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ANALYSIS OF TAX POLICY AND REGULATION ON FINTECH SERVICES IN INDONESIA: IMPACT ON INNOVATION AND THE DIGITAL ECOSYSTEM

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Abstract

The rapid development of the financial technology (fintech) industry in Indonesia has had a significant impact on the transformation of digital financial services. However, this growth has also given rise to an urgent need for balanced tax and regulatory policies to ensure innovation and the sustainability of the digital ecosystem. This study aims to analyse the influence of tax and regulatory policies on fintech service innovation and its impact on the digital ecosystem in Indonesia. The method used is a literature review with a content analysis approach to various regulatory documents, official reports, and academic literature related to fintech taxation and regulation. The results show that overly burdensome tax policies can hinder innovation, while adaptive regulations, such as the implementation of regulatory sandboxes, can promote the healthy and inclusive growth of fintech services. Therefore, a balance between fiscal and regulatory aspects and synergy among stakeholders are key to the successful development of a competitive and sustainable fintech industry in Indonesia.

Keywords: fintech, tax policy, regulation, innovation, digital ecosystem, Indonesia, regulatory sandbox, financial inclusion.

Introduction

The development of digital technology has brought significant changes to various aspects of life, including the financial sector. In the era of the 4.0 industrial revolution, the emergence of financial technology or fintech companies has become one of the main catalysts in accelerating the transformation of traditional financial systems towards a more inclusive, fast, and efficient digital ecosystem (Sulfan, 2020) . Fintech services enable people to access financial instruments in a simple way via smartphones and the internet, ranging from digital payments, peer-to-peer lending, financial planning, digital investments, to app-based insurance. Indonesia, with a population of more than 270 million and an increasing internet penetration rate, is a huge potential market for the development of the fintech industry (Burhan, 2023) .

The growth of fintech in Indonesia has been quite rapid, marked by an increase in the number of licensed and registered services with the Financial Services Authority (OJK) and the increasingly widespread use of digital wallets in daily transactions. This trend has strengthened in the wake of the COVID-19 pandemic, when digital transactions increased dramatically due to restrictions on people's mobility. The presence of fintech has also expanded access to formal financial services to various segments of society, including the unbanked or underbanked, who were previously difficult to reach by conventional banks (T . This phenomenon certainly supports the national financial inclusion programme launched by the government. However, behind this great potential, there are regulatory and policy challenges that need to be addressed. Rapid growth is often not in line with the readiness of the regulations that govern it (Prihatwono, 2020) . The government, OJK, and Bank Indonesia are working to regulate fintech so that its growth remains balanced with consumer protection, maintaining financial system stability, and preventing the misuse of fintech services for illegal practices such as money laundering and terrorism financing. Thus, regulation is an important instrument for creating a healthy and competitive fintech ecosystem (Rimsky, 2005) .

Apart from regulation, another important aspect in the development of the fintech industry in Indonesia is taxation policy. Fintech, as a new economic sector, presents a great opportunity for state revenue. However, the application of taxes on fintech cannot be done arbitrarily. A proportional policy is needed so that taxes can be an instrument to increase state revenue without hampering the innovation and creativity of business actors. A tax policy that is too burdensome can actually reduce investor interest and slow down the development of the fintech ecosystem (Persaulian, 2021) .

The relationship between regulation, taxation, and fintech innovation is a strategic aspect that needs to be studied in greater depth. Strict regulations can provide consumer protection and create market confidence, but if they are too restrictive, they can hinder business agility. Meanwhile, tax policies can increase state revenue, but if not well designed, they will become an additional burden that reduces Indonesia's competitiveness compared to other countries in the Southeast Asian region (Baginda Persaulian, 2021) . The presence of services such as paylater, app-based investments, robo-advisors, and insurtech requires rapid regulatory adaptation from the government. If regulations do not understand the dynamics of innovation, there will be a policy gap that has the potential to hamper industrial development. On the other hand, the country also needs sustainable fiscal instruments to continue to support national economic development (Marieta & Mauren, 2017) .

Several other countries have adopted different approaches to regulating the fintech sector. For example, Singapore, with its Monetary Authority of Singapore (MAS), has implemented a regulatory sandbox, while the United Kingdom, with its Financial Conduct Authority (FCA), has opened up more space for experimentation with new business models. This illustrates that adaptive regulation can create a climate conducive to innovation while maintaining the integrity of the financial system (Suryadarma & Faqih, 2024) .

In Indonesia, fintech regulations are still evolving and undergoing adjustments from time to time. The OJK and Bank Indonesia, as the main regulators, have the task of not only ensuring the security of the system and consumers, but also maintaining the spirit of innovation so that it does not fade away (Dhea Khoirunisa, 2024) . Regulations such as the OJK Regulation on information technology-based money lending services and Bank Indonesia's policy on digital payment systems are concrete examples of how the government is trying to keep pace with the growth of this sector. However, the effectiveness of these regulations needs to be continuously analysed to determine whether they are in line with the needs of the industry and consumers (Kusuma, 2020).

From a taxation perspective, the government has also issued regulations regarding the imposition of Value Added Tax (VAT) on digital products and the obligation to pay Income Tax (PPh) for fintech operators. This policy is expected to contribute to state revenue from the rapidly growing digital sector. However, the implementation of this policy has sparked pros and cons. For businesses, taxes are considered an additional burden that could potentially reduce competitiveness. For regulators, taxes are considered a control instrument as well as a source of funding for Development (Financial Services Authority (OJK), 2016) .

This study will examine in greater depth the extent to which existing tax policies and regulations in Indonesia influence fintech service innovation and how this affects the sustainability of the digital ecosystem. Using a policy analysis approach, this study will compare the effectiveness of Indonesian regulations and tax policies with best practices in other countries. The main focus is to find a balance between the state's interest in obtaining tax revenue, consumers' interest in protection, and the industry's interest in continuing to innovate.

Research Method

The research method used in this study is library research, which involves collecting, reviewing, and analysing various relevant literature sources such as laws and regulations related to taxation and fintech regulation in Indonesia, official reports from the Financial Services Authority (OJK), Bank Indonesia, the Ministry of Finance, as well as academic publications, international journals, scientific articles, and industry reports (Eliyah & Aslan, 2025) . The data obtained from these various sources was analysed qualitatively through a content analysis approach to identify patterns, trends, and policy implications for the development of fintech service innovation and the digital ecosystem. Using this method, the study aims to provide a comprehensive understanding of the influence of tax and regulatory policies on the growth of the fintech industry in Indonesia without conducting field surveys (Green et al., 2006) .

Results and Discussion

Analysis of Tax Policy on Fintech Innovation

Tax policy is one of the important instruments considered in the development of the fintech sector. As a rapidly growing economic sector, fintech presents business models and products that are unique and different from the conventional financial sector (OJK, 2016) . Therefore, the government needs to design tax policies that not only support state revenue but also do not burden innovation and the development of new fintech services. Effective taxation is taxation that can accommodate the dynamic characteristics of the fintech industry without reducing its competitiveness (Rizky S. Aliyudin, 2020) .

In Indonesia, taxation on fintech services generally includes Value Added Tax (VAT) on digital products, Income Tax (PPh) for fintech providers, and other taxes related to digital financial transactions. For example, VAT has been applied to digital products for the past few years, covering various application-based services including fintech. This policy is intended to ensure that digital-based transactions contribute equally to other economic sectors (R .

However, the imposition of taxes in the fintech industry is not without challenges. One of the main issues that has arisen is that the imposition of taxes can be a significant additional burden for fintech businesses, especially for start-ups that are still in their early stages and are highly dependent on venture capital. This tax burden has the potential to reduce the funds that should be used for product development, research, and market expansion. As a result, innovation in fintech services could be hampered due to limited financial resources (Fahmi, 2022) .

This situation creates a dilemma between the state's need for optimal tax revenue and the fintech industry's need to maintain its agility in innovation. On the one hand, overly lenient tax policies can result in a potential loss of state revenue (tax gap), while taxes that are too high or not adjusted to the characteristics of the fintech business can hamper transactions and industry growth. Therefore, it is important to design tax policies that consider the characteristics of fintech businesses and the life cycle of companies (Nugroho & Amalia, 2023) . In addition, the highly digital and cross-border nature of fintech services makes conventional tax collection processes difficult. Many fintech services operate online and do not have a clear physical presence in the location of tax collection. This requires innovation in the taxation system, including more sophisticated digital monitoring and reporting to ensure that tax revenue can be levied fairly and effectively (Pratiwi & Widyawati, 2021) .

Furthermore, global digital taxation regulations have also begun to attract attention, given that large technology companies operating across multiple countries have created unique challenges for national tax authorities. Indonesia, as part of the global community, also needs to adjust its taxation policies to address these challenges, for example through international cooperation on information exchange and tax allocation rules for digital transactions (Zuliyanti, 2025) .

In the context of innovation, taxation can serve as a stimulus if designed with the right incentives. For example, tax reduction or exemption policies for new fintech startups, tax holiday schemes for companies conducting research and development (R&D), or tax incentives for venture capital investments that support the development of new technologies. Such policies can encourage businesses to continue innovating in the development of fintech products and services. However, to date, specific tax incentives for fintech in Indonesia are still very limited or not clearly structured. This presents an opportunity for the government to design more targeted policies to encourage new innovations, while ensuring that taxes remain a sustainable source of funding for national development (Muliana, 2019) .

There is no denying that the tax burden can affect the pricing structure of fintech services and ultimately affect the attractiveness of products to consumers. If taxes are imposed directly on consumers through increased service costs, there may be a decline in demand or consumer migration to cheaper alternative services (e.g. illegal or unlicensed services). This situation would actually harm fintech businesses that comply with tax regulations and damage trust in the fintech ecosystem as a whole (Siregar & Sembiring, 2019) . Conversely, unclear or frequently changing tax policies can also create uncertainty that disrupts the business planning and long-term investment of fintech players. This uncertainty can deter investors and hamper the growth of a healthy and sustainable fintech ecosystem. Therefore, stability and legal certainty in tax policy are key to supporting innovation and sustainability in Indonesia's fintech industry (Gloria Justitia Author, 2023) .

Several international studies and reports mention that countries with advanced fintech ecosystems usually implement tax policies that are friendly to the financial technology sector, with simple and efficient digital technology-based systems. These policies are able to accommodate the speed of innovation and digital characteristics so that taxes can be collected optimally without hindering the establishment and development of fintech companies (Adiyanta, 2019) . Countries such as Singapore and the United Kingdom, which have established specific taxation frameworks for digital and fintech services, demonstrate that policy flexibility and adaptation are essential. In Singapore, for example, taxes on digital products are imposed taking into account the scale of the business and the nature of the service, and are supported by convenient tax administration facilities through digital platforms (Sasmita Flouridaningrum, 2021) .

Based on these lessons, Indonesia can learn important lessons for developing fintech tax policies that not only target fiscal revenue but also serve as instruments to strengthen the innovation ecosystem. This can be done through incentive strategies, simplification of tax administration processes, and the application of technology to facilitate tax collection for fintech players (Bank Indonesia, 2019) .

Thus, overall, the analysis of tax policy on fintech innovation shows that taxation policy must be carefully and adaptively designed in line with industry dynamics in order to create a healthy, innovative, and sustainable fintech ecosystem. The role of the government is crucial in formulating policies that are not only fiscally beneficial but also provide space for fintech players to innovate without excessive obstacles.

Regulatory Analysis of the Digital Fintech Ecosystem

Regulation is a crucial foundation in shaping a healthy and sustainable digital fintech ecosystem in Indonesia. With the rapid growth of fintech services, proper supervision and regulation by regulators is necessary to ensure that the development of this industry does not pose systemic risks, protects consumers, and maintains the stability and integrity of the financial market. Effective regulation must be able to balance protection and innovation so as not to hinder the creativity of fintech players (Putri et al., 2021) .

In Indonesia, fintech regulation falls under the authority of several key institutions, primarily the Financial Services Authority (OJK) and Bank Indonesia (BI). The OJK is responsible for supervising the fintech sector related to financial services such as online lending, crowdfunding, and digital insurance. Meanwhile, Bank Indonesia oversees aspects of digital payment systems and financial infrastructure that support fintech transactions. The collaboration between these two institutions is a key pillar in building a comprehensive regulatory framework (Alm et al., 2019) .

The most significant regulation related to fintech in Indonesia is OJK Regulation Number 77/POJK.01/2016 concerning Information Technology-Based Money Lending Services and various supporting technical regulations. This regulation aims to provide legal certainty, increase public trust, and suppress illegal lending practices or loan sharks that harm the community. However, this regulation also requires fintech players to meet strict requirements related to licensing, risk management, and reporting (Prof. Muliaman D. Hadad, 2021) . In addition, Bank Indonesia has issued regulations related to the implementation of payment systems that support the fintech ecosystem, such as regulations on digital wallets and electronic money. BI ensures that all transactions are secure, fast, and efficient, and monitors hidden risks that may arise from the use of digital technology in payments. BI regulations also serve to ensure broader financial inclusion by expanding public access to digital payment systems (Ilya, 2021) .

In the context of consumer protection, the regulations require fintech players to maintain data security and user privacy in accordance with the Personal Data Protection Act, which has come into effect. This is important given the high risk of personal data misuse in digital transactions. Regulations also govern complaint and dispute resolution mechanisms to protect the rights of fintech consumers, thereby maintaining public trust in the digital ecosystem (Andinata, 2015) . However, existing regulations also face criticism regarding their potential to hinder innovation. Some fintech players believe that the licensing process and strict compliance requirements can slow down time-to-market and increase operational costs. This is especially true for fintech startups that are still in the development stage and need flexibility to experiment with new business models (Haptari & Aribowo, 2019) .

In response to these dynamics, regulators in Indonesia have begun to adopt the concept of *a regulatory sandbox*, which is a limited testing framework for fintech innovations under controlled supervision. The sandbox programme allows fintech players to test new products and services on a limited basis without having to immediately comply with all regulatory requirements. This approach aims to increase flexibility and encourage innovation while mitigating risks before products are launched on a mass scale (Sulfan, 2020) .

The regulatory sandbox is currently being implemented by the OJK and Bank Indonesia in response to the need for an adaptive regulatory framework that supports innovation. The success of this programme is highly dependent on the openness of regulators in adjusting rules based on evaluation results and the ability of fintech players to cooperate transparently. However, the effectiveness of the sandbox needs to be evaluated continuously so that it does not become a loophole that allows unhealthy practices in the fintech sector (Burhan, 2023) .

The impact of regulation on the digital fintech ecosystem is also evident in the aspect of financial inclusion. With regulations governing digital financial services, public access to previously difficult-to-reach financial products has become more widespread. Regulations facilitate standardisation and transparency of services, so that users feel safer and more comfortable in using fintech products, including in remote areas and among vulnerable groups (T. Aliyudin, 2020) .

However, the fintech ecosystem also faces challenges in terms of regulatory compliance, which sometimes imposes a high administrative burden, especially for small and medium-sized enterprises (SMEs). Complex regulations without sufficient guidance can make it difficult to meet requirements, forcing some small fintech players to operate under the radar or informally. This has the potential to jeopardise consumer safety and market integrity (Prihatwono, 2020) .

Therefore, synergy between the government, regulators, fintech industry players, and other stakeholders is needed to build an inclusive and sustainable ecosystem. Regulations must be designed not only as a control tool but also as a supporter of industry growth and financial technology innovation. A participatory and consultative approach in policy formulation is crucial to ensure that regulations are in line with the actual needs and conditions in the field (Rimsky, 2005) . In addition to domestic regulations, Indonesia must also pay attention to international regulations and standards related to fintech, such as anti-money laundering (AML) standards, counter-terrorist financing (CTF), and international data protection. This is particularly important because fintech transactions often cross national borders and are linked to complex global networks. Compliance with international standards also enhances the credibility and competitiveness of Indonesian fintech in the global market. (Persaulian, 2021) .

An evaluation of fintech regulations in several countries also shows that the speed of adjusting regulations to technological developments is a key factor in the success of the digital ecosystem. Countries that respond quickly to innovation with regulatory updates tend to excel in the digital economy. Indonesia must continue to carry out responsive and technology-based regulatory reforms in order to compete effectively at the regional and global levels (Baginda Persaulian, 2021) .

Overall, regulatory analysis of the fintech digital ecosystem confirms that regulation must serve as both a driver and a protector. Effective regulation can create an environment conducive to innovation, consumer protection, and financial system stability. The Indonesian government and regulators face the significant challenge of managing adaptive and inclusive regulations so that the fintech industry can grow healthily and contribute optimally to national digital economic development.

Conclusion

The analysis shows that tax policy plays an important role in shaping the climate of innovation in Indonesia's fintech sector. Tax policies that are too burdensome can hamper the growth and creativity of fintech businesses, especially for start-ups that are highly dependent on capital and speed of innovation. However, if designed appropriately and accompanied by incentives that support research and development, taxation can be an instrument that strengthens the innovation ecosystem while making a significant contribution to state revenue.

Meanwhile, regulations implemented by the government and supervisory agencies such as the OJK and Bank Indonesia have a major impact on the sustainability and stability of the fintech digital ecosystem. Strict and comprehensive regulations can protect consumers and maintain market integrity, but if they are not adaptive and flexible, they can hamper innovation and slow down the penetration of new products into the market. Approaches such as regulatory sandboxes have proven to be an effective solution for balancing regulatory compliance and innovation needs, thereby encouraging the development of healthy and sustainable fintech services.

Thus, tax and regulatory policies must be viewed as two complementary instruments in driving the growth of the fintech industry in Indonesia. A balance between fair taxation and adaptive regulation is needed to create a digital ecosystem that is innovative, inclusive, and globally competitive. A strategic recommendation is the need to increase synergy between the government, regulators, and fintech stakeholders in order to formulate policies that not only meet fiscal and consumer protection objectives, but also provide space for innovation and the development of future financial technologies.

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