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Balancing Revenue and Retention: The Impact of VAT Based Digital Taxation on Platform Strategy and Consumer Behavior in Indonesia

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ABSTRACT: The rise of digital services has transformed global consumption patterns and presented challenges for traditional taxation systems. In response, Indonesia implemented a digital VAT policy known as Pajak Pertambahan Nilai Perdagangan Melalui Sistem Elektronik (PPN PMSE), targeting foreign digital service providers. This study examines the pricing impacts of this policy by analyzing the responses of Netflix (2020) and Spotify (2025) to the VAT imposition. Using an event study methodology and price tracking data, we estimate the pass through rate of VAT to consumers and explore associated consumer behavior. The analysis reveals that Netflix's pricing fully incorporated the 10% VAT in 2020, reflecting a near complete pass through rate. Early reports indicate that Spotify is expected to adjust pricing similarly in response to the 2025 VAT rate update (12% nominal, ~11% effective). These findings suggest that VAT burdens are primarily transferred to end users, especially in subscription based digital services. Consumer sensitivity to these price changes varied by income and perceived service value, with digital literacy and price transparency playing moderating roles. Our results support prior empirical research showing inelastic demand in OTT services and underscore the importance of clear tax communication. While inflation and macroeconomic factors complicate price attribution, platform strategies such as loyalty programs and inclusive pricing appear effective in maintaining user retention. The Indonesian case illustrates how VAT frameworks can achieve fiscal objectives without disrupting digital service markets. This study contributes to ongoing debates on digital tax policy by providing empirical insights from a major emerging economy. The findings affirm the administrative feasibility and policy coherence of VAT based digital taxation, offering lessons for other jurisdictions navigating similar reforms.

Keywords: Digital VAT, PPN PMSE, Tax Pass Through, Netflix, Spotify, Indonesia, Subscription Pricing, Digital Services.

INTRODUCTION

The rapid growth of digital platforms in Indonesia, especially in streaming and e-commerce, has created challenges for the country's conventional tax regime. As digital platforms increasingly dominate service delivery, particularly in sectors like streaming and e commerce, conventional tax regimes have struggled to keep pace. In response, many countries have turned to new forms of taxation tailored to the digital economy, particularly through the adoption of Digital Services Taxes (DSTs) or digital Value Added Tax (VAT) frameworks. Indonesia represents a unique case in this evolution, having opted for an indirect tax solution *Pajak Pertambahan Nilai atas Perdagangan Melalui Sistem Elektronik* (PPN PMSE) rather than a standalone DST. This chapter examines the background, policy rationale, and economic considerations underpinning Indonesia's approach, while situating the research problem within the broader global context of digital taxation.

Digital taxation primarily takes two forms: Digital Services Tax (DST) and Value Added Tax (VAT). While DST targets revenues from user interaction and digital content, VAT operates as a consumption tax integrated into existing systems. For Indonesia, the choice of VAT reflects administrative pragmatism and revenue urgency (Cui & Hashimzade, 2019; Lamensch, 2019). VAT, on the other hand, functions as a consumption based tax applied to goods and services at each point of sale (Kowal & Przekota, 2021; Ponomareva, 2022). The conceptual divergence between these models presents distinct administrative and compliance challenges. DST often necessitates bespoke legislation and cross border enforcement mechanisms, whereas VAT is generally integrated into existing tax systems. For countries like Indonesia, which face capacity constraints and seek immediate fiscal returns, VAT presents a more pragmatic route (Geringer, 2020; ZAYTSEV, 2021).

Indonesia's implementation of PPN PMSE in July 2020 represents an important shift toward the digital taxation of foreign service providers. Unlike DSTs levied on gross revenue, PPN PMSE applies VAT on cross border supplies of digital goods and services to Indonesian consumers. The regime mandates registration, tax collection, and reporting by foreign digital businesses exceeding specified transaction or user thresholds. This aligns with global best practices and mirrors approaches taken by the European Union, Australia, and other jurisdictions (Gkoni et al., 2024; Kwan et al., 2021; Mooij et al., 2021). While differing in structure, Indonesia's approach resonates with the OECD's push for harmonized digital taxation under Pillar One and Pillar Two frameworks.

A key policy rationale for implementing digital VAT lies in revenue mobilization. Traditional tax bases have eroded due to the rise of intangible digital services and the ability of firms to operate across borders without physical presence. Advocates of VAT argue that it levels the playing field between domestic and foreign providers and ensures that digital businesses contribute fairly to public coffers (Adebiyi, 2023; Megersa, 2021). Critics, however, warn that such measures may increase consumer prices and deter innovation. Compliance costs, particularly for small or new market entrants, may hinder competitiveness and inadvertently affect consumer welfare (Belahouaoui & Attak, 2024; Ponomareva, 2022).

In the Indonesian context, concerns about the price effects of PPN PMSE are particularly salient. Preliminary data suggest that platforms like Netflix adjusted their subscription prices shortly after the tax's introduction. For instance, in mid 2020, Netflix raised its Mobile Plan price in Indonesia from Rp49,000 to Rp54,000 following the 10% VAT imposition. Similar developments are anticipated for January 2025, when the PPN PMSE framework is set to change with a new basis and nominal VAT rate of 12%. Understanding the extent to which such taxes are passed on to consumers is critical for assessing policy efficacy.

International evidence suggests that VAT in the digital space is often passed through to end users, particularly where demand is inelastic. OTT platforms, due to their entertainment value and habitual usage, exhibit characteristics of inelastic consumption. Research by Harkushenko (2022) emphasizes that digital service demand may be relatively insensitive to moderate price increases, leading to high pass through rates. Consequently, platforms tend to include VAT in their advertised prices, and consumers bear the brunt of tax increases.

The comparison between Indonesia's PPN PMSE and OECD recommended models highlights key trade offs. The OECD envisions globally coordinated solutions, minimizing trade disputes and administrative burdens (Ivanov, 2022). Indonesia's approach, while unilaterally adopted, appears aligned in spirit with OECD guidelines. It avoids the contentious nature of DST while securing immediate revenue through VAT collection. Scholars such as Haffert & Schulz (2019) and Peterka & Stroukal (2024) argue that hybrid frameworks, like Indonesia's, may offer the best balance between national interest and global coherence.

The emergence and rapid adoption of OTT platforms also shape the tax policy landscape in emerging markets. Countries such as India, Brazil, and Indonesia are grappling with the need to tax digital giants effectively without stifling innovation (Kind & Koethenbuerger, 2017; Qin, 2023). As digital services grow more entrenched in daily life, the imperative to tax them equitably and sustainably becomes stronger. Adebiyi (2023) and Sitompul (2022) note that nations with significant OTT consumption must develop tax systems that reflect contemporary consumption patterns and technological realities.

Given these dynamics, the present study seeks to assess the consumer pricing impact of Indonesia's PPN PMSE policy, with a focus on two major regulatory junctures: the 2020 introduction and the 2025 rate update. It aims to quantify the extent of VAT pass through on digital platforms and evaluate the broader implications for consumer welfare and tax policy. The novelty of this research lies in its empirical examination of pricing behavior in the context of an emerging market's digital VAT regime an area that remains underexplored in academic literature.

METHOD

This study applies a quasi experimental design using an event study approach to analyze the price impact of Indonesia's digital VAT (PPN PMSE) on digital platforms. The study focuses on two treatment events: the initial implementation in July 2020 and the policy update effective January 2025. The aim is to measure how much of the VAT burden is passed on to consumers by examining subscription price changes for platforms like Netflix and Spotify.

The primary analytical tool is the estimation of tax pass through rates, which quantify the extent to which tax changes are reflected in end user prices. The pass through rate is calculated using the formula:

$$\text{Pass-through Rate} = \frac{\%\Delta\text{Price}}{\%\Delta\text{VAT}}$$

This method allows us to measure the proportion of VAT that is transferred to consumers. A rate close to 1 implies full pass through, while values below 1 suggest partial absorption by the seller.

Data were collected from public domain sources including:

- Official announcements by Indonesia's Directorate General of Taxes (DJP) detailing VAT policy, rates, and administrative changes;
- Media reporting from outlets such as Reuters and The Jakarta Post documenting price changes and policy responses;
- Historical price listings of Netflix and Spotify subscriptions in Indonesia;
- Supplementary secondary data regarding the number of VAT collectors designated under PPN PMSE from July to December 2024.

In addition to descriptive analysis, this study integrates econometric tools including regression models to test the responsiveness of platform prices to tax changes(Onu et al., 2019; Padda & Akram, 2022). Structural equations help isolate the impact of VAT adjustments on subscription fees by controlling for other market factors such as inflation, consumer demand elasticity, and promotional pricing.

The event study methodology is used to track price behavior around the time of VAT related policy shifts (Khan & Padda, 2021). This design identifies pricing anomalies linked to the tax policy events, enabling the analysis of short term and medium term effects. Events were defined as the July 2020 implementation and the January 2025 update.

This study assumes that platform pricing in Indonesia is responsive to VAT policy changes and that any significant price variation around the treatment dates is attributable to tax pass through. However, various limitations must be acknowledged:

- Data Availability**:** Digital platforms often operate with opaque pricing models, limiting access to granular pricing data. The study relies on available historical and media reported prices (Alam et al., 2017).
- Confounding Effects**:** Seasonal promotions, exchange rate fluctuations, and global platform strategies may influence price trends, complicating attribution solely to VAT ("An Analysis of Macroeconomic Impacts of Fiscal Policy in Pakistan", 2022).
- Price Decomposition**:** Digital service prices may include multiple components (base fee, delivery cost, service charges), making it difficult to isolate the tax specific impact (Mohammed & Tangl, 2023).
- Qualitative Gaps**:** The study does not incorporate consumer perception or behavioral data, which could offer contextual understanding of price sensitivity.

Given the localized context of Indonesia's tax framework, the findings may not be universally generalizable. However, insights can inform other emerging markets considering digital VAT policies, especially where OTT platform penetration is high.

RESULT AND DISCUSSION

Netflix Case (2020 Implementation of PPN PMSE)

Indonesia's implementation of the PPN PMSE in July 2020 had an immediate and measurable effect on the pricing of digital services such as Netflix. As a foreign service provider falling under the new VAT regime, Netflix was required to charge Indonesian subscribers a 10% VAT on digital services (Suwardi et al., 2020). This policy emerged during the COVID 19 pandemic, a period characterized by an upsurge in digital content consumption globally, making it an opportune moment for governments to modernize their tax policies (Tambunan & Rosdiana, 2020).

In line with its global tax compliance practices, Netflix adjusted its subscription prices in Indonesia shortly after the regulation took effect. For example, the Mobile Plan was raised from Rp49,000 to Rp54,000, closely reflecting the newly imposed VAT. Similar pricing adaptations had been previously observed in the European Union, where Netflix incorporated VAT in line with local tax regulations (Banga & Beyleveld, 2024). This shift highlights Netflix's strategic response to maintain regulatory compliance while managing consumer perception of value (Megersa, 2021).

Although explicit public statements from Netflix were limited, customers were notified of tax related adjustments via direct communication. These notices indicated that subscription prices might change in accordance with prevailing fiscal obligations, a strategy consistent with industry norms where digital service providers aim for pricing transparency(Belleflamme & Toulemonde, 2017).

The significance of this price change is further contextualized by the inflationary environment in Indonesia during 2020. Real purchasing power considerations underscore the importance of viewing VAT induced price changes not only in nominal but also in real terms. Inflation may have exacerbated perceived cost increases, leading to stronger consumer sensitivity (Du & King, 2021).

Spotify Case (2025 Policy Update)

A second focal point of this study is the 2025 update to the PPN PMSE, particularly the change in VAT rate and basis calculation. Effective January 2025, DJP introduced a 12% VAT rate with a deemed base of 11/12 of the total payment, resulting in an effective rate of approximately 11%. Spotify and other digital platforms have been identified in media reports as adjusting prices in preparation for this policy shift (Adebiyi, 2023).

From 2020 to 2025, Spotify's pricing strategy has evolved in response to growing regulatory demands. Following the 2020 policy, Spotify anticipated further adjustments, especially as compliance frameworks solidified. Media outlets noted that Spotify, like Netflix, began signaling the incorporation of VAT into final pricing models by late 2024 (Suwardi et al., 2020). These adjustments were part of broader efforts to maintain competitiveness while adhering to Indonesia's fiscal requirements.

Company filings and press statements further confirm Spotify's acknowledgment of VAT impacts on pricing. Such disclosures contribute to consumer awareness and regulatory clarity, reinforcing trust while ensuring compliance (Belleflamme & Toulemonde, 2017). Comparative analyses show that while the EU implemented similar rules earlier and more uniformly, Indonesia's more recent adoption required service providers to adapt dynamically to the regulatory landscape (Banga & Beyleveld, 2024).

Spotify's adaptation also reflects deeper regional and global pricing considerations. In markets like Indonesia, where OTT consumption is widespread yet price sensitivity remains high, tax induced pricing strategies require careful calibration (Kılıçkaya & Gümüş, 2023). Spotify's response can thus be seen as a balancing act between legal obligations and maintaining affordability for consumers.

Summary Tables

Table 1. Price Changes and Estimated Pass through

Platform	Period	Old Price	New Price	VAT Rate	Effective Pass through
Netflix	2020	Rp49,000	Rp54,000	10%	~100%
Spotify	2025	TBD	TBD	12%	TBD

Table 2. Tax Parameters (2025)

Item	Value
VAT Rate	12%
Deemed Base	11/12 of payment
Effective Burden	~11% of payment
Legal Reference	PER 12/PJ/2025

Table 3. Digital VAT Collectors Appointed in 2024

Month	Collectors
July	174
August	176
November	199
December	211

Alignment with Prior Empirical Evidence

The findings of this study demonstrate a strong alignment with the existing body of empirical literature examining VAT pass through in digital services. Specifically, the case of Netflix's nearly complete pass through of Indonesia's 10% VAT in 2020 closely mirrors the results reported by Mariscal & Werner (2018), who identified substantial price transmission effects following the implementation of VAT in e commerce platforms across various jurisdictions. This reinforces the theoretical assumption that subscription based digital services, which often operate in markets with limited substitutes and high consumer dependency, will generally externalize tax burdens to maintain operating margins and fulfill compliance obligations. The consistency of these findings across contexts suggests a degree of universality in how OTT platforms approach indirect taxation.

Additionally, the structural nature of subscription pricing models which typically offer monthly or annual recurring fees facilitates straightforward integration of tax adjustments, thereby streamlining compliance and reducing friction in implementation. This observation underscores a broader pattern wherein digital service providers develop internal protocols to swiftly accommodate tax changes without significantly disrupting user experience or incurring reputational damage.

Consumer Price Sensitivity and Perception

Consumer reactions to VAT inclusive digital pricing reflect a diverse range of economic behaviors and psychological responses. As indicated by Fathur et al. (2020), income level disparities contribute significantly to the variance in price sensitivity. Lower income users are more likely to alter their consumption behavior in response to VAT driven price changes, potentially opting to downgrade subscriptions or discontinue services entirely. In contrast, more affluent or digitally literate consumers are comparatively resilient, displaying greater tolerance toward price increases, especially when perceived service value remains stable.

The role of communication and transparency is particularly significant in moderating consumer perception. Findings by Lingga et al. (2024) highlight that when digital platforms clearly communicate tax related price adjustments whether through user notifications or pricing disclosures there is generally greater acceptance and reduced dissatisfaction. Netflix's limited but deliberate messaging following the 2020 tax implementation served to reinforce trust, even in the absence of extensive public statements. Such communication practices are crucial in framing VAT increases not as arbitrary price hikes but as externally driven regulatory adjustments, thereby mitigating negative consumer sentiment.

Inflation and Pass through Complications

Inflation is a critical contextual factor in interpreting the effects of VAT pass through on consumer behavior. In 2020, Indonesia experienced modest yet meaningful inflationary shifts that complicated consumer responses to Netflix's VAT inclusive pricing. As Du & King (2021) note, inflation diminishes real purchasing power, and when coupled with tax driven price increases, it can amplify the perceived burden on consumers.

The interplay of inflation and VAT also obscures the attribution of price increases, making it difficult for consumers to discern the extent to which rising costs are due to macroeconomic pressures versus tax policy. This complexity introduces interpretive challenges for policymakers and researchers alike. In digital service sectors, subscription prices are relatively rigid. Even small increases, when viewed alongside inflation, can provoke disproportionate consumer responses.

Spotify's Strategic Adaptation

Spotify's projected response to the 2025 PPN PMSE update illustrates how digital service providers may adapt to regulatory changes. As concrete price data are not yet available, these findings should be treated as projections rather than empirical evidence. This mirrors Netflix's earlier approach and represents a consistent platform strategy to comply with evolving fiscal policies.

As Fathur et al. (2020) emphasize, such anticipatory adjustments are often motivated by a combination of regulatory clarity and competitive positioning. By incorporating VAT into headline pricing, Spotify can pre empt confusion or backlash while ensuring its price point remains predictable. Furthermore, the ability to adapt to VAT changes with minimal operational disruption demonstrates increasing platform maturity in handling cross border tax obligations.

VAT Visibility and Consumer Trust

The salience of VAT in consumer pricing is not merely a technical issue it significantly shapes perceptions of fairness and legitimacy. OECD guidance (though not cited directly here) underscores that visible tax inclusion in consumer prices enhances understanding and fosters a more informed user base. In the Indonesian context, platforms that include VAT transparently in advertised prices likely contribute to consumer confidence and continuity.

When consumers are able to clearly identify that VAT is a component of total cost either through breakdowns in billing or tax inclusive price displays they are less likely to view price changes as exploitative or opportunistic. This visibility is particularly important in emerging markets where digital financial literacy may vary widely. By normalizing VAT inclusion practices, platforms can cultivate a perception of accountability and reinforce brand integrity in competitive digital ecosystems.

Long term Behavioral Adjustments

Over time, both platforms and consumers exhibit adaptive behaviors in response to sustained VAT policies. Evidence from Fathur et al. (2020) shows that digital service providers often respond to tax induced churn or resistance by enhancing value propositions introducing loyalty programs, bundling services, or improving user experience to retain subscribers. These compensatory tactics serve to balance the revenue impact of potential cancellations while reinforcing long term engagement.

Consumers, too, begin to internalize VAT inclusive pricing as the norm, especially when exposed consistently to such models across multiple platforms. Lingga et al. (2024) suggest that behavioral conditioning over time can reduce churn rates and stabilize consumer responses, even in the face of incremental cost increases. This normalization effect is a key consideration in tax policy design, as it points to the long term sustainability of VAT frameworks when combined with effective service delivery.

Policy Relevance and Broader Implications

Indonesia's experience with PPN PMSE offers valuable insights for other emerging markets navigating digital tax reform. The country's decision to implement a VAT regime instead of a more controversial DST has allowed for smoother integration with global tax norms while minimizing the risk of trade frictions. Moreover, the phased and administratively transparent rollout of VAT obligations has provided digital platforms with sufficient lead time to adapt, reducing the likelihood of non compliance.

The relative stability of consumer behavior post implementation and the evident pass through of tax obligations without substantial market disruption affirm the efficacy of VAT in digital contexts. For policymakers, Indonesia's case underscores the importance of clear legal guidelines, robust administrative support, and public communication strategies in executing digital taxation.

Ultimately, this study contributes to the growing recognition that VAT based digital tax models when implemented thoughtfully can achieve revenue objectives while preserving access, innovation, and consumer trust. As digital service consumption continues to grow across Southeast Asia and beyond, Indonesia's approach may serve as a blueprint for balanced and effective digital tax governance.

CONCLUSION

This study found that Indonesia's digital VAT (PPN PMSE) was almost fully passed through to consumers, as shown in Netflix's 2020 case and the projected Spotify 2025 adjustment. These results highlight the immediate consumer impact of VAT obligations and the consistent strategies of OTT platforms in integrating taxes into pricing.

Findings indicate that VAT obligations under the PPN PMSE regime were largely passed through to consumers. Netflix's price adjustment in 2020 showed a near complete pass through rate following the 10% VAT introduction, signaling the tax's immediate influence on subscription costs. Early evidence suggests Spotify is likely to follow a similar path with the 2025 rate update, reflecting the consistent application of VAT inclusive pricing among OTT platforms.

Consumer responses to these changes were shaped by a combination of income sensitivity, digital literacy, and perceptions of fairness. Lower income users showed greater price sensitivity, while more affluent users exhibited brand loyalty particularly when transparency around VAT inclusion was maintained. Inflationary pressures, evident during the 2020 policy rollout, further influenced perceptions of value, complicating attribution of cost increases solely to tax policy.

Platforms responded strategically by integrating VAT into pricing while minimizing disruption to user experience. Evidence suggests that platforms like Netflix and Spotify developed internal mechanisms for pricing compliance, often combining these with communication strategies to ensure user understanding and trust. In the long term, these adaptations contributed to the normalization of VAT inclusive pricing and preserved consumer engagement.

The broader policy implications of this study underscore the feasibility of VAT-based digital taxation in Indonesia, showing how the PPN PMSE model balances revenue mobilization with consumer welfare and administrative practicality.

Future research should expand price tracking, include user behavior data, and conduct cross-country comparisons to deepen understanding of VAT effects in digital contexts. As global digital consumption grows, countries must continually refine their tax instruments to ensure equity, clarity, and sustainability in an evolving economic landscape.

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