

# Review of Tax Coverage in Digital Insurance Companies PT XYZ Case Study

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**Received : 13 November - 2024**

**Accepted : 10 December - 2024**

**Published online : 16 December - 2024**

## Abstract

The rapid growth of digital insurance companies, such as PT XYZ, presents new challenges in taxation due to the technology-based nature of their operations. This research aims to examine the application of tax policies, specifically Corporate Income Tax (CIT), Value Added Tax (VAT), and Income Tax Article 21 (ITA 21) at PT XYZ. This research uses a qualitative approach with a case study method, which collects data through interviews with company management and analyzes secondary data, including financial statements and tax documents. The results showed a gap between the prevailing tax policy and the operational reality of digital insurance companies, especially in digital revenue recognition and the application of VAT on insurance products sold online. PT XYZ faces challenges in reconciling salary costs due to the company's policy of capitalizing employee compensation. This study concludes that tax regulations need to be adjusted to better suit the characteristics of the digital insurance business. The results suggest that regulators should consider revising tax policies to address these challenges, in order to achieve tax efficiency without sacrificing compliance.

**Keywords:** Tax, Digital Insurance, Corporate Income Tax, VAT, Salary Cost, Digital Tax Regulation.

## 1. Introduction

Digital transformation has changed many economic sectors, including the insurance industry (Apdillah et al., 2022). The insurance industry supports economic growth through protection for entities and individuals for asset ownership and other economic rights (Sumartono & Harianto, 2018). From a tax perspective, the growth of the insurance industry is a positive thing because it will increase the amount of state revenue. As is well known, tax is the sector that contributes the largest revenue in Indonesia for state financing (Wahyuni, 2019). For this reason, it is important to have effective tax planning so that companies can still enjoy tax efficiency without causing losses to the state (Manangkalangi et al., 2019).

Digital insurance companies, such as PT XYZ, which was established in 2018, offer products and services through technology platforms that allow easier and faster access to consumers. However, with this change comes new challenges, including in terms of taxation. Corporate income tax, value-added tax, and other digital tax policies must be adapted to the nature of technology-based insurance company operations.

Several previous studies have examined the taxation challenges faced by the digital sector in Indonesia, but none have specifically addressed digital insurance companies. In reality, since 2016, rapid growth has occurred in the Indonesian insurance industry. Where companies are required to be able to operate well in line with the increasing growth of financial



assets they manage (Sumartono & Harianto, 2018). Tanuwidjaja (2021) highlights the challenges of digital tax regulation in Indonesia, focusing on the government's role in updating tax policies to deal with the growing digital economy. Meanwhile, Muchtar (2020) analyzes taxation in the insurance industry, especially related to corporate income tax and VAT on insurance premiums. Rika et al. (2023) analyzed insurance companies in their research, covering tax aspects such as VAT at a rate of 11% from purchase and rental transactions for company purposes, Income Tax Article 21 with gross up method, Income Tax Article 23 on services received by the company, and Corporate Income Tax according to the latest tax regulations (Prasetyowati & Panjawa, 2022). In particular, an analysis of digital corporate tax was also conducted by Aprilika & Ekowati (2022), which revealed that digital income tax is still in the discussion process so that digital companies still follow the general tax regulations that apply and the Electronic Transaction Tax (PTE) scheme has not been fully fulfilled by e-commerce players.

This study aims to examine the application of taxes on PT XYZ as a digital insurance company in Indonesia. The focus is on the application of Corporate Income Tax, VAT, and Income Tax Article (ITA) 21, as well as the challenges faced by the company in adjusting their digital operations to existing tax policies. With this research, it is expected that insights will be found on how digital insurance companies such as PT XYZ face taxation challenges and whether the current taxation policy is in accordance with their operational characteristics.

## 2. Methods

This research uses a qualitative method with a case study approach, which is focused on exploring the application of taxation policies at PT XYZ as a digital company (Sugiyono, 2017). The approach used is descriptive, aiming to describe the actual conditions and identify gaps between existing taxation policies and the company's operational practices. Data collection was conducted through primary data and secondary data. Primary data was obtained through in-depth interviews with the management of PT XYZ, especially the finance and tax division, and direct observation of the implementation of tax policies. Meanwhile, secondary data includes PT XYZ's consolidated financial statements, tax documents such as corporate income tax, VAT, and salary cost reconciliation reports, as well as applicable digital tax regulations, such as PP No. 23/2018 and Law No. 7/2021.

The data collected consists of qualitative data, in the form of interview narratives and company documents, as well as quantitative data from financial statements and tax reconciliations used for analysis. The data analysis technique was carried out descriptively, by comparing the data obtained with the applicable tax provisions to identify existing challenges and gaps. Data validation was conducted using triangulation techniques, by comparing the results of interviews, documents, and field observations. In addition, content analysis is used to interpret policy documents and tax data, so as to understand the relevance of policies to the digital characteristics of companies.

## 3. Results and Discussion

### 3.1. PT XYZ Company Profile

PT XYZ is a commercial company engaged in the field of web portals or digital platforms with the main service of insurance. The existence of this company is real. However, to maintain the identity and confidentiality of the data, the name of the company is disguised by the researcher. The company facilitates electronic transaction services such as marketplace,

financial technology (FinTech), digital advertising, and on demand online services. The company becomes a platform for customers, insurance brokers, and insurance companies to meet each other through online sales based on smartphone applications and websites. The company offers convenience in purchasing insurance according to customer preferences through a digital platform so that insurance offers are no longer carried out conventionally (Laporan Keuangan Konsolidasian PT XYZ, 2020).

### 3.2. Corporate Income Tax

Based on interviews and observations with PT XYZ's tax department employees, it is known that PT XYZ faces challenges in calculating corporate income tax due to the complexity of recognizing digital revenue. Revenue from digital premiums is often difficult to recognize in one fiscal period due to dependence on a different billing system from conventional insurance (Pohan, 2016). It is evident that PT XYZ experienced a compliance audit in the form of a request for data and/or information (SP2DK) from the Directorate General of Taxes (DGT) through the Tax Service Office (KPP) where the company is registered. The company is considered to report gross turnover that is not the same as the income paid in accordance with Government Regulation (PP) Number 23 Year 2018. Whereas the difference is caused by the difference in interpretation of gross turnover in the regulation's policy with the company's revenue recognition.

PT XYZ is different from companies in general where all sales become company revenue. PT XYZ is only an intermediary between insurance customers, insurance brokers and insurance companies from its digital services. The revenue it receives from customers is not all company margins, but includes insurance claims. PT XYZ only gets revenue in the form of commissions in the form of platform fees. The money it receives from customers will be passed back to insurance brokers and insurance companies. These two parties will provide commissions to PT XYZ. Unfortunately, PP No. 23/2018 policy has not been able to specifically accommodate the unique business flow of PT XYZ. It becomes clear that the taxation policy has not been able to fully accommodate the unique characteristics of digital insurance companies.

### 3.3. Value Added Tax (VAT)

As with the interviews and observations that have been conducted, PT XYZ also received questions in the SP2DK, in the form of a difference between the gross sales reported in the audited financial statements and the submission of the tax base (DPP) of the output invoice. PT XYZ's tax department explained that the difference was due to gross sales listed in the financial statements being the total revenue from customers. The revenue also includes insurance claims and commissions. As a company that offers digital services, PT XYZ is faced with a debate regarding the imposition of VAT on insurance products sold online. Some digital insurance services, especially those that are micro or technology-based, have not been fully accommodated in the applicable VAT regulations.

Law (UU) of the Republic of Indonesia Number 71 of 2021 concerning Harmonization of Tax Regulations (HPP) regulates the VAT Law precisely in Article 16B Paragraph 1a which states that insurance services are included in certain strategic services in the context of national development so that the tax payable is not collected in part or in full or exempted from taxation. Based on this regulation, PT XYZ only issues invoices in accordance with the delivery in the form of commissions it actually receives. Meanwhile, receipts from customers which are insurance premiums are directly forwarded back to insurance brokers and insurance companies. Thus, it is known that VAT for digital insurance companies needs adjustment.

### 3.4. Salary Cost Reconciliation

The reconciliation process between the salary costs listed in the audited financial statements and the Tax Base of ITA 21 is a major challenge. The characteristics of digital transactions in a company, in this case PT XYZ, require considerable investment in human resources (HR) that support the company's digital facilities. PT XYZ reports all of its expenses to compensate human resources who are the pillars of its business in its ITA 21 return. However, the company also has its own policy, that the costs incurred for compensation can be capitalized and amortized over two years. Therefore, the recording of salary costs, especially for Information Technology (IT) employees, is included in the intangible assets account. Meanwhile, the salary costs of other employees are still included in the Salary Expense account. This recording treatment has an impact on the value of salary costs that seem to be different. The value of salaries in the audited financial statements is allocated between two accounts: intangible assets, which are included in the Balance Sheet or Statement of Financial Position, and salary costs, which are reflected in the Income Statement. Hence, in general, it is found that there are difficulties in reconciling salary costs due to company policies that capitalize salary costs into intangible assets (Damayanti, 2019).

In order to address the legal and regulatory gaps in the taxation of digital insurance companies such as PT XYZ, several important steps need to be taken. First, revise existing tax laws, such as Government Regulation (PP) No. 23/2018, which has not fully accommodated the operational model of digital insurance companies. This law update should be adjusted to the business structure of digital companies, particularly in terms of revenue recognition and the role of intermediaries in digital platforms. Second, a more specific digital tax policy is needed, which regulates the characteristics of digital transactions, such as income received by companies as commissions, and clarifies how digital income, including commissions and insurance claims, should be taxed. In addition, adjustments to VAT regulations are also crucial, given that digital insurance services, especially those based on micro and technology, are not yet fully regulated under existing VAT provisions. A more flexible VAT framework will help address discrepancies between total sales recorded and income subject to tax, such as what happened to PT XYZ which only received commissions from premiums forwarded to brokers and insurance companies. Finally, there needs to be an adjustment in the alignment of salary costs, especially for salary costs capitalized as intangible assets, which complicates tax reporting. A more consistent approach to aligning salary costs with company policies and tax regulations could help eliminate discrepancies in tax reporting. With these measures, it is hoped that the gap between the operational realities of digital insurance companies and existing tax policies can be addressed, thereby facilitating better compliance and more efficient tax collection.

## 4. Conclusion

This research shows that PT XYZ, as a digital insurance company, faces various challenges in implementing existing taxation policies. The complexity of the digital business model requires adjustments to taxation policies, especially in terms of the imposition of corporate income tax, VAT, and reconciliation of salary costs. Nevertheless, the company has tried to comply with existing taxation policies and adjust them to the characteristics of its business. Therefore, in the future, it is expected that there will be tax regulations that are more in line with technological developments and operational characteristics of digital insurance companies.

This study has several limitations that need to be considered. First, the research focus is limited to PT XYZ, a digital insurance company in Indonesia, so the results found cannot be generalized to all other digital insurance companies that may have different business models or scale of operations. Secondly, this study only discusses taxation aspects that include corporate income tax, VAT, and salary cost reconciliation, while other factors such as technology-related taxation or broader government policies towards the digital economy are not discussed in depth. In addition, this research used a qualitative case study approach, which provided in-depth insights into PT XYZ's experience, but was limited by the lack of generalizability of the results to the entire sector. This research also does not consider other external factors, such as changes in government policies or differences in taxation practices in different regions of Indonesia, which may affect digital insurance companies.

Therefore, several recommendations can be made. First, the Indonesian government is advised to make improvements to tax policies that are more in line with the characteristics of digital insurance companies, in order to help companies like PT XYZ fulfill their tax obligations more efficiently and avoid misinterpretation. Second, further research should involve more digital insurance companies with diverse characteristics, so that the results can provide a more comprehensive picture of the taxation challenges in this sector. Quantitative research can also be conducted to strengthen the findings of this study. Third, the development of a tax technology system that is more integrated with the company's digital platform should be considered, to simplify the tax reporting process and improve the accuracy and efficiency of taxes payable. Finally, the socialization of tax policies aimed at digital companies should be improved so that these companies can better understand the proper way to report taxes and handle the difference between taxable income and commissions.

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