



A Review of Tax Imposition on Endorsement Activities by Influencers in Garut Regency

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Abstract

The increasing existence of influencers along with the increasing use of social media has become a new phenomenon because it is considered very promising in terms of the income earned. The higher the level of popularity of an influencer, the higher the endorsement rates charged. The income earned in a year by influencers from endorsement activities is indicated to exceed Non-Taxable Income (PTKP) so that it can be considered a tax object. This research aims to find out about the imposition of tax on endorsement activities by Instagram celebrities in Garut Regency. This type of research is qualitative using a critical study approach. This research analyzes primary data from interviews with five influencers who live in Garut. The results of this research show that an overview of the taxation of endorsement activities by celebgrams in Garut district can be obtained through endorsement activities carried out by influencers amounting to IDR 10,000,000 and where three influencers have a NPWP and two people who do not have a NPWP will be deducted by the agency or provider of income as VAT. This shows that endorsement activities carried out by influencers are one of the state tax activities. Compliance with tax payments for endorsement activities when compared with the provisions of the applicable tax law is still not working well, so it is hoped that the Government can clarify regulations regarding the imposition of tax on endorsement activities to avoid the loss of potential tax that could be received.

Keywords: Income Tax, Endorsement, Influencer

1 Introduction

The internet serves as an intangible space where influencers operate, and for clients that are legal entities (companies), the obligation to withhold Article 21 Income Tax arises because influencers act on behalf of individuals. However, if the client is an individual and does not withhold Article 21 Income Tax, the endorser (influencer) is required to file their own tax installments through the Annual Tax Return (SPT) at the end of the year. The applicable tax rate is based on Article 17 of the Income Tax Law, which is continuously enforced.

The role of influencers falls under independent work with trade classification codes 90002 and 90009, specifically for groups related to Creative Arts, Entertainment Training, and Other Artistic and Imaginative Activities as stated in PER-17/PJ/2015. If taxpayers with large populations maintain accounting records, the Net Income Reduction Rate (NPPN) is set at 50% and 35% of annual net income, respectively. After deducting non-taxable income (PTKP) from the net income to calculate Taxable Income (PKP), the rate stipulated in Article 17 of the most recent Income Tax Law is applied.

Endorsement activities in Indonesia are carried out by influencers, including artists or popular social media celebrities (e.g., Instagram influencers) with a large number of followers. According to CNN

Indonesia, the Directorate General of Taxes at the Ministry of Finance plans to categorize social media celebrities, such as Instagram influencers, as taxpayers under a personal income tax mechanism. This sector is predicted to generate potential revenue of up to \$1.2 billion or approximately IDR 15.5 trillion (Sugiharto, 2016).

To illustrate the potential revenue, Table 1.1 below provides a list of influencers, their follower counts, and their monthly income from endorsements in Garut Regency in 2022.

Table 1 List of Influencers by Follower Count and Monthly Income from Endorsements in 2022, Garut Regency

Influencer Name	Follower Count	Monthly Income (IDR)
Faulina Mauludia	312,000	±50 million
Fitriani Lestari	77,700	±40 million
Fauzi Saputra	16,900	±18 million
Afni Patimah	127,000	±30 million
Anisa Pianika	27,800	±25 million

Source: Interviews and data processed by the author.

Revenue from this business sector is expected to grow annually, given the increasing number of internet users and the shift from traditional economic activities to the digital economy in this era (Ortax, 2016).

However, endorsement activities are associated with the emergence of the shadow economy—a condition where certain economic sectors remain beyond the reach or compliance assurance of tax authorities (Rasbin, 2013). One contributing factor is the digital nature of social media-based endorsement businesses, which has yet to be optimally regulated by the government. Income tax from such business activities is relatively more challenging to collect compared to conventional promotional activities (Ortax, 2016). Moreover, it is difficult for the government to monitor and regulate endorsers, especially individuals who fail to report their tax obligations. This is largely due to the nature of these transactions, which are hard to trace in terms of both income and the identity of income providers (Ortax, 2016).

2 Literature Review

2.1 State Revenue

Sources of state revenue include various divisions such as specific levies, price levies (including luxury goods sales taxes), arrival and development levies, trade levies, international exchange levies, as well as temporary and extractive obligations. Based on this classification, the potential revenue from levies is quite significant, making them the largest source of state revenue. According to the official website of the Directorate General of Taxes of the Republic of Indonesia, levies remain the most significant contributor to state revenue compared to other sources (Dana Dinas, 2020).

2.2 Taxation

Mardiasmo (2016:3) defines tax as a mandatory contribution paid by citizens to the state, which enters the national treasury and is enforced by law without direct compensation. These contributions are used by the state to finance public interests.

2.3.1 Functions of Taxation

Taxation serves as a crucial economic instrument for every country to collect funds to finance various governmental needs. The functions of taxation cover a wide range of aspects that play a role in implementing fiscal policy and supporting economic development.

2.3.2 Tax Collection System

The tax collection system refers to the procedures and mechanisms used by the government to collect taxes from taxpayers. This system includes various elements such as types of taxes, tax rates, payment methods, reporting mechanisms, and tax enforcement measures. Below are key elements of the tax collection system:

3 Research Method

This study employs a descriptive method with a qualitative approach. The data used in this research is qualitative, including a general overview of the research object and other information obtained through interviews. The data sources consist of primary data collected from books, journals, scientific references, and documents obtained from several influencers. The data collection techniques used in this study include surveys, interviews, field notes, and documentation.

4 Result and Discussions

In this study, data were collected using Google Forms and interviews distributed via social media and direct interactions. The research targeted influencers in Garut Regency as respondents, resulting in a total of five questionnaires and five influencers whose data were analyzed. The characteristics of the respondents classified by age, gender, and type of social media.

According to Rusdani (2018), age influences an individual's ability to make decisions. Older individuals tend to demonstrate better wisdom and rationality in decision-making.

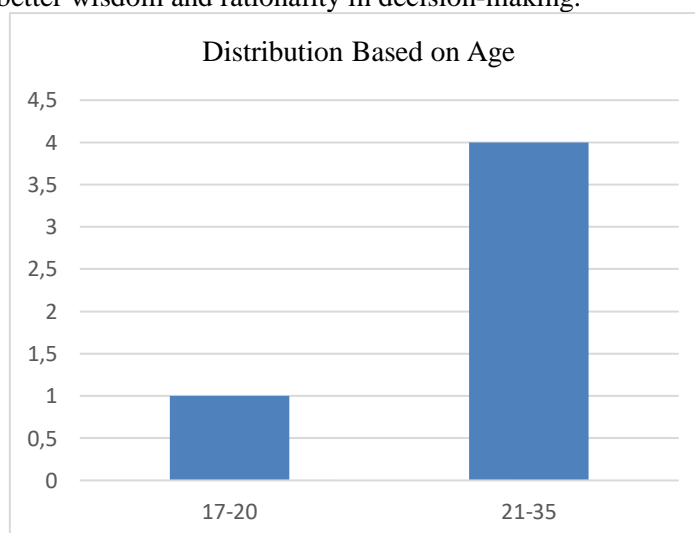


Figure 1 Frequency Distribution Based on Age
Source: Primary Data Processed (2023)

Figure 1 illustrates the age distribution of respondents obtained from the questionnaires: one respondent aged 17–20 years and four respondents aged 21–35 years. From this data, it can be concluded that the majority of influencers in Garut Regency are aged 21–35 years.

Gender is fundamentally used to describe human characteristics, categorized into male and female. In this context, gender is identified to assess the proportion and abilities between male and female respondents.

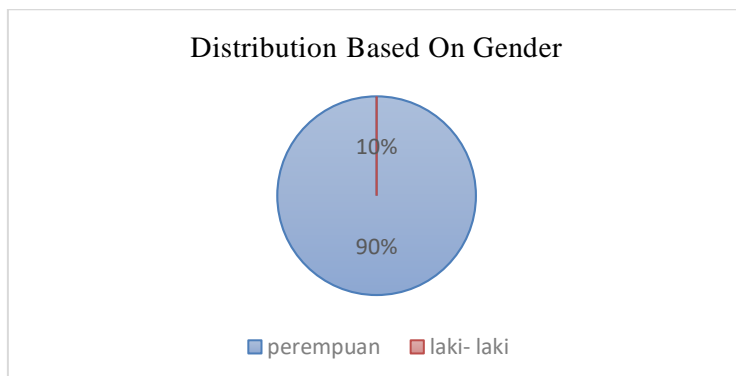


Figure 2 Frequency Distribution Based on Gender
Source: Primary Data Processed (2023)

Figure 2 shows that most influencers in Garut Regency are female (90%), with the remaining 10% being male, out of a total of five influencers. The rapid development of digital media has significantly impacted changes in media consumption. This transformation has shifted perspectives, attitudes, and orientations, particularly in the realm of electronic-based technology (digitalization) (Hartini & Sukaris, 2020).

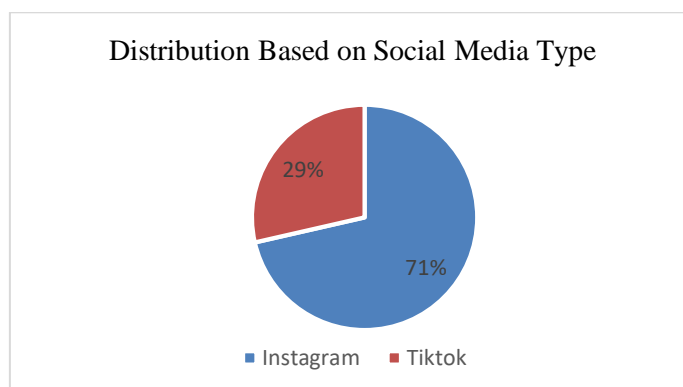


Figure 3 Frequency Distribution Based on Social Media Type
Source: Primary Data Processed (2023)

Figure 3 reveals that most influencers in Garut Regency use Instagram as their primary platform (four respondents, or 71%), followed by TikTok (one respondent, or 29%).

4.1.2 Taxation Practices by Influencers

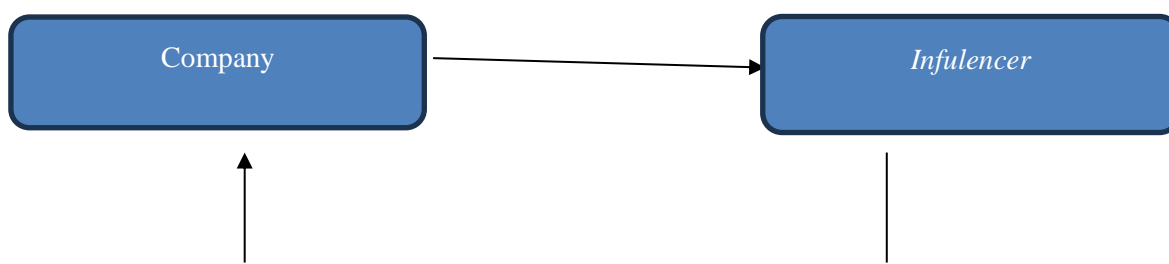


Figure 4 Business Endorsement Modal

Based on the illustration above, influencers engage in endorsement activities upon receiving payment from online business entities that utilize their services to promote products or services via social media. During the process of paying fees to influencers, taxation is applied, with businesses deducting the influencer's income for tax purposes. Despite earning income from social media, such income is still classified as taxable income. According to tax regulations, taxable income includes any economic benefit, regardless of whether it originates from online or offline work.

Influencers, however, are not considered employees of these businesses and are therefore categorized as independent contractors for tax purposes. Based on the endorsement business process, influencers often receive continuous income, occurring multiple times within a single tax period. Consequently, they are classified as independent taxpayers with recurring income, as payments are made for individual transactions and occur more than once.

Under Law No. 36 of 2008, Article 1 Paragraph 12, an individual receiving non-employee income is defined as someone other than permanent or non-permanent employees who earns income from a withholding agent under Article 21 of the Income Tax Law. This income is provided as compensation for services or specific activities performed at the request of the payer (Sumarsan, 2014).

Income Tax Article 21 (PPh 21) applies to income such as salaries, wages, honorariums, allowances, and other payments received by employees, non-employees, retirees, or severance pay recipients. According to Chapter V, Article 9 of the Director General of Tax Regulation (PER) No. PER-16/PJ/2016, the taxation mechanism is detailed further.

Endorsement Process by Influencers

Independent influencers have shared insights into their business processes:

- Fitriani Lestari, an independent influencer, stated that online businesses often contact influencers directly to request testimonials regarding their experience with a product. After providing the product and making payment for the endorsement service, the influencer delivers promotional content in the form of photos or videos, as agreed with the business.
- Annisa Pianika highlighted that influencers aim to promote products as attractively as possible to build consumer trust. Her income includes substantial fees from promoting apparel such as clothes, shoes, and bags. In addition to monetary compensation, she often receives free products.
- Afni Fatimah, another influencer based in Garut, similarly described the endorsement process, particularly for food products. Online businesses contact her directly, requesting testimonials and promotional content, such as photos or videos, which are customized according to agreements.
- Faulina Mauludia argued that being an influencer is not a professional occupation but more of a freelance or casual activity with irregular income. She suggested that the government should establish specific income thresholds for taxation to ensure fairness, as not all influencers charge high fees for endorsements.
- Fauzi Saputra offered a contrasting view, emphasizing that influencers are income-generating entities and should be taxed accordingly. He shared his experience of handling income tax filings and recommended that the government improve its management of influencers, ensuring that both high-profile and smaller-scale influencers are taxed fairly.

Taxation Mechanisms for Endorsement Activities

The taxation of endorsement activities by influencers can be implemented through two mechanisms:

1. Withholding Tax System

Under this system, a third party is authorized to deduct or collect the tax owed by the taxpayer. According to Article 17 of the Income Tax Law, a progressive tax rate ranging from 5% to 25% applies to endorsement income (Mardiasmo, 2018).

2. Income Tax Article 23/26

This applies when endorsement activities involve management agencies representing influencers and online business entities. These entities are required to withhold taxes as part of their obligations under the law.

Both mechanisms aim to regulate and enforce tax compliance among influencers, ensuring that their income from social media endorsements is properly accounted for and taxed.

5 Conclusion and Recommendation

Based on the discussion above, it can be concluded that endorsement activities by influencers in Garut are subject to taxation, encompassing both Income Tax (PPh) and Value-Added Tax (VAT/PPN) related to the delivery of goods and endorsement services. Among the influencers studied, three possess a Taxpayer Identification Number (NPWP) and pay taxes independently, while the other two rely on agents or use PPh Article 23 without possessing an NPWP. However, the Directorate General of Taxes faces significant challenges in taxing endorsement activities effectively.

To address these challenges, the author proposes several solutions for optimizing tax revenue from endorsement activities conducted by influencers in Indonesia. These solutions target both Income Tax and Value-Added Tax.

Implications

This research has notable implications, particularly for influencers who engage in endorsement activities through their social media platforms. The income earned by influencers tends to be significant, as they are free to set their rates depending on the number of followers they have and the brands that approach them. The large number of influencers on platforms like Instagram should, in theory, lead to an increase in tax revenues from both Income Tax and Value-Added Tax.

However, in practice, many influencers remain unaware of their tax obligations, failing to recognize themselves as subjects of income taxation.

Limitations and Suggestions for Future Research

This study has explored strategies implemented by the Directorate General of Taxes to increase tax revenue from endorsement activities. However, it has not delved into the implementation of these strategies by Indonesian tax authorities. Future research could focus on examining the effectiveness of strategy implementation in optimizing tax revenue from social media endorsement activities.

Recommendations

1. For the Government (Directorate General of Taxes):
The government should design specific regulations for online-based businesses to eliminate ambiguity. The supervision of online businesses differs significantly from offline ones, necessitating tailored regulatory approaches to ensure effective tax compliance.
2. For Influencers and Online Business Operators:
Influencers and online business operators are encouraged to contribute to the nation's development by fulfilling their tax obligations in accordance with prevailing laws and regulations.
3. For Academics:
Academics should continue to develop and enhance taxation-related studies and education. This knowledge will greatly benefit students as they venture into the business world, equipping them with an understanding of tax compliance and its significance.

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