



Tax Legal Perspective on Digital Assets Trading Transactions in Metaverse

Rizki Fitri Amalia^(✉) and Herman Fikri^(✉)

Sekolah Tinggi Ilmu Hukum Sumpah Pemuda (College in Law), Palembang, Indonesia
kikyherman9@gmail.com, fikriherman1960@gmail.com

Abstract. This is based on advances in technology. Technological advances pose many challenges, especially in tax regulations. Regulations cannot change as quickly as changes in the transaction model, so new transaction models often appear whose regulations have not been regulated perfectly. This causes a gray area in the regulation of these various transaction models. The Directorate General of Taxes as a tax authority must strive hard to formulate the required regulations. The challenges that arise due to the development of digital transactions in the tax sector are experienced by all countries in the world. At this time, the biggest challenge for the Directorate General of Taxes is to make regulations or tax laws on digital assets (trading transactions carried out through electronic systems). There are risks of cyber-crime such as identity forgery, piracy, counterfeiting, fraud, and even money laundering. The Indonesian government, especially the Directorate General of Taxes, must be aware of the various challenges posed by digital economic transactions, including tax avoidance and tax evasion. For this reason, the government must create and strengthen tax laws so that gaps in tax avoidance and tax evasion practices can be closed. This study uses a normative research method by reviewing and describing library materials in the form of literature, legislation and some news related to the problems to be discussed.

Keywords: tax law · assets digital · metaverse

1 Introduction

Technological advances have accelerated, progressively changing market transactions and public services [1]. Almost all human activities at this time are the result of technological advances from buying goods to household affairs stairs can be solved with technology. In principle, humans want everything practically so that they take advantage of the results of technological advances in everyday life. One of the impacts of technological progress that is often discussed by humans around the world is the Virtual World. The use of the internet has also created a new world of people who are free without being hindered by the territory of a country that has been determined for a long time, namely the virtual world without any boundaries.

The virtual world is a reflection of the real world. There is a market with digital currency, talking virtually and being able to connect people to each other without any distance. However, the sensation of the virtual world still can't be felt because the world

shown is only two-dimensional. The founder of social media Facebook, Mark Zuckerberg, gave a breakthrough to create a three-dimensional virtual world. In this world, it can provide the sensation of real life like the real world. People can feel the virtual world as if part of the real world even though the world is only a virtual world. That virtual world is the Metaverse. Metaverse is the gateway to the transformation of time, when digital life becomes more dominant than conventional life. The Metaverse universe is a product of increasingly sophisticated technological advances. With the support of Virtual Reality (VR) or Google Glass devices, the imaginary boundaries between the real and virtual worlds are suddenly becoming more and more biased. In addition, the metaverse or meta-universe (acronym for “meta-” ‘beyond’ and “universe”) is a concept that denotes the next generation of the internet, which describes an immersive and multi-sensory experience in the applied use of various devices and technological developments on the internet [2].

In a broader sense, the metaverse can refer not only to virtual worlds, but to the multidimensional experiences of internet use and application as a whole, especially the spectrum that combines web 2.0, augmented reality, third-dimensional technology (3D) and virtual reality [3]. In the Metaverse, a person is manifested in the form of an avatar, just like the online game play that is familiar to the public. The Metaverse community can carry out normal activities like Earthlings, such as shopping, driving, exercising, and interacting with other avatars. One can buy property in the form of land and/or buildings on the Metaverse. For example, a fan of the American rapper Snoop Doog who bought land on Snoopverse for USD 458 thousand or the equivalent of 6.5 billion rupiah. This he did for the sake of joining the Metaverse of the idol.

At Metaverse, the economy relies heavily on the originality of one’s digital property because value is the main focus. The market in the Metaverse operates on a supply and demand basis, so property scarcity can cause prices to spike or plunge significantly. Although it sounds very visionary, the evidence is that this massive disruption has affected the pattern of human interaction, including economic interaction. This ecosystem gives birth to a new model of economic transactions between subjects that trade objects in the form of digital assets. These digital assets are then tokenized, until we know them as Non-Fungible Tokens (NFT). In a transaction recording system in the form of a blockchain-based ledger, NFT is traded on a market place using cryptocurrencies. This NFT can be in the form of works of art, pictures, games, videos, music, collectibles, fashion, to digital objects such as houses, cities, and even the world. This is what makes a profit for a number of NFT sellers. For buyers, NFT has become an investment instrument that is expected to bring double profits in the future. Digital assets definition is broader than the virtual currency definition because it can encompass other types of assets, such as stablecoin that is treated as debt [4]. But, importantly to the metaverse industry, a portion of the definition limits it to assets “recorded on a cryptographically secured distributed ledger or” other similar technology. Not all metaverse currencies are recorded on the blockchain [5].

The application of Metaverse technology does require a lot of preparation, such as the existence of security and legal basis for cyber and data [6]. In addition, Indonesia must also have a good level of digital literacy and quality infrastructure. The world of metaverse opens up opportunities for the emergence of new sources of tax revenue,

because in it there is trading activity. Technological advances pose many challenges, especially in tax regulations. Regulations cannot change as quickly as changes in the transaction model, so new transaction models often appear whose regulations have not been regulated perfectly. This causes a gray area in the regulation of these various transaction models. The Directorate General of Taxes as a tax authority must strive hard to formulate the required regulations. The challenges that arise due to the development of digital transactions in the tax sector are experienced by all countries in the world. At this time, the biggest challenge for the Directorate General of Taxes is to make regulations or tax laws on digital assets (trading transactions carried out through electronic systems).

Transactions carried out in the metaverse have legally complied with the provisions of Article 1320 of the Civil Code. Where the object is also not prohibited in the legislation, even though the object is virtual or NFT. In the provisions of Article 1320 of the Civil Code which explains the conditions for the validity of an agreement which includes: There is an agreement for those who bind themselves; The ability of the parties to enter into an engagement; A certain thing; and a lawful cause. Transactions carried out in Metaverse are actually the same as transactions in general, the difference being the place where the transaction is carried out and the object of the transaction. Metaverse transaction objects are properties or items that are virtual and can only be used in Metaverse. Transactions in the Metaverse world are also carried out by electronic agreements made by both parties. Transactions made on Metaverse are generally used. The imposition of taxes on transactions in the metaverse refers to Law no. 36/2008. If the sale and purchase transaction of NFT provides income or increases the economic capacity of the seller, then income tax article 21 will be imposed on that income.

Relating to buying and selling and leasing virtual land. On March 31, 2022 Shib.io site officially launched the Metaverse Shiba Inu project by providing 100,959 virtual plots or plots of land that can be purchased using the cryptocurrency ethereum (ETH). The advantage that buyers of virtual land get in this metaverse is that buyers will get passive income and rewards. While in Indonesia itself, as reported by Liputan6.com on April 1, 2022, Raffi Ahmad officially launched the metaverse project under the name RansVerse. The name is taken from the name of his company, namely Rans Entertainment. The launch of this metaverse project provides 24,000 virtual land plots that can be traded not only by Indonesians themselves but by all people around the world. The currency that can be used to buy virtual land is the RANS cryptocurrency.

Tax laws and regulations in Indonesia that specifically contain transactions in the metaverse do not yet exist. There are currently only tax laws on crypto asset transactions. Even though they are the same type, the characteristics of trading transactions are different. Trading transactions in the metaverse world are more numerous and complex than crypto transactions. Therefore, trading transactions that occur in the metaverse need to have specific tax laws to avoid the occurrence of embezzlement of funds such as: money laundering and tax avoidance.

2 Method

The type of research in this legal research is normative legal research. Normative Legal Research is a legal research conducted by examining library materials or secondary data

[7]. Normative legal research is also known as doctrinal legal research. According to Peter Mahmud Marzuki, normative legal research is a process to find a rule of law, legal principles, and legal doctrines in order to answer the legal issues faced. In this type of legal research, often the law conceptualized as what is written in legislation or law is conceptualized as a rule or norm which is a benchmark for human behavior that is considered appropriate [8].

In this study, researchers used 2 (two) problem approach methods, namely:

- a. Legislative approach (statute approach). The statutory approach is carried out by looking for the provisions in the legislation relating to the issues that the author examines.
- b. Conceptual approach (conceptual approach). The conceptual approach begins with the views and doctrines of scholars or jurists. By studying these views and doctrines, researchers can find ideas that give birth to legal concepts and principles related to the issues the author is researching [9].

3 Results and Discussion

3.1 Potential Dispute

Technological advances also make all services done digitally, including all tax services will be done digitally. The Directorate General of Taxes has modernized the tax administration system to improve the quality of tax services for taxpayers, namely by developing e-system-based tax payable reporting such as e-registration, e-spt, e-filing and e-billing. It is hoped that this will lead to a more effective control and reporting mechanism [10].

One of the key elements that require tax law protection in the Metaverse world is the personal data of each user. Our Metaverse ID will contain a lot of personal information such as name, date of birth, email address, account number, tax ID and other sensitive data. This will be the key to our entire digital life. Ensuring the security of our personal data from theft will be an important factor for this Metaverse idea and design to be widely accepted by the Society. There are risks of cybercrime such as identity fraud, piracy, counterfeiting, fraud, and even money laundering. Given these risks, it is necessary to prepare a new tax law order that covers these matters. Just surrendering and entrusting all of that to the developer is something that is reckless and unwise, considering that the developer is only a private entity that does not have sufficient authority to regulate public matters, because after all in the era of an increasingly sophisticated digital world like the Metaverse, this is the limit. The space between the virtual world and the real world is becoming increasingly blurred and biased. What we do in the Metaverse is very likely to have legal repercussions for us in the real world. In the event of a dispute, in this case, the clause regarding unlawful acts (PMH) as long as there is a loss in the transaction can later be submitted to the local District Court.

The principle of international civil law is known as the principle of the defendant's residence (the basis of presence) and effectiveness which emphasizes the place where the defendant's property is located (principle of effectiveness). In the provisions of Article 75 PP No. 80 of 2019 concerning Trading Through Electronic Systems also provides

protection for Indonesian consumers who make transactions through the electronic system with smart contracts with foreign business actors who do not make legal choices and choose dispute resolution forums.

3.2 Tax Imposition in Indonesia

In Indonesia, income from property transfer transactions in the form of land and or buildings, construction services business, real estate business, and land and or building rental will be deducted from Final Income Tax Article 4 paragraph (2) based on Law Number 7 of 1983 concerning Income Tax. (PPh Law) as lastly amended by Law Number 7 of 2021 concerning Harmonization of Tax Regulations (UU HPP). Government Regulation Number 34 of 2016 stipulates that the final income tax rate is 2.5% of the gross amount of transfer of land and or building rights. This final income tax is payable by the seller. Meanwhile, if the seller is an entrepreneur in the construction service sector who has been confirmed as a Taxable Entrepreneur (PKP), then there is a Value Added Tax (VAT) levy at a rate of 11% of the transaction price, based on the HPP Law. The seller as a PKP is required to collect VAT paid by the buyer, then deposit it into the state treasury with the Output Tax mechanism minus the Input Tax (PK-PM). Additional imposition of Sales Tax on Luxury Goods (PPnBM) is implemented in the event that the property handed over is included in the luxury residential group such as luxury houses, apartments, condominiums, and the like. The rate is set at a minimum of 10% and a maximum of 200%.

In addition, the buyer as the party who acquires the rights to the land and or buildings will be owed the Duty on the Acquisition of Rights on Land and or Buildings (BPHTB). BPHTB is included in the category of regional taxes determined based on Law Number 28 of 2009 concerning Regional Taxes and Regional Levies. The rate is set at a maximum of 5% of the Acquired Value of Taxable Objects (NPOP) less the Acquired Value of Non-Taxable Tax Objects (NPOPTKP). This NPOPTKP is set at a minimum of 60 million rupiah for each taxpayer. After the property becomes property, there is an obligation to pay Land and Building Tax (PBB) every year. PBB is also classified as a type of regional tax, so the tariff will adjust the policies of each region. Not only the sale of land and or buildings, there are at least 5 types of related taxes. In addition, taxpayers who receive transfer rights over land and or buildings are obliged to report assets into the assets column in the Annual Tax Return (SPT) since the year the assets were acquired.

Likewise, taxation on transactions of goods and or services in Indonesia. Starting April 1, 2022, on the delivery of tangible Taxable Goods (BKP), import of BKP, utilization of intangible BKP, or delivery of Taxable Services (JKP), VAT will be payable at a rate of 11% based on the HPP Law. No later than January 1, 2025, this rate will increase to 12%. Therefore, the final consumer will bear the VAT on each BKP and/or JKP purchased within the customs area.

3.3 Comparison of Tax Imposition of Metaverse in Indonesia and America

3.3.1 America

With the volume of revenue being generated within metaverses, the next question is how such income is treated for U.S. federal income tax purposes. Most metaverses use

a form of virtual currency that falls within one or more definitions of taxable virtual currency [11]. Rev. Rul. 2019–24 defines virtual currency as a “digital representation of value that functions as a medium of exchange, a unit of account, and/or a store of value other than a representation of the United States dollar or a foreign currency.” Under Rev. Rul. 2019–24 and Notice 2014–21, virtual currency is treated as property, and sales or exchanges of virtual currency, or the use of virtual currency to pay for goods or services, is treated as the disposition of property subject to capital gains tax to the extent the value of the property received exceeds the virtual currency’s basis. The receipt of virtual currency also results in taxable income to the extent of the fair market value of the currency received. The US tax system’s treatment of virtual currencies as a property also presents problems for iterative metaverse transactions in virtual currency [12].

The Internal Revenue Service (IRS) has issued notices requiring taxes to recognize gains or losses on cryptocurrencies with cash or other property. Those gains and losses are recognized whenever cryptocurrencies are sold or used to purchase goods or services. The amount of the profit or loss depends on the type of transaction carried out and the length of time the position is held (ownership). In the US, cryptocurrencies are treated as property for federal tax purposes, just like stocks, bonds or real estate. Therefore, the general tax principle that applies to property transactions also applies to cryptocurrency exchanges, namely that investors must pay capital gains tax.

3.3.2 Indonesia

The imposition of taxes on the metaverse is a challenge for the tax authorities in Indonesia. The metaverse system which is still quite abstract creates ambiguity for the government to be able to make tax regulations regarding assets in cyberspace. The most likely type of tax to be imposed on assets in the metaverse is VAT or Value Added Tax due to its properties. The imposition of VAT on the metaverse is also easier because of the characteristics of VAT which is immediately imposed after the delivery of Taxable Goods and Taxable Services, not through income streams such as PPh which is difficult to do because of the deuteronomous blockchain system. Modification of regulations on the imposition of VAT in the metaverse can increase national tax revenues because it narrows the scope of exempt tax objects. This relationship can be proven by the increase in VAT and PPnBM revenues in 2022, when compared to the previous year of 0.1% until the third quarter because cryptocurrency tax regulations have also been enacted. In addition, quoted from the same BPS data, VAT has the second highest proportion of total income after income tax. So by charging VAT on the metaverse, it can increase the amount of profitable domestic tax revenue.

3.4 Tax Law Perspective on Metaverse

While little has been written on the subject of metaverse taxation, analysis of the taxation of virtual worlds is not new [13]. Indonesia must be able to adapt to technological advances, one of which is that Indonesia is challenged to issue special policies related to digital assets. The consideration is as a form of tax adaptation to technological and economic disruption which is a necessity. In addition, the policy must be able to mitigate the risk of tax evasion and money laundering. Metaverse allows interactions and

transactions to occur between parties across jurisdictions. Global tax authorities actually face challenges in formulating tax law policies on digital transactions. NFT has its own uniqueness with nonfungible characteristics, namely: it cannot be exchanged with other NFTs. The question that arises is what is the tax law on NFT sales? Are NFTs treated the same as virtual currencies or crypto assets?

In a report released by The Organization for Economic Co-Operation and Development (OECD) entitled “Taxing Virtual Currencies” (2020), in countries such as the UK, Spain, Sweden, Switzerland, France, and Australia, cryptocurrencies are classified under the following types: intangible assets other than goodwill. While Denmark classifies it as a financial instrument, Italy and Belgium treat it as currency, and Japan recognizes it as legal tender. America does not yet have a definite definition, while the People’s Republic of China and Indonesia categorize it as a virtual commodity. Quoted from the report of the law firm Clifford Chance entitled “Non-Fungible Tokens: The Global Legal Impact” (2021), global tax authorities have not yet been unanimous about the implementation of tax law on NFTs. This means that if the application of the NFT tax law is equated with crypto assets, there will be the potential for certain types of taxes to be imposed. NFT asset transactions result in income tax on sales gains, Value Added Tax (VAT), or other taxes related to asset transfers.

Based on a deeper jurisdiction, in the event of a force majeure condition that results in the NFT being erased or lost, and related to tax regulations, can the taxpayer recognize the loss? because of the obligation of NFT as a digital asset to be reported on the list of assets in the Annual Tax Return (SPT).

The reason “why should crypto taxes and taxes on NFT assets take precedence?” because there are still many problems in implementing regulations, especially tax regulations. Like tax regulations on crypto, the government only regulates crypto as a digital asset without making regulations such as securing user identities, laws for illegal PAFK, and others. The government has just implemented VAT provisions in trading through the electronic system (PMSE). However, the income tax on electronic transactions (PTE) must wait for global consensus. Through this tax law, the government has an incentive to correct this deficiency because the government also needs to provide compensation for the large amount of state revenue that is obtained from crypto or NFT. Indonesia must be prepared to welcome crypto assets and NFTs when the metaverse development is over.

Through tax law, the government has incentives to encourage public education about crypto and NFT in order to prepare the community later and to prevent phenomena such as fear of missing out (FOMO). When people are satisfied with all the readiness made by the government to enter the metaverse world, then people will not hesitate or feel burdened to pay taxes. This is because in the status quo, people still doubt the government’s performance in utilizing their taxes, causing public distrust. This public distrust can be justified considering that there are still many corruption cases that occur in the government. This is a momentum that can be used by the government to restore public trust. The tax contribution from crypto and taxes on NFT assets is already so large that in terms of output it will be much more visible to the public when such large funds can be put to good use. Therefore, the implementation of crypto taxes and taxes

on NFT assets is not only an advantage for the government but also a challenge for the government to prove its quality in using the APBN effectively and efficiently.

4 Conclusion

Digital assets taxes such as: “Crypto taxes and taxes on NFT assets” make a large contribution to state revenues. This is due to the high popularity of crypto and NFT towards the metaverse world. Through this acceptance, the government can make improvements to Indonesia’s problems in order to prepare society for the metaverse world. The form of improvement includes maximizing vital sectors such as infrastructure, education, and health in order to create quality human resources. Not only that, the government also needs to prepare and evaluate the shortcomings of regulations that are relevant to the emergence of the metaverse world in the future. When people are satisfied with the government’s performance, public trust can be boosted and people no longer hesitate to pay taxes because they feel the benefits to the maximum even though they are indirect. Not only that, Indonesia’s economic development can last long term when people are able to maximize the presence of the metaverse. The output will only occur when the community is already adaptive to the technology that exists today. The Indonesian government, especially the Directorate General of Taxes, must be aware of the various challenges posed by digital economic transactions, including tax avoidance and tax evasion. For this reason, the government must create and strengthen tax laws so that gaps in tax avoidance and tax evasion practices can be closed.

References

1. Mujiburohman, D. A. (2021). Transformasi dari Kertas ke Elektronik: Telaah Yuridis dan Teknis Sertipikat Tanah Elektronik. *BHUMI: Jurnal Agraria Dan Pertanahan*, 7(1), 57–67.
2. Duan, Haihan; Li, Jiaye; Fan, Sizheng; Lin, Zhonghao; Wu, Xiao; Cai, Wei. (2021). *Metaverse for Social Good: A University Campus Prototype*. Association for Computing Machinery. pp. 153-161.(October).
3. Smart, J. M.; Cascio, J.; Paffendorf, J. (2007). *Metaverse Roadmap Overview (in English)*. Accelerated Studies Foundation.
4. Cara Griffith, Lisa M. Zarlenga, Carolyn Schenck, Michael R. Fiore, Lawrence J. Zlatkin, and Abraham Sutherland. (2022). *Crypto-currency: What's Next for Regulation and Compliance? (Transcript)*. TaxNotes (Mar 9).
5. Allyson Versprille. (2022). *Treasury Signals Crypto Miners Won't Face IRS Reporting Rule*. Bloomberg (Feb 11). <https://www.bloomberg.com/news/articles/2022-02-11/treasury-signals-crypto-miners-won-t-face-irs-reporting-rules>.
6. Caitlin Tharp. (2022). *Taxing the Metaverse: The Next Frontier of Digital Asset Transactions*. *Tax Management Memorandum*. The Bureau of National Affairs, Inc.
7. Soerjono Soekanto & Sri Mamudji. (2003). *Penelitian Hukum Normatif: Suatu Tinjauan Singkat*. PT. Jakarta: Raja Grafindo Persada.
8. Amiruddin dan H. Zainal Asikin. (2006). *Pengantar Metode Penelitian Hukum*. Jakarta:PT. Raja Grafindo Persada.
9. Marzuki, Peter Mahmud. (2011). *Penelitian Hukum*. Jakarta. Kencana Prenda Media.
10. Widjaja, H., & Siagian, J. (2017). *Analisis Penerapan E-System Perpajakan Pada Wajib Pajak*. *Jurnal Ekonomi* Volume XXII, (03), 440–447.

11. Kristine Servando and Ian C. Sayson. (2021). *This Video Game Is Turning the Pandemic Jobless Into Crypto Traders*, Bloomberg Wealth. Aug. 25, 2021, <https://www.bloomberg.com/news/articles/2021-08-25/axie-infinity-how-game-is-turning-pandemic-jobless-into-crypto-nft-traders>.
12. Grace Wong. (2006). *How Real Money Works in Second Life*, CNN Money, https://money.cnn.com/2006/12/08/technology/sl_index/index.htm. December 8, 2006.
13. Bryan T. (2007). *Camp The Play's the Thing: A Theory of Taxing Virtual Worlds*. 59 Hastings L.J. 1, 9 <https://ssrn.com/abstract=980693>.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial 4.0 International License (<http://creativecommons.org/licenses/by-nc/4.0/>), which permits any noncommercial use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if changes were made.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.

