

Taxation of Income Tax on Instagram Celebrities Endorsement Service in Indonesia

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Abstract- This writing is based on legal issues regarding the juridical review of the imposition of income tax from endorsement service activities in the world of social media. The purpose of this paper is to analyze the rules governing the imposition of income tax from endorsement service activities and to analyze the object and subject standards of the endorsement tax. The research method used in normative legal research is conducting research from primary and secondary legal sources related to this writing. Tax is a very important income for a country because it can provide a balance. Activities from endorsement services can be taxed because people who offer endorsement services can generate fairly large profits. Therefore, endorsement activities become a place of livelihood for celebtgrams or influencers. Endorsement activities are subject to income tax (PPh) due to using the services of individuals. Income tax rules are contained in Article 4 of Law No. 36 of 2008 concerning income tax and provides an explanation of the object of income tax is income earned or obtained by taxpayers, whether generated in Indonesia or abroad, whose income is used to add wealth and to fulfill income tax obligations. the needs of the taxpayer, in any form. The conclusion is that the activities of endorsement services on social media need to be collected for taxes. In collecting income tax from endorsement activities, socialization and clear legal provisions are needed in order to realize justice.

Index Terms- Income Tax, Instagram, Commercial Activities, Taxation

I. INTRODUCTION

A hallmark of technology advancement is the expanding field of communication and information technologies. With the passage of time and the creation of new technology, there is also a rapid increase in the global economy, which is supported by a variety of media in advertising and direct offers to consumers of a variety of goods and services made available through traditional or online channels such as social media. In essence, social media is an illustration of how technological advancements have impacted society. Its primary goal is to connect people from different locations who are otherwise unreachable with one another so they can interact socially in real-time using online application platforms. One of the social media platforms that is currently being used to carry out commercial activities is Instagram. The Instagram app is a photography-based social networking service. Instagram ultimately raises parties who want to take advantage to make money using social media, one way is to provide endorsement services. Endorsement services are promotions that are carried out by someone on social media, especially Instagram to provide testimony of a service or an item. Endorsement services have a system where there is an agreement between the business owner and the parties who will promote the business owner's services or products on their social media account after paying a certain amount of money in advance. Endorsements are usually done by people whose Instagram accounts have many followers, such as artists, actors, actress or internet celebrities known as influencers.

In recent years, using endorsement services has grown in popularity. According to Anymindgroup (2020), in Indonesia there is 94 percent of internet users (175.4 million individuals, or 64% of the population of the nation) own a smartphone, and daily usage of social media is on average 3 hours 26 minutes, with 95% of users actively engaging with or contributing to material there. Furthermore, the data from Tesalonica (2020) which demonstrates that 2,552 new creators register as creators on SociaBuzz each month, supports this. The number of artists that profit from their personal brands and material is as high as 45.94 percent. Therefore the Directorate General of Taxes (DGT) in Indonesia has started to notice the prospect for significant tax revenues and start undertaking a study of taxation in this sector because the tax imposition on endorsement service activities is only in the form of submitting an Annual Tax Return (SPT).

According to the tax code, an individual with existing income might be the subject of taxation. Because taxpayers calculate their own tax responsibilities under Indonesia's self-assessment system, tax collection is nonetheless inefficient and unfair to taxpayers (Devano & Rahayu, 2006). As of right now, the Directorate General of Taxes (DGT) has developed a system called SONETA or

Social Network Analytics. that is used to analyze data that can be incorporated into every social media for every taxpayer, be it Value Added Tax (VAT) or Income Tax. The technology, which has been in operation since 2018, is still operated manually, and it hasn't been adopted by all tax service offices. Conditions would be very different if Director General of Taxes could make the most of SONETA and readily keep track of celebrities taxes (Vikansari & Parsa, 2019).

Although the endorsement tax is mentioned in Law No. 36 of 2008 regarding income tax, its implementation is challenging because few people are aware of their duty to pay taxes. Therefore, the government needs to increase human resources and produce strict law enforcers in the application of taxes and what is important for taxpayers is to know when to pay taxes and when their obligations end (Supramono & SE, 2010). By merely offering an Annual Tax Return (SPT), the government has made things simple and easier. Unfortunately, many people still fail to satisfy their tax duties on time and few people who actively strive to avoid doing so.

This study aims to investigate the income tax imposition mechanism for Indonesian celebrities that engage in online endorsement activities via the Instagram Social Media application. This is expected to provide insight to the literature regarding tax income on Instagram endorsement activities. As a result, it can raise actors understanding of taxes, and tax authorities can enhance current regulations to accommodate the evolving nature of business in the digital era.

II. RESEARCH METHOD

The purpose of this research is to examine the need for taxation of endorsement service operating on the Instagram platform and to determine how further regulations to do so might be implemented. The form of research used is normative legal research, which entails examining primary and secondary legal sources that are connected to the subject of the research. In order to ascertain the facts regarding the necessity of regulating taxation of endorsement service on Instagram Platforms, this research was carried out by searching, and carefully examining the relevant literature and legal precedents. A real explanation of the legal and non-legal propositions and conditions is utilized as the analytical technique, which is a descriptive technique. Additionally, this study employs an argumentative writing style that is founded on legal reasoning.

III. RESULTS

1. Regulation of the Imposition of Income Tax on Endorsement Activities on Instagram

Taxes are necessary contributions to the State that are owing by organizations or people whose nature is coercive according to the law, do not receive direct remuneration, and are utilized for the State's purposes for the welfare of the people. According to Soeparman Soemahamidjaja, tax is a required payment that is gathered by the government in accordance with legal requirements to pay for the costs of producing goods or services for the wellbeing of the populace (Djafar, 2011). "Taxes and other collections that have a coercive nature to support the needs of the State are governed in law," declares Article 23A of the 1945 Constitution of the Republic of Indonesia. This means that all taxes imposed by the State on its citizens (taxpayers) that have a coercive nature and are intended to meet the requirements of the State must be governed by the Law.

In Indonesia, many mechanisms, including the Official Assessment System, a tax collecting system that provides the government the power to assess how much tax debt is owed to taxpayers, are used to collect local and central taxes. There are two types of tax collecting system, self-assessment system and the withholding system. Self-assessment system is a method of tax collection that enables taxpayers to estimate their own out-of-pocket tax obligations. While the withholding system is a tax collecting method that grants authority to parties other than the government or taxpaying citizens to decide how much tax must be paid.

Income tax is a state tax imposed on taxpayers who get income whether it is earned or received, this applies to Indonesian citizens who are in the country or outside Indonesia. The law governing income tax is found in Article 4 of Law No. 36 of 2008 concerning income tax, which states that the object of tax is income, i.e., any income, whether it is earned or received by the taxpayer, and that this rule applies to Indonesian citizens both at home and abroad, as well as whether it is used to meet taxpayers' needs or add to their wealth. If a person satisfies the objective and subjective standards, such as having an NPWP (Taxpayer Identification Number) and earning more than nontaxable income, they are considered to be a taxpayer. According to formal teachings, the debt law appears when a tax assessment letter is issued (Pudyatmoko, 2008). On the other hand, the material teaching states that the tax debt is determined by law and the objective and subjective requirements have been met. It can be concluded that the emergence of debt requires intervention by tax officials and in accordance with the requirements of the law (Soemitro, 1991).

Stated by the Directorate General of Taxes of Indonesia, celebrities who promote services or products on social media accounts including Instagram will be subject to tax. Because doing endorsements will result in extremely high earnings or income, the government imposes taxes on artists and celebrities who do them. Instagram use has become quite appealing due to the current state of highly developed technology and the introduction of the internet. People can gain notoriety through Instagram, and many businesses use it to advertise their goods and services. Celebrities and artists who offer endorsement services earn income from the company or business owner whose goods they advertise.

Instagram celeb endorsement activities are tied to Indonesia's ITE Law, which serves as the framework for the country's implementation of cyberspace. The ITE Law's goal is to advance trade and the economy for the benefit of the populace, according to Article 4 letter b. The ITE Law attempts to govern business models that are only starting to grow quickly, such celebrity endorsement service activities on social media. According to ITE Law article 1 number 2, electronic transactions are considered legal acts. As a

result, celebrities are seen as legal subjects and their social media endorsement actions are legal acts. According to the ITE Law, endorsement activities performed by celebrities on social media are considered electronic transactions, and as such, they must abide by the ITE Law's rules.

In theory, the endorsement activities performed by celebrities on Instagram are classified advertisements electronic transactions; however, circulars from the Directorate General of Taxes cannot be utilized as references because the circulars are not equivalent to the regulations of the Act. In general, circulars are not enforceable by law.

Celebrities generates the same amount of money from endorsement deals as other companies; the only distinction is the method of distribution, which is using Instagram. Despite the fact that the money earned by celebrities from its endorsement services is not set and is conducted via Instagram, as previously indicated, celeb's income is nevertheless subject to income tax and is not exempt from it. This is due to the fact that an individual will be subject to income tax if their income enables them to engage in economic activity. Celebrities will therefore be required to pay income tax on any income they receive from doing endorsement work.

2. Criteria in the Application of Tax Objects and Subjects in Endorsement Activities

Income tax is a tax that controls the income tax that a person or entity owns. A taxpayer is the object and subject of income tax. In relation to income earned or received within a year, the subject of Income Tax is levied on ;

- Inheritance that has not been distributed supplants the legitimate taxpayer and is the subject of income tax.
- Private individual.
- Permanent Establishment
- Entities

Tax subjects are further divided into three, namely domestic tax, foreign tax, and those who are not part of the tax subject (Mardiasmo, 2009). Domestic tax subjects are:

- a. Entities established in Indonesia, this includes Limited Liability Companies, State and Regional Owned Enterprises with any form and name, Joint Ventures, Firms, Pension Funds, Cooperatives, Associations, Fellowships, Mass Organizations, Foundations, Political or social organizations or the like, Mutual Funds and institutions. Business entities from the government have exceptions if they meet these criteria:
 - Financing sourced from the Regional Budget Revenues and Expenditures (APBD) or State Budget Revenue and Expenditure (APBN)
 - Establishment based on the provisions of the Act.
 - The revenue is included in the budget of the Regional Government or the State Government.
 - In the audit the books are supervised by the State supervisory apparatus.
- b. An individual who lives in Indonesia or who is staying in Indonesia for 183 days in a year and who has the intention to stay in Indonesia.
- c. Inheritance that has not been distributed, replaces the rightful taxpayer.

Foreign tax subjects include:

- a. Individuals who do not live in Indonesia or stay in Indonesia for less than 183 days, entities that are not located in Indonesia who can earn or receive income from Indonesia through business or permanent establishment activities in Indonesia.
- b. Individuals who do not live in Indonesia or stay in Indonesia for less than 183 days within 12 months as well as the established entity is not located in Indonesia and runs and performs permanent establishment in Indonesia.

Meanwhile, the object of tax is income earned by taxpayers from Indonesia or from abroad whose income can be used to meet the needs or increase the wealth of the taxpayer, whether in any form. According to the Law, the objects of income tax are:

- Prizes from sweepstakes
- Gaining profit from the operator or transfer of property
- Retrieval
- Rewards
- Dividends, rent, interest and rent
- Receive from periodic payments
- Benefit from debt relief
- Insurance premium
- Profits from foreign exchange differences
- Profit from sharia business
- Interest
- Profit of Bank Indonesia

Income earned both inside and outside of Indonesia is the subject of taxation for taxpayers. The criteria for determining tax subjects are whether an individual or a full-fledged business entity receives money from the goods they produce and makes a profit.

Celebrities are those who must pay taxes, according to the law. The program is independent and not counted as part of the workforce because it is administered solely by one person. Celebrities are independent hence they are not bound to any particular organizations. The program must determine its own tax liability and pay it to the Directorate General of Taxes based on the previously mentioned facts. The threshold for evaluating tax objects on endorsement activities is set by those who earn money for which they must pay taxes; as a result, celebrities who earn income from endorsement activities are obliged to pay taxes, this is in accordance with the rules stated in the Law (Damopolii, 2017).

3. Instagram Celebrities Tax Obligation Compliance

Tax compliance is the readiness of taxpayers to abide by a nation's tax laws. Tax compliance also refers to the timely filing of tax returns and accurate reporting of income. Because tax evasion can result in losses for the state, paying attention to taxpayer compliance is important (Fidel, 2010). The decrease in tax compliance may affect government initiatives to enhance welfare for citizens (Chau & Leung, 2009). According to Ersania & Merkusiwati (2018), tax compliance is split into two categories: formal compliance and material compliance. Formally speaking, compliance is defined as a taxpayer administrative duty that is carried out in conformity with the relevant tax laws. Technical duties to complete and precisely calculate taxes are part of material compliance. Essentially, accurate and thorough SPT reporting can be used to identify taxpayer compliance. The Indonesian tax authorities are still grappling with the issue of noncompliance by taxpayers (Jusikusuma & Wijaya, 2022).

Since there is still no clear regulation that will leave openings for celebrities to avoid paying taxes, there is often no law that particularly governs income tax involving endorsement activities. Given that many celebrities now believe endorsement services are exempt from income tax, it is important to make clear to celebrities who provide endorsement services that they are liable to income tax. Legal certainty is required to prevent conflicting social interpretations.

The compliance rate for creative non-employees like artists and celebrities is still below 50%, according to CORE's Executive Director Faisal. The money received from celebrity or public figure endorsement deals is essentially self-declared revenue. Calculating, paying, and reporting tax obligations must be done through Instagram Celebrities. Understanding the program's accountability and integrity in meeting its tax obligations is necessary for the self-assessment system's adoption (Roria & Sari, 2021). Referring to the Executive Director of the Center of Indonesia Taxation Analysis (CITA) Yustinus Prastowo, the lack of taxpayer compliance in reporting tax obligations is influenced by several factors. First, ignorance in fulfilling their tax responsibilities, the complexity of the tax system is the reason why Instagram celebrities are reluctant to report their income. The second reason is that Instagram celebrities deliberately evade taxes that should be their responsibility (Situmorang, 2019). However, for the first factor, it is necessary to note that the laws and regulations that have been ratified by the government and promulgated in the State Gazette of the Republic of Indonesia genuinely need to be understood by everyone. In this case, the participation of the Indonesian people is very much needed to actively seek knowledge related to the latest regulations issued by the government. Taing & Chang (2021) argues that the level of complexity of the taxation system has an important correlation with the level of non-compliance. In addition, the complexity of the tax provisions provides the possibility that taxpayers can misinterpret. Meanwhile, the justice factor is also one of the factors that affect taxpayer compliance. Sania & Yudianto (2018) found that the justice factor also influences to services and the final results provided by the government do not meet public satisfaction standards. The justice factor given by the government is still being questioned by the public. The public feels that the distribution of public facilities has not been used optimally.

Meanwhile, DGT is reportedly dealing with a number of issues, according to Nasrullah & Amalia (2020). First, the challenge of managing online stores. Although the taxation of endorsement activities is carried out in accordance with the current tax legislation, the DGT asserts that monitoring requires a different model because it is simpler to do where there is physical evidence. In order to fulfill their tax duties based on self-assessment, celebrities sometimes lack knowledge or literacy. According to the applicable Income Tax Law, celebrities who actively participate in fulfilling their duties are considered to be self-declaring their income from endorsement activities. Third, whether the income reported by the celebrities in the SPT is accurate or not, DGT finds it challenging to locate comparable statistics. This occurs because the actions of the internet promotion model differ from those of the traditional promotion strategy. Because celebrities are increasingly being used to promote items online, gathering comparison data is thought to be particularly challenging. Furthermore, online transactions can be very difficult to track down, and there is a chance that the information supplied is false or that information on transactions for endorsement activities between celebrities and online commercial partners is lost.

Because endorsement service activities take place online, a technology strategy is required. Directorate General of Taxes must release an update so that the government can examine the celeb data and identify the celebrities that might be subject to taxation. The Income Tax Law and the ITE Law, which explicitly govern the collection of income tax endorsements, both need to be amended by the government. And Indonesia's tax authority, must collaborate with other organizations in order to assist in and maximize income tax collection on services-providing programs. Income from endorsement activities is treated the same as other types of income under the Income Tax Regulation.

The Directorate General of Taxes also needs to actively educate the celebrities about the self-assessment method. As a result, Instagram celebrities needs to be aware of their tax duties and proactive in filing, depositing, and reporting them. The Directorate General of Taxes can explain the penalties that may be incurred if the program does not comply with its tax requirements in addition to persuading socialization on the program. Socialization is provided to internet business owners as well, who of course frequently use the marketing services provided by Instagram celebrities in order to achieve their goals. The Directorate General of Taxes sets income tax bases for activities that can be utilized as an object of revenue, such as endorsements. Example, Singapore has a law

stating that anyone who runs an internet promotion and earns more than \$100 USD as a result of their efforts must report their revenue to the SPT. There is no need to record your income if it is less than \$100 USD. This helps bring flavors of justice and clarity in line with the ideas of equality and assurance.

However, in order to prevent conflicting interpretations in the society, there still has to be clear regulations regarding the imposition of endorsement income tax. To promote compliance and raise awareness for celebrities as endorsement service providers, it is envisaged that there will be a thorough explanation of the parties involved as well as tax aspects relating to income tax on celebrities who earn from endorsement.

IV. CONCLUSION

In Indonesia, celebrity endorsement activities on the Instagram platform are one of the potential tax revenues, according to the findings of the discussion that has been conducted. Law No. 36 of 2008 addressing income tax contains rules about how income tax from endorsement activities is determined. Directorate General of Taxes finds it difficult to tax endorsement activities. The study's findings have implications, particularly for celebrities who use Instagram for endorsement purposes. The income received or earned by Instagram celebrities is high because the celebrities itself can set rates as freely as possible. It depends on the number of followers, and what brand endorsed them. The large number of celebrities on Instagram social media should be able to increase revenue in terms of Income Tax. However, in reality, there are still many celebrities who are not aware of their obligations and it is still challenging to collect endorsement income taxes.

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