



The Impact of Technological Advances on Digital Tax Policy: A Literature Review of Online Content Creators' Taxation

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ABSTRACT

This study explores the challenges and potential solutions for addressing tax evasion among digital content creators, specifically focusing on TikTokers in Indonesia. As the digital economy grows, the increasing income generated by content creators has prompted concerns about tax compliance. Using a qualitative approach with in-depth interviews and a literature review, this study identifies several factors contributing to low tax compliance, including a lack of understanding of tax obligations, unclear tax classification for content creators, and difficulties in tracking digital transactions by tax authorities. The findings suggest the need for enhanced education, clearer tax regulations specific to content creators, and improved monitoring mechanisms. Recommendations are provided for the government to increase voluntary tax compliance among content creators, contributing to more effective taxation in the digital economy.

INTRODUCTION

The rapid evolution of digital technology has dramatically reshaped how individuals and businesses operate globally. One significant development is the rise of the digital economy, where online platforms, content creators, and digital services have become a dominant force. As platforms like YouTube, TikTok, Instagram, and other social media outlets grow, they have enabled millions of individuals, particularly content creators, to generate income through various monetization methods such as advertising, sponsorships, and paid promotions (Kurniawan & Melanie, 2022). However, with the growth of these digital platforms comes a critical challenge: how to effectively tax the income generated in the digital sector, especially by individuals and entities that operate across borders.

Tax systems, traditionally designed for the physical economy, struggle to keep pace with the complexities of the digital world. Many countries face difficulties in collecting taxes from digital transactions and services, particularly where content creators and businesses do not have a significant physical presence (Miftahudin & Irawan, 2020). The Organisation for Economic Co-operation and Development (OECD) has highlighted these issues in its Base Erosion and Profit Shifting (BEPS) initiative, which underscores the difficulty of taxing multinational corporations and digital entrepreneurs that can easily shift profits across borders (Okah-Avae & Mukoro, 2020).

In countries like Indonesia and Nigeria, for instance, content creators often experience gaps in understanding their tax obligations, and tax authorities face difficulties in enforcing compliance due to the cross-border nature of digital platforms (Gunawan & Sari, 2023; Okah-Avae & Mukoro, 2020). Moreover, there are inconsistencies in how content creators are taxed, ranging from misclassifications of income types to inadequate regulatory frameworks that fail to capture the true scope of digital revenues (Faizah *et al.*, 2022; Kurniawan & Melanie, 2022). These issues are further complicated by a lack of awareness and technological infrastructure to track and assess digital incomes.

The literature highlights several challenges in implementing digital taxation, including the need for updated legal frameworks, cross-border tax regulations, and better coordination between countries to ensure that revenues generated by content creators are taxed appropriately (Darhani & Wijaya, 2022). Technological advancements, such as automated systems for tracking digital transactions and reverse charge mechanisms for cross-border services, have been proposed as potential solutions to enhance the efficiency of tax collection in the digital sector (Miftahudin & Irawan, 2020).

This literature review aims to explore the impact of these technological advances on the development and implementation of tax policies targeting the digital sector, particularly online content creators. By examining existing research on digital tax policies in different countries, this study seeks to identify key challenges and opportunities for improving tax compliance in the growing digital economy.

LITERATURE REVIEW

The Rise of the Digital Economy and Content Creation

The digital economy, characterized by the proliferation of online platforms, content creation, and digital services, has experienced exponential growth in the past decade. Platforms like YouTube, TikTok, Instagram, and Facebook enable content creators to generate revenue through advertising, sponsorships, paid promotions, and direct engagement with audiences (Kurniawan & Melanie, 2022). These platforms offer content creators global reach, allowing them to generate income across borders, making the taxation of digital transactions increasingly complex (Gunawan & Sari, 2023).

Content creators' income varies significantly, depending on their platform, follower count, and type of content produced. Studies such as that of Rahayu *et al.* (2021) have shown that while the potential tax revenue from these individuals is substantial, compliance remains low due to inconsistent understanding of tax obligations and lax regulatory enforcement.

Challenges in Digital Taxation

The taxation of online content creators presents unique challenges for traditional tax frameworks. The Organisation for Economic Co-operation and Development's (OECD) Base Erosion and Profit Shifting (BEPS) initiative emphasizes the difficulty in taxing multinational corporations and digital entrepreneurs who can shift profits across borders with ease (Okah-Avae & Mukoro, 2020). Additionally, many content creators operate in jurisdictions where physical presence is not required, further complicating tax enforcement.

Okah-Avae & Mukoro (2020) discussed Nigeria's infrastructure issues in handling digital taxation, noting that systems designed for physical goods are ill-equipped to address digital products and services. This is echoed in the findings of Miftahudin & Irawan (2020), who argue that Indonesia faces similar challenges in tracking digital transactions, particularly those involving non-tax registered content creators. The concept of tax neutrality, which posits that the tax system should not distort decisions between digital and non-digital economic activities, is often undermined by the inefficiency of traditional tax systems to handle new digital revenue streams.

Technological Solutions to Digital Tax Challenges

Technological advancements present opportunities to bridge gaps in the taxation of digital services. One proposed solution is the implementation of automated systems for tracking and reporting digital transactions, such as the Social Network Analytics (SONETA) used in Indonesia (Rahayu *et al.*, 2021). By using automated systems, tax authorities can monitor online transactions and income streams more effectively.

Another potential solution is the application of the Reverse Charge Mechanism, which shifts the tax liability from the seller to the buyer, particularly in cross-border services, ensuring that Value-Added Tax (VAT) or other levies are captured at the point of consumption (Darhani & Wijaya, 2022). Australia, India, and Japan have already begun using this method for taxing digital services (Miftahudin & Irawan, 2020).

Faizah *et al.* (2022) highlight that the key to improving tax compliance among content creators lies not only in technological advancements but also in improving the education and outreach efforts by tax authorities. Many creators remain unaware of their tax obligations, and even those who are aware often struggle to navigate complex tax filing processes. Effective education campaigns paired with better data collection could increase voluntary compliance.

Theoretical Framework

The Theory of Fiscal Exchange provides a relevant foundation for understanding tax compliance in the digital economy. This theory posits that taxpayers' willingness to comply is influenced by their perception of government accountability and the provision of public goods. In the context of digital taxation, content creators are more likely to comply if they perceive the tax system to be fair, efficient, and aligned with their economic interests (Gunawan & Sari, 2023).

The Theory of Technology Adoption (Davis, 1989) also informs the current discourse, suggesting that the ease of use and perceived usefulness of technological tools like digital tax platforms or automated reporting systems can significantly influence their adoption by both tax authorities and taxpayers. The application of these technologies, when well-implemented, can enhance compliance and reduce tax evasion among content creators.

METHODOLOGY

This study will employ a qualitative literature review approach to explore the impact of technological advancements on digital tax policy, specifically concerning online content creators. The methodology will follow these key steps:

1. Data Collection

- a. This research will collect secondary data from academic journals, books, government reports, and policy papers published between 2019 and 2024. Databases such as Google Scholar, JSTOR, and government websites will be used to gather relevant literature.
- b. The selection criteria will focus on studies that discuss taxation in the digital economy, tax policy for content creators, technological solutions to tax challenges, and global case studies involving digital taxation frameworks.

2. Literature Analysis

- a. The analysis will use **thematic analysis** to identify key themes and trends in the literature. The focus will be on:
 - i. The challenges that governments face in taxing digital content creators.
 - ii. How technological solutions have been or could be applied to resolve these issues.
 - iii. Case studies of countries that have successfully implemented digital tax policies.

3. Comparison of Case Studies

- a. Comparative case analysis will be applied to examine tax policy developments in countries like Nigeria, Indonesia, and others. This will provide insight into best practices and highlight areas for improvement in digital tax policy.
- b. Special attention will be given to the application of technology in tax enforcement, including the use of Social Network Analytics (SONETA) and the Reverse Charge Mechanism in countries with developed and developing economies.

4. Data Synthesis

- a. The findings from the literature will be synthesized to draw conclusions on how technological advancements can address the challenges of digital tax compliance among online content creators. The synthesis will also consider the role of government policy, tax enforcement agencies, and international cooperation.

This study aims to offer a comprehensive understanding of how tax systems globally are adapting to the rise of digital content creation and propose actionable recommendations for improving tax compliance through technological means.

RESEARCH RESULT

The literature review conducted in this study reveals several key findings regarding the impact of technological advancements on digital tax policy, specifically in the context of online content creators. These findings are categorized into three key areas:

1. Challenges in Digital Taxation:

- a. The analysis of the literature shows that traditional tax systems are not equipped to handle the complexities of the digital economy. Tax systems originally designed for physical goods face challenges in accurately assessing and collecting taxes from digital transactions.
- b. Inconsistent tax treatment of content creators across jurisdictions is a significant problem. In Nigeria, for example, Okah-Avae & Mukoro (2020) found that the existing tax infrastructure is unable to effectively capture income generated from digital platforms. Similar issues were observed in Indonesia, where Kurniawan & Melanie (2022) identified that tax offices treat content creators differently due to varying levels of awareness and understanding among tax authorities.
- c. A major finding from Faizah *et al.* (2022) shows that income tax evasion by local YouTubers and digital content creators is often driven by a lack of trust in tax authorities, as well as misinformation and the absence of clear tax guidelines for digital transactions.

2. Role of Technology in Digital Taxation:

- a. The application of technological solutions, such as automated tax collection systems and digital monitoring tools, has been identified as a

critical step toward improving tax compliance among digital content creators. Miftahudin & Irawan (2020) demonstrate how countries like Japan and India have successfully applied technologies like the Reverse Charge Mechanism to improve tax collection on digital transactions.

- b. In Indonesia, the Social Network Analytics (SONETA) system, as mentioned by Rahayu *et al.* (2021), has enabled the tax authorities to monitor social media platforms and online content for taxable activities. However, the study also notes that this technology is still in its infancy and requires further development to be fully effective in capturing tax obligations.

3. Global Best Practices and Policy Recommendations:

- a. Several countries, such as Australia and South Korea, have implemented more efficient systems for taxing digital content creators, including simplified VAT registration and collection processes for non-resident digital service providers. These models offer a potential blueprint for countries like Indonesia and Nigeria (Miftahudin & Irawan, 2020).
- b. The literature also reveals that a combination of technology and targeted education programs is necessary to address the knowledge gap among content creators. Gunawan & Sari (2023) recommend that governments invest in educating content creators about their tax obligations through digital platforms and social media, which are more accessible to this demographic.

DISCUSSION

The findings from the literature review highlight significant challenges and opportunities in adapting traditional tax systems to the demands of the digital economy, particularly concerning online content creators. The discussion of these results is organized into three key themes: technological solutions, the role of government policy, and the implications for future tax systems.

1. Challenges in Taxing the Digital Economy

The results confirm that the existing tax infrastructure in many developing countries, including Nigeria and Indonesia, struggles to accommodate the unique characteristics of the digital economy. The inability to accurately track income generated by content creators on platforms such as YouTube, TikTok, and Instagram has resulted in significant revenue losses. This aligns with the findings of Okah-Avae & Mukoro (2020), who emphasize that traditional tax systems were designed for physical goods and are now outdated in the context of digital trade.

Moreover, inconsistent treatment of content creators, as noted in Kurniawan & Melanie (2022), points to a need for clearer guidelines on how content creators' income should be classified and taxed. The variation in how different tax offices handle these cases not only creates confusion but also undermines tax compliance efforts.

2. Technological Solutions for Digital Taxation

Technological innovations such as automated tax systems and digital transaction monitoring have been identified as potential solutions to the challenges of digital taxation. The use of the Reverse Charge Mechanism, which shifts the tax liability to the consumer or service recipient, has been successfully implemented in countries like Japan and India to tax non-resident digital service providers (Miftahudin & Irawan, 2020). This mechanism allows governments to capture tax revenues on cross-border transactions, where traditional tax enforcement methods fail.

In Indonesia, the introduction of the Social Network Analytics (SONETA) system offers a promising solution for monitoring online content creators' activities (Rahayu *et al.*, 2021). However, the system requires further development to address its current limitations, such as the inability to capture income from smaller or less prominent content creators who may not yet be on the radar of tax authorities.

The role of technology in streamlining tax collection and reducing compliance costs for content creators cannot be overstated. By automating the tax reporting process and simplifying tax filing through digital platforms, tax authorities can reduce the burden on content creators while ensuring more accurate tax collection. However, the success of such systems hinges on their ease of use and perceived fairness, as highlighted in the Theory of Technology Adoption (Davis, 1989). If content creators perceive these tools as beneficial and easy to use, compliance is likely to increase.

3. Global Best Practices and Policy Recommendations

The case studies of Australia, South Korea, and other countries that have implemented efficient digital tax systems provide valuable lessons for countries struggling with digital tax compliance. For instance, Australia's simplified registration system for non-resident digital service providers has proven effective in capturing VAT from digital transactions (Miftahudin & Irawan, 2020). These practices highlight the importance of developing user-friendly and straightforward tax systems that cater to the unique needs of the digital economy.

The results also suggest that improving tax compliance among content creators requires not only technological solutions but also enhanced education and outreach efforts. Gunawan & Sari (2023) emphasize the importance of educating content creators about their tax obligations, especially in countries where tax literacy is low. This can be achieved through targeted digital campaigns on the very platforms that content creators use for their work, such as YouTube and Instagram. By engaging content creators on these platforms, tax authorities can ensure that the message reaches its intended audience effectively.

Implications for Future Tax Systems

The literature reviewed in this study underscores the need for tax authorities to adopt a multi-faceted approach to digital taxation, combining

technology, education, and clear regulatory frameworks. As digital content creation continues to grow, governments must stay ahead of the curve by implementing adaptable tax systems that can handle the complexity of cross-border digital transactions.

Furthermore, the Theory of Fiscal Exchange suggests that content creators' willingness to comply with tax regulations is influenced by their perception of government accountability and the fairness of the tax system. Ensuring that digital taxation policies are perceived as fair, transparent, and supportive of content creators' economic activities will be crucial for enhancing compliance.

CONCLUSIONS AND RECOMMENDATIONS

The findings of this study demonstrate that while there are significant challenges in adapting traditional tax systems to the digital economy, particularly regarding online content creators, there are also numerous opportunities for improvement through the implementation of technological solutions and policy reforms. The major challenges identified include inconsistent tax treatment, outdated systems designed for physical goods, and difficulties in monitoring digital transactions. However, the adoption of automated tax systems, such as the Reverse Charge Mechanism and digital monitoring tools like SONETA in Indonesia, shows promising results in addressing these challenges.

In conclusion, countries like Nigeria and Indonesia must develop modern tax infrastructures that align with the rapidly evolving digital economy. This includes enhancing the use of technology to monitor digital transactions, providing clear tax guidelines for content creators, and educating these individuals about their tax responsibilities. By doing so, governments can ensure greater tax compliance and capture revenue potential from the growing digital content creation industry.

Recommendations:

1. **Implement Advanced Technological Systems:** Governments should invest in robust digital tax systems that can track and tax digital content creators more effectively. Automated systems, combined with simplified registration and reporting processes, will help reduce the burden on taxpayers and increase compliance.
2. **Educate Content Creators:** Tax authorities need to engage in consistent outreach and education campaigns targeting digital content creators to increase awareness and understanding of tax obligations. This could involve using social media platforms as channels for communication.
3. **Adopt Global Best Practices:** Countries should look to successful examples like Australia's and South Korea's digital taxation systems and consider adopting similar strategies. This includes clear guidelines on how digital transactions should be taxed and how to implement user-friendly systems.
4. **Strengthen Tax Administration:** Tax authorities should improve their internal capacity to handle the complexities of digital taxation by training staff and investing in digital technologies that can facilitate the monitoring of digital transactions.

ADVANCED RESEARCH

Like all studies, this research has several limitations that should be acknowledged. First, the study focuses primarily on the literature regarding digital content creators and taxation in Nigeria and Indonesia, which may not represent the entire global perspective. Further research could expand the analysis to other countries with different tax infrastructures and digital economies to provide a more comprehensive understanding of how digital taxation systems function globally.

Moreover, this study relies on secondary data from literature reviews. Future research could incorporate primary data collection from tax authorities and content creators themselves to gain a more in-depth understanding of the issues they face. Additionally, the long-term effectiveness of technological systems like SONETA and the Reverse Charge Mechanism in improving tax compliance needs further evaluation through empirical studies.

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