss	IDR 1,18 trillion	(IDR 473,74 billion / 50%)

Source: E-commerce company X annual report 2023

*) We assume that all cashback recipients are individual taxpayers and estimate using a 5% tax rate, which represents the lowest bracket for Individual Income Tax.

Tax Withholding

Based on benchmarking of the provisions on the imposition of final income tax on lottery prizes in PP Number 132 of 2000, the withholding/collector of final income tax on lottery prizes is the lottery organizer, namely an individual, body, committee, organization (including international organizations) or other organizer including entrepreneurs who sell goods or services that provide prizes by means of a lottery.

Therefore, the provider of the cashback should be the party that withholds or collects the final Income Tax, including sellers and other parties that facilitate transactions (for example, e-commerce, payment gateways, and so on). In order to provide convenience in implementation and not hinder e-commerce trading transaction activities as a whole, the final Income Tax remittance is made once a month for the Income Tax collected during the previous month. The implementation of Income Tax collection and deposit on the cashback transaction must also be reported periodically to the Director General of Taxes in accordance with the provisions of applicable tax laws and regulations.

To facilitate the party providing cashback in making withholding tax slip and in reporting the tax withheld/collected, it is necessary to regulate documents that are equated with withholding tax slip. This needs to be done so as not to cause compliance costs because the number of transactions is relatively large

and the transaction value per individual is relatively small, as well as simplifying withholding tax slip. In addition, a specific Tax Object Code and Remittance Type Code are required for reporting and remittance cashback transactions to facilitate effective transaction monitoring.

Based on the Hard-to-Tax (HTT) sector criteria proposed by [Thuronyi \(2004\)](#), it can be concluded that cashback transactions fall within the HTT sector, characterized by a large number of users (cashback recipients), relatively small transaction values per individual, minimal income generated per recipient from each transaction, the absence of bookkeeping requirements for businesses, a retail nature that complicates tax withholding, and the ease with which cashback recipients can conceal their income. Therefore, based on [Das-Gupta \(1994\)](#), it is necessary to have lower taxpayer compliance requirements and lower standards of proof, as well as the involvement of third parties in handling the HTT sector.

4. CONCLUSION

Tax compliance requirements and lower evidentiary standards can be implemented by a presumptive tax, while third party involvement in handling the HTT sector can be implemented by withholding tax mechanism. In Indonesia, the policy to hard-to-tax sectors through presumptive tax and withholding tax is implemented through Article 4 paragraph (2) letter of the Income Tax Law with the imposition of final tax.

Therefore, the implementation of Final Income Tax is appropriate to address the HTT sector's issues concerning cashback transactions. In addition, considering that income in the form of cashback is not a direct reward for work or services performed by the Taxpayer, and the method of obtaining it also does not require much cost and effort as occurs in compensation for work, then income in the form of cashback must be subject to final income tax. In addition, there will be several difficulties in determining the costs incurred for income of cashback in the Annual Income Tax Return of the cashback recipient if it is subject to income tax at the normal rate.

The implementation of Final Income Tax on cashback transactions is expected to capture tax potential better than current taxation. In terms of taxation principles, almost all aspects are fulfilled, including neutrality, efficiency, certainty and simplicity, effectiveness and fairness, as well as flexibility, except for the horizontal equity (ability to pay) and vertical equity aspects. Besides, this implementation will ignore the principle of the Taxpayer's ability to pay as it does not consider the costs incurred to obtain the cashback, and the Taxpayer will be considered to always receive benefits from the transaction. In addition, final income tax will also ignore the principle of vertical equity. In this principle, Taxpayers who have higher economic capabilities should be taxed at a higher rate. The regulation regarding final income tax on cashback can refer to PP Number 132 of 2000 where the characteristics of cashback are identical to the characteristics of lottery prizes, which are not a direct reward for work or services performed by Taxpayers, and the method of obtaining it also does not require much cost and effort as occurs in compensation for work. The subject, object, DPP, deductions, and collections are identical to the characteristics of lottery prizes.

In this context, cashback can be defined, in alignment with current practices, as compensation received or earned in connection with the trade of goods and/or services. This compensation may take the form of money, a payment instrument equivalent to money, and/or a reduction in specific obligations tied to the fulfillment of certain conditions set by the seller and/or other parties. Furthermore, a final income tax rate of 5% is deemed appropriate for cashback transactions. This introductory rate, aligned with the lowest tax tier, aims to familiarize cashback recipients with the final income tax mechanism while aligning closely with the prevailing withholding rates. Additionally, regulations are required to standardize documents equivalent to withholding/collection evidence to streamline and expedite the withholding/collection process.

The findings of this study have important implications for tax policy formulation in Indonesia. Implementing a final income tax on cashback transactions could improve tax potential capture and align with most taxation principles, thereby enhancing revenue collection efficiency. The proposed approach also offers a structured framework for regulating cashback taxation by adapting existing provisions, such as those for lottery prizes, to ensure clarity in defining taxable objects and applying consistent tax rates. Moreover, the introduction of a standardized 5% final income tax rate could serve as an initial step to build taxpayer familiarity with this mechanism while maintaining administrative simplicity. Policymakers may also benefit from adopting uniform documentation standards to streamline tax withholding and collection processes, ultimately improving compliance and reducing administrative burdens.

However, this study has several limitations. The number of informants and respondents involved was relatively limited, which may affect the generalizability of the findings. The perspectives obtained might not fully represent all stakeholders, particularly from diverse industry segments and different geographic

areas. Furthermore, the absence of extensive quantitative analysis restricts the precision in determining the most optimal final income tax rate for cashback transactions.

For future research, it is recommended to involve a larger and more diverse group of respondents, including both taxpayers and tax administrators from various sectors, to provide a broader perspective. In addition, incorporating quantitative calculations and simulations for determining the appropriate final income tax rate would enhance the robustness of the recommendations. Such studies could also explore the potential administrative costs and compliance impacts to ensure the proposed policy balances fairness, efficiency, and revenue objectives.

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