TAXATION IN THE FINANCIAL SERVICES SECTOR IN INDONESIA: POLICY ANALYSIS AND IMPLICATIONS FOR TAX COMPLIANCE AND INDUSTRY GROWTH

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Abstract

This study examines tax policies in Indonesia's financial services sector and their implications for tax compliance and industry growth. The financial services sector, which includes banking, insurance, capital markets, and fintech, plays an important role in the national economy, so effective taxation policies are needed to support the industry's sustainability and competitiveness. Through a literature review approach, this study analyses various applicable tax regulations, implementation challenges, and the impact of these policies on taxpayer compliance behaviour and business growth dynamics. The results of the study show that transparent, fair tax policies accompanied by incentives can increase tax compliance and encourage innovation and expansion in the financial services industry. Conversely, regulatory complexity and high administrative burdens can reduce compliance rates and hamper sector growth. This study recommends the continuous evaluation and refinement of tax policies with the involvement of stakeholders to create a healthy taxation ecosystem that optimally supports the development of Indonesia's financial services industry.

Keywords: taxation, financial services sector, tax compliance, industry growth, fiscal policy, fintech, Indonesia.

Introduction

Taxation is one of the government's main instruments in managing the national economy, including regulating the financial services sector, which plays a highly strategic role in Indonesia's economic development. The financial services sector encompasses various sub-sectors such as banking, insurance, capital markets, and fintech, which directly contribute to development financing, resource allocation, and financial system stability (Ali & Zhang, 2023) . Taxes imposed on this sector are not only a source of state revenue but also serve as a regulatory tool to maintain the balance and sustainability of the financial services industry.

Indonesia, as a developing country, currently faces major challenges in strengthening its financial services sector while improving tax compliance amid complex regulations and global economic dynamics. Rapid changes in tax regulations and the wide variety of taxes imposed often pose a dilemma for industry players in terms of implementation and compliance. In addition, the phenomena of globalisation and economic digitalisation have made the financial services sector increasingly dynamic and have the potential to create new challenges in tax supervision and enforcement(et al., 2010) .

From a policy perspective, the application of taxation in Indonesia's financial services sector encompasses various instruments such as Income Tax (PPh), Value Added Tax (PPN), and special taxes relevant to the characteristics of the services sector. However, the implementation of these taxes often faces obstacles, including legal loopholes and differences in regulatory interpretations that lead to tax avoidance practices by some business actors (Oats, 2023) . This poses the risk of reduced state revenue and competitive unfairness among industry players. Therefore, a comprehensive tax policy analysis is needed to understand the implementation mechanisms, obstacles, and potential regulatory revisions to improve tax compliance and the effectiveness of supervision (Handoko, 2019) .

Tax compliance in the financial services sector is influenced not only by applicable regulations, but also by various external and internal factors within companies, such as tax awareness, transparency, corporate governance, and human resource capabilities. High tax compliance in this sector is an important indicator of fiscal stability and the sustainability of the financial sector itself. However, on the other hand, tax policies that are too burdensome or complex can cause resistance and suppress business growth. Thus, the balance between optimal tax revenue and ease of doing business is a major challenge for policymakers (Bird & Zolt, 2014) .

The development of financial technology or fintech has also had a significant impact on the financial services sector in Indonesia. The ease of access to digital-based financial services opens up opportunities for broader financial inclusion but at the same time poses taxation challenges, particularly in relation to the supervision of digital transactions and cross-border transactions. Tax policies in this sector must be adaptive and responsive to technological changes in order to accommodate innovation without reducing taxpayer compliance (Seidman, 2018) .

The rapid growth of the financial services industry has contributed significantly to Indonesia's Gross Domestic Product (GDP), employment, and the development of other sectors. However, this growth must be accompanied by sound fiscal management through an efficient and effective taxation system. The implementation of appropriate taxation is expected to encourage reinvestment, product innovation, and financial market stability (Mansour & Martin, 2023) .

The financial services sector in Indonesia is currently facing pressure to undergo digital transformation and improve service quality in order to win global competition. This transformation must be balanced with adequate tax policies to ensure the country's fiscal sustainability while supporting innovation and business expansion. Empirical studies on the impact of tax policies on corporate compliance behaviour and investment decisions will provide a complete picture of the real conditions in the field and provide input for improving these policies (Zucman, 2014) .

Taxation in the financial services sector must be able to respond to the challenges of economic sustainability while maintaining the competitiveness of the industry and encouraging voluntary taxpayer participation. By understanding the implications of existing tax policies, the government can adjust regulations in line with market developments and global trends to achieve long-term economic development goals.

Research Method

The research method used in this study is a systematic and comprehensive literature review. This approach involves the identification, collection, and critical analysis of relevant literature, including scientific journals, books, government reports, and other reliable sources that discuss tax policies in Indonesia's financial services sector and their implications for tax compliance and industry growth (Eliyah & Aslan, 2025) . The selected literature was selected based on topic relevance, research methodology used, and publication timeliness to provide a comprehensive and up-to-date overview. Data from various sources were then analysed thematically to identify patterns, trends, and cause-and-effect relationships in the context of fiscal policy and its impact on the financial services sector. The results of this analysis were used to compile a conceptual synthesis as a basis for providing policy recommendations and directions for further research (Petticrew & Roberts, 2020) .

Results and Discussion

Tax Policy in the Financial Services Sector in Indonesia

Tax policy is one of the important instruments used by the government to regulate and manage the financial services sector in Indonesia. The financial services sector itself includes various sub-sectors such as banking, insurance, capital markets, and fintech, which are the backbone of economic activity. The tax structure applied in this sector is designed to create a balance between achieving the government's fiscal objectives and maintaining the competitiveness of the industry ((Alstadsæter et al., 2019)). Therefore, the success of tax policy is highly dependent on regulatory designs that are able to accommodate the unique characteristics of the financial services sector while being adaptive to economic and technological changes.

One of the main types of tax imposed in the financial services sector is Income Tax (PPh), which is levied on the income of businesses and individuals related to financial services activities. PPh is a significant source of state revenue, but it is also considered a complex tax to implement, particularly in relation to calculating taxable income and tax avoidance (Kaneko & Hishigaki, 2024)). There are various incentives and special policies to support the financial services sector, such as tax rate reductions for certain investments and fiscal incentives for the development of new financial instruments. In addition to PPh, Value Added Tax (VAT) also applies in the financial services sector, although with specific characteristics because many types of financial services are exempt from VAT in accordance with statutory provisions. For example, financial services involving lending or insurance are usually exempt from VAT, while financial consulting and asset management services are subject to VAT. This VAT policy seeks to balance fiscal aspects without burdening financial services that are essential to the economy (OECD, 2023) .

Furthermore, the government also imposes special taxes and local taxes that may affect the financial services sector, such as stamp duty and land and building tax (PBB) on assets owned by financial services companies. This policy adds to the complexity of the taxation system and requires efficient management to avoid double taxation or distortion in the industry (Brühl, 2021) .

Tax regulations in the financial services sector continue to undergo changes in line with global economic and regulatory dynamics, including adjustments to international standards such as the OECD's Base Erosion and Profit Shifting (BEPS). The implementation of anti-avoidance, transfer pricing, and international tax transparency rules poses a major challenge for governments and financial service industry players in maintaining optimal tax compliance (Dyreng et al., 2008) .

The evolution of tax policy is also influenced by developments in financial technology, which are changing business models and transactions in the financial services sector. Governments must adjust their tax policies to cover increasingly complex digital services and cross-border transactions. Digital tax policies currently being developed aim to close tax loopholes and ensure that fintech players also contribute to state revenue (Karpoff & Lee, 2018) .

An analysis of the effectiveness of tax policies in the financial services sector shows that tax compliance remains a challenge for the government. The complexity of regulations, legal uncertainty, and administrative burdens are often the main reasons for low compliance. Therefore, it is necessary to simplify regulations, improve supervisory capacity, and educate taxpayers in order to increase compliance. (OECD, 2021) .

Previous literature indicates that overly burdensome tax policies can have a negative impact on the development of the financial services sector, particularly by hindering investment and innovation. Conversely, appropriate and measured tax incentives can promote sector growth and strengthen national competitiveness in a competitive global economy (Huibers, 2022) .

Tax policy in the financial services sector must also consider aspects of fairness and equity, both between large and small businesses and between sub-sectors. Disparities in fiscal treatment can cause market distortions and trigger wider tax avoidance practices. Therefore, transparency and clarity of regulations are key to creating a conducive and sustainable business climate (Cobham & Janský, 2019) .

The role of tax authorities and financial sector regulators is crucial in overseeing the implementation of tax policies. Synergy between these two institutions needs to be strengthened to address supervisory challenges, such as tax evasion, money laundering, and financial statement manipulation, which can harm state revenue and industry stability(Mansurali et al., 2024) .

In the global context, Indonesia's financial services sector must also adapt to increasingly stringent international tax policies, such as regulations on digital taxation and double taxation agreements (tax treaties). Domestic policy adaptation to these global regulations is important so that Indonesia does not lose its competitiveness and is able to attract foreign investment. Tax policies that are responsive to the needs of the financial services sector must be complemented by other supporting policies, such as incentives for technological development, consumer protection, and strengthening the financial infrastructure (Allam, 2024) . This holistic approach aims to create a healthy and dynamic financial ecosystem. In addition, strengthening good corporate governance in the financial services sector is an integral part of tax policy. High tax compliance is closely related to transparent and professional governance practices, so regulations must encourage the implementation of good governance standards (Putri et al., 2025) .

Changes in tax policy must also be accompanied by effective socialisation and education mechanisms for industry players. A good understanding of tax obligations and benefits will increase awareness and voluntary tax compliance.

Finally, periodic evaluation of tax policies in the financial services sector is crucial to keep pace with industry developments and the fiscal needs of the country. The government must use empirical data and input from stakeholders to formulate adaptive, efficient, and sustainable policies to optimally support the growth of Indonesia's financial services sector.

Implications of Tax Policy on Tax Compliance and Growth of the Financial Services Industry

Tax policy plays an important role in shaping taxpayer compliance behaviour in the financial services sector. Tax compliance is one of the main indicators of the success of fiscal policy implementation, because without optimal compliance, the state's revenue targets will not be achieved. Taxes that are designed with a clear, fair and easy-to-understand system will encourage financial service industry players to fulfil their obligations voluntarily(Sumiok, 2023) .

The tax rates applied are one of the main factors affecting compliance levels. Excessively high rates can create incentives for taxpayers to seek loopholes to avoid paying taxes, while competitive and proportional rates can strengthen the motivation to comply with tax obligations. Thus, the tax rate structure needs to be designed with consideration for the balance between the government's fiscal needs and the capacity of the financial services sector (Efendi, 2022) . In addition to rates, the complexity of the tax system also has an impact on compliance. A complex tax system full of exceptions or special provisions often makes it difficult for businesses, especially small and medium-sized enterprises, to navigate their tax obligations. These difficulties can be the root cause of non-compliance and inaccurate tax reporting (Nogueira & Ribeiro, 2020) . Therefore, simplification of tax regulations and administrative procedures is urgently needed to improve compliance rates.

Transparent and consistent taxation policies play an important role in building trust between tax authorities and taxpayers. Regulatory uncertainty or sudden policy changes can cause uncertainty that hinders compliance. Legal certainty and stable regulations help taxpayers plan their tax obligations properly and make payments on time (Putri et al., 2025) .

In addition to compliance aspects, tax policies also have a major impact on the growth of the financial services industry. Taxes that are burdensome, especially on growing and innovative sectors, can hamper business expansion and new investment. Therefore, tax policies must be able to provide incentives that encourage innovation and accelerate the adoption of new technologies in financial services (Allam, 2024) . Tax incentives such as exemptions or reductions in rates for certain financial products, particularly in the fintech sector, are one policy that can stimulate industry growth and accelerate financial inclusion. This policy serves to improve the competitiveness of the financial services industry in both domestic and global markets(Mansurali et al., 2024).

Tax policy also affects the financial stability of companies in the financial services sector. Taxes that are designed without considering the financial capabilities of companies can cause liquidity pressures and disrupt company operations. Therefore, a balanced tax policy is important to maintain the financial health of companies and business sustainability (Cobham & Janský, 2019) .

The rapid digital transformation in the financial services sector, particularly with the emergence of fintech, creates new challenges for tax policy. Complex, cross-border digital transactions require tax policy adaptation in order to monitor and levy taxes effectively without hindering technological innovation. High tax compliance in the financial services sector will have a positive knock-on effect on the development of the industry (Huibers, 2022) . Optimal tax revenue enables the government to finance the development of financial infrastructure, tax education programmes, and other supporting policies that further strengthen the national financial services ecosystem. However, the administrative burden of taxation can sometimes be a factor that hinders industry growth, especially for small and medium-sized enterprises. The costs and time required to fulfil tax obligations can divert resources that should be used for business development. Therefore, simplifying tax administration is crucial to balancing obligations and ease of implementation (Ali & Zhang, 2023) .

Corporate governance aspects are highly relevant in the context of tax compliance. Companies with good governance usually have higher levels of tax compliance due to transparency and accountability in financial management. Psychological and socio-economic factors also influence taxpayers' attitudes towards fiscal policy. A sense of fairness, harmonious relationships between stakeholders, and social norms also determine the level of tax compliance ((Djankov et al., 2010)). Therefore, fiscal policy must be sensitive to the socio-cultural context in order to create inclusive and sustainable compliance. Various empirical studies show that a combination of competitive tax rates, regulatory transparency, and fiscal incentives can significantly increase tax compliance and encourage positive growth in the financial services industry. Indonesia can adopt practices and lessons from other countries' financial services sector tax policies to improve the effectiveness of national policies (Oats, 2023) .

Therefore, evaluation and adjustment of tax policies must be carried out continuously by involving all stakeholders, including industry players and the public, in order to maintain the relevance and adaptability of policies and support the healthy and sustainable growth of the financial services sector in Indonesia.

Conclusion

Taxation in the Financial Services Sector in Indonesia emphasises that tax policy plays a crucial role in supporting tax compliance and encouraging growth in the financial services industry. Policies designed with fair rates, transparent regulations, and efficient administrative procedures can increase taxpayers' awareness and motivation to voluntarily fulfil their obligations. Meanwhile, complexity and uncertainty in the implementation of tax policies can be major obstacles that reduce compliance rates and give rise to tax avoidance practices.

The implications of tax policy on the growth of the financial services industry are significant, particularly in terms of encouraging innovation, investment, and business expansion. Fiscal policies that impose proportional rates and provide tax incentives, especially for the fintech and digital financial services sub-sectors, are able to create an environment conducive to sustainable industry development. On the other hand, excessive tax burdens and complicated administrative procedures can strain companies' financial capacity and slow down growth.

Overall, the success of tax policies in the financial services sector requires a balance between the government's fiscal needs and the industry's ability to meet its tax obligations. The government needs to continue to evaluate and adjust policies periodically by involving stakeholders so that policies become more adaptive, inclusive, and sustainable. A holistic approach that integrates fiscal, technological, governance, and socio-cultural aspects will be very beneficial in creating a healthy, competitive Indonesian financial services ecosystem that supports overall national economic growth.

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