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Tax Implications of Film Copyright Royalties in the Digital Economic Transformation

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ABSTRACT

Digital economic transformation has fundamentally altered film copyright royalty distribution mechanisms, transitioning from conventional channels to cross-border digital platforms. This shift creates opportunities for creators while presenting challenges in copyright protection and taxation frameworks. This research examines film royalties as Income Tax (PPh) objects, investigates digital transformation impacts on taxation systems, and analyzes fiscal policy implications for preventing base erosion and profit shifting (BEPS) practices. The research employs qualitative methodology with descriptive-analytical techniques. Data sources include national legislative regulations, academic literature, tax court decisions, and OECD Inclusive Framework on BEPS documentation. Analysis incorporates normative examination of applicable regulations and comparative assessment of domestic and international practices. Findings demonstrate that film royalties are classified as Income Tax objects under Article 4, paragraph (1), letter h of Indonesian Income Tax Law. Taxation frameworks vary by taxpayer status: Article 23 governs domestic transactions, Article 17 addresses final settlement for individuals and entities, and Article 26 regulates cross-border transactions with potential double taxation agreement adjustments. Digital distribution complexity introduces transparency risks and double taxation concerns, necessitating adaptive policy reforms. The research concludes that taxation system alignment with digital economic dynamics is essential for ensuring legal certainty, fiscal equity, and film creators' economic rights protection. This research contributes to understanding contemporary tax policy challenges in digital content monetization and provides regulatory framework development insights for emerging economies.

Keywords: *BEPS, Digital Economy Taxation, Film Copyright Royalties, Income Tax Policy*

INTRODUCTION

The digital economic transformation has precipitated fundamental changes across various sectors, with the creative industries experiencing particularly profound impacts (Panjaitan, 2025). The film industry represents one of the most significantly affected subsectors, as copyright products are no longer confined to conventional distribution channels through cinemas and physical media, but now encompass digital streaming platforms (Mahendra & Njatrijani, 2023). This transformation has expanded global market access while simultaneously creating new challenges in copyright protection and digital revenue management (Ashari, 2024; WIPO, 2022).

The transition of film distribution to digital services such as Netflix, Disney+, and Amazon Prime Video presents substantial opportunities for copyright holders to extend their audience reach across international boundaries (Kalbu et al., 2024; Sihombing et al., 2021). Santacreu (2023) believed that this shift has also introduced legal complexities regarding copyright enforcement mechanisms and fiscal issues related to cross-jurisdictional royalty taxation. Taxation systems based on national sovereignty frequently remain misaligned with the cross-border nature of digital economies (Erdős & Bodnár, 2025). Such conditions increase the potential for base erosion and profit shifting (BEPS) practices, whereby profits are transferred to jurisdictions with lower tax rates, resulting in reduced tax bases in countries where economic value is created (OECD, 2021). Non-adaptive regulations pose risks of decreased state revenues that are essential for national development financing.

The urgency for income tax regulation on film copyright royalties is reinforced by the creative economy's contribution to Indonesia's national economy. Data from the Badan Ekonomi Kreatif (2019) demonstrates that the creative economy sector contributed more than 7.38% to Gross Domestic Product (GDP) over the past five years. This contribution affirms the strategic position of the creative sector, including filmmaking, within the national economy. Tax regulations capable of adapting to digital economic developments are necessary to ensure legal certainty, create equity for business actors, and maintain the sustainability of state revenues (Cahyadi et al., 2023; Rizqiyanto et al., 2025).

While general provisions in the income tax law regulate royalty taxation, digital economic dynamics reveal regulatory gaps, particularly concerning the determination of film royalty status obtained from cross-border distribution (Ponomareva, 2022). This condition frequently generates interpretive differences in applying double taxation avoidance agreements (tax treaties) between countries (Pinkney, 2019). The primary taxation challenge in digital economies relates to the limitations of conventional tax regimes in accommodating cross-border transactions. The physical presence concept (permanent establishment) that has traditionally served as the taxation basis becomes irrelevant when digital companies

can generate revenue from a jurisdiction without physical office presence. This situation creates significant tax gaps with implications for reduced state revenue potential (OECD, 2020).

Within the Indonesian context, similar challenges manifest through difficulties in collecting taxes from foreign digital service providers earning substantial revenues from domestic consumers. The government has responded with digital taxation policies, including the issuance of PMK No. 48/PMK.03/2020 regarding Value Added Tax collection on digital transactions, and active participation in international forums on digital taxation. Policy implementation faces technical obstacles including limited transaction data and cross-jurisdictional coordination requiring regulatory strengthening and administrative capacity enhancement (Ode & Faisal, 2025).

Compliance and equity dimensions constitute additional aspects that compound digital taxation complexity. Non-adaptive systems risk creating disparities between local and global business actors while opening opportunities for tax avoidance practices. Digital taxation reform must be directed toward creating inclusive, transparent, and equitable systems, ensuring state fiscal interests remain protected without hindering the development of increasingly digitalized creative industries (Anjani et al., 2024). This research aims to provide comprehensive understanding of film copyright positioning in the digital economy, elaborate the interconnection between digital economic development and taxation systems, and analyze the implications of income tax imposition on film royalties in Indonesia.

LITERATURE REVIEW

Film Copyright

Copyright represents an exclusive right inherent to creators over intellectual works produced (Ramli et al., 2021). Within the film domain, copyright encompasses protection for cinematographic works explicitly regulated under Law No. 28 of 2014 concerning Copyright. These provisions grant full authority to creators or copyright holders to determine usage, reproduction, distribution, and screening of works, whether for commercial or non-commercial purposes. The existence of film copyright serves a dual function: protecting creators' economic interests while ensuring legal certainty for work users (UU No. 28 Tahun 2014, 2014).

Creative industry development positions film copyright as a crucial instrument in maintaining production sustainability (Zhang, 2022). Films unprotected by copyright face misuse risks, such as piracy practices or illegal distribution (Huang et al., 2022). Such conditions generate losses for creators while impeding investment flows in the film sector. Copyright protection ensures creators obtain economic benefits from their works, creating sustainable creative production cycles (Anjani et al., 2024).

Film copyright also encompasses broader socio-economic dimensions. Effective protection potentially enhances national film industry competitiveness at the global level. Strong protection systems foster investor and international partner confidence in Indonesian film business sustainability. Thus, discussions regarding film copyright cannot be separated from interconnected legal, economic, and cultural aspects (Rahman & Kelana, 2022).

Digital Economy

The digital economy constitutes economic activities based on information and communication technology, where goods and services transactions occur through digital platforms (Xia et al., 2024). OECD (2021) explained that the digital economy encompasses not only electronic commerce (e-commerce) but also application-based services, digital media, and data-driven innovations. Digital economy presence drives the formation of various new sectors, including creative industries, through more efficient distribution and consumption models reaching broader markets (Trach, 2024).

In the film domain, the digital economy expands market access through over-the-top (OTT) platforms, streaming services, and social media. This transformation enables film works to be accessed by global audiences without geographical limitations. Distribution pattern shifts create new opportunities for creators and copyright holders, including digital-based royalty schemes previously unknown in conventional systems. These developments demonstrate that the digital economy functions not only as a distribution means but also as an instrument redefining the economic value of film copyright (Kalbu et al., 2024; Wen, 2024).

Conversely, digital economy growth presents regulatory challenges, particularly in taxation aspects. Cross-border transactions create complexity as many digital platforms operate across various jurisdictions, potentially generating base erosion and profit shifting (BEPS) risks. Deep understanding of the digital economy becomes an important foundation for analyzing its relationship with copyright and taxation systems in Indonesia (Ode & Faisal, 2025).

Royalties

Royalties constitute economic compensation received by copyright holders or parties legally obtaining such rights for intellectual work utilization, including cinematographic works (Ramli et al., 2021). Law No. 28 of 2014 concerning Copyright affirms that every commercial use of creations must be accompanied by royalty payments to rights holders. These provisions demonstrate royalties' dual function as instruments protecting creators' economic interests while promoting creative work sustainability amid industry development. Royalty existence becomes an important pillar in guaranteeing creators' economic rights and ensuring creative ecosystems operate fairly and sustainably (UU No. 28 Tahun 2014, 2014).

The film industry displays various royalty mechanism forms. In conventional systems, royalties are obtained through cinema distribution, DVD sales, and television broadcasting licenses (Kalbu et al., 2024). Digital economic development transforms this landscape by introducing new royalty sources through over-the-top (OTT) services such as Netflix, Disney+, and local digital platforms. Digital-based distribution expands film market access to global levels and enables creators to earn income from cross-border audiences. This shift simultaneously brings consequences that royalty flows are no longer limited to domestic transactions but involve cross-jurisdictional revenues with more complex structures, particularly when digital service providers operate from different countries (Santacreu, 2023).

Digital-based royalty schemes open substantial opportunities for film creators to obtain broader income compared to conventional models. Cross-jurisdictional complexity conversely presents regulatory challenges, especially in taxation aspects. Cross-border royalty taxation frequently faces legal gaps in both determining royalty status as tax objects and collection mechanisms. OECD (2021) highlighted that the digital economy creates dilemmas regarding cross-border income classification, whether as royalties or business profits, impacting taxation treatment differences between countries. This situation indicates potential base erosion and profit shifting (BEPS) if not anticipated through adaptive legal instruments.

Indonesia's legal framework remains based on territorial principles in determining tax objects, while digital transactions are cross-border in nature. This condition raises strategic questions regarding how national legal and fiscal systems can adapt to global royalty flows while protecting creators' interests without creating burdens that hinder creative industry innovation. Previous research demonstrates that effective copyright protection increases investor confidence and promotes film industry growth, while regulatory gaps in the digital economy have implications for legal uncertainty and cross-border taxation challenges (Anjani et al., 2024; Pinkney, 2019).

Income Tax Law

Income Tax Law affirms that all income derived from royalties falls within the category of taxable income. This provision implies that royalty recipients, whether individuals or legal entities, are obligated to report and pay taxes according to applicable regulations. Royalty taxation is positioned as an instrument for creating fiscal equity while expanding the state revenue base (Rahman & Kelana, 2022).

Digital economic development introduces new complexities in royalty taxation. Royalty flows sourced from foreign digital platforms frequently generate double taxation issues when double taxation avoidance agreements (tax treaties) are absent. This problem occurs due to principle differences in determining taxation jurisdiction between source and residence countries. Such conditions potentially

reduce legal certainty for taxpayers while creating excessive fiscal burdens (Pinkney, 2019).

Tax collection mechanisms for cross-border transactions in the digital era also face structural challenges. Global digital companies often operate across jurisdictions without physical presence in Indonesia, complicating effective tax collection by authorities. This situation creates potential for significant state revenue losses. In the global context, the OECD through the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) provides policy frameworks for preventing tax base erosion and profit shifting. Implementing withholding tax on royalty payments becomes an important instrument for ensuring state revenue protection (OECD, 2024).

RESEARCH METHODOLOGY

This research employs a qualitative approach utilizing descriptive-analytical methodology. The qualitative approach was selected for its capacity to explain taxation phenomena regarding film royalties in the digital economy through in-depth interpretation of regulations, legal doctrines, and international practices. The descriptive-analytical method is employed to elaborate on legislative regulations, expert perspectives, and empirical practices, which are subsequently analyzed to obtain comprehensive understanding of income tax implications on cross-border film royalties (Creswell & Creswell, 2023).

This research utilizes secondary data sources. Data were obtained from national legislation, including Law No. 28 of 2014 concerning Copyright, Law No. 36 of 2008 concerning Income Tax, and implementing regulations related to digital taxation (e.g., PMK No. 48/PMK.03/2020). Additionally, this research incorporates international instruments, particularly OECD guidelines on Base Erosion and Profit Shifting (BEPS) and academic literature related to copyright protection and digital taxation. Data collection techniques were conducted through library research. Reading sources encompass national and international scientific journals, reports from international organizations such as OECD and WIPO, and relevant tax court decisions. Library research is considered appropriate as the issues discussed are closely related to legal frameworks and public policies reflected in official documents and academic literature (Zed, 2014).

Data analysis was conducted qualitatively using normative and comparative approaches. Normative analysis was performed by examining the conformity of Indonesian taxation regulations with legal principles and international doctrines, while comparative analysis was conducted by comparing cross-border royalty taxation practices as recommended by the OECD within the BEPS framework. Analysis results are utilized to identify regulatory gaps and formulate taxation policy implications for film royalties in the digital economy (Miles et al., 2018).

RESULT AND DISCUSSION

Royalties in Film Copyright

Royalties constitute economic compensation obtained by creators or copyright holders for the utilization of their intellectual works. Within the cinematographic domain, royalties emerge when film works are utilized by other parties for both commercial and non-commercial purposes through traditional media such as cinemas and television, as well as through digital media including over-the-top (OTT) and video-on-demand (VOD) services. The royalty mechanism functions as an instrument for protecting creators' economic rights while serving as an incentive to maintain the sustainability of the creative ecosystem (Ramli et al., 2021).

Films are included in the category of creations receiving legal protection through Law No. 28 of 2014 concerning Copyright. This regulation affirms that creators' exclusive rights encompass moral rights and economic rights, including the right to receive royalties. Such protection not only provides legal certainty for creators but also ensures the establishment of a healthy business climate in the film industry. Film copyright thus affirms the existence of balance between creators' economic interests and legal certainty for work users (UU No. 28 Tahun 2014, 2014).

Royalty forms in Indonesia's film industry encompass diverse schemes. Royalties may arise from film screenings in cinemas or pay television, sales or rentals in physical formats such as DVDs and Blu-rays, digital distribution through streaming services, and film adaptations to other media including novels, merchandise, or remakes. This variation reflects that film royalties represent not merely financial compensation but also the economic value representation of cinematographic works increasingly differentiated in the digital era (Anjani et al., 2024).

Digital technology development introduces new complexities in royalty acquisition mechanisms. Global platforms such as Netflix, Disney+, and Amazon Prime introduce diverse business models, including royalty payments based on view counts, subscription revenue sharing, and specific license contract schemes. This complexity impacts taxation aspects as film royalty income frequently involves cross-border transactions with different jurisdictions (Pinkney, 2019). Such conditions create regulatory challenges and base erosion and profit shifting (BEPS) risks if not anticipated through adaptive legal frameworks (OECD, 2020).

Digital Economy Concept Influence on Taxation Systems

The digital economy represents a new paradigm emerging from the integration of information technology, automation, artificial intelligence, and big data analytics into economic activities. This transformation drives increased efficiency, productivity, and opens broader market opportunities compared to

traditional economic models. The primary difference between digital and conventional economies lies in their driving foundations, where digital economies rely on data, networks, and access speed, while conventional economies depend on physical assets and linear distribution. This condition generates new business models such as sharing economy, gig economy, and platform economy that now dominate various sectors (OECD, 2020).

Digital economy characteristics are marked by high network effects, creating oligopolistic or even monopolistic tendencies where large platforms become increasingly dominant. This transition emphasizes the importance of intangible assets such as software and Intellectual Property Rights (IPR) as new strategic resources in creating economic value. Consumer behavior changes prioritizing fast, personalized, technology-based services further strengthen these trends while affirming that digital economic value lies in innovation capability and data management, not merely physical asset ownership (Maleha et al., 2025; Wu, 2024; Yusupova & Zaripova, 2025).

Digital economic transformation presents significant challenges in taxation aspects. Cross-border virtual transactions are often difficult to reach through conventional taxation instruments. This phenomenon generates base erosion and profit shifting (BEPS) practices, whereby foreign digital companies obtain profits from domestic markets without physical presence (permanent establishment) (Pinkney, 2019). To respond to this, the Indonesian government has implemented Value Added Tax (VAT) collection on digital products through PMK No. 48/PMK.03/2020. Nevertheless, Income Tax (PPh) collection mechanisms for foreign digital entities still face obstacles as Indonesia's legal framework continues to adhere to physical presence principles as taxation bases (Ode & Faisal, 2025).

The digital economy also brings significant impacts to the film industry, particularly in distribution patterns and royalty acquisition. The presence of streaming platforms, video-on-demand services, and digital licenses makes film access no longer geographically limited. Films previously accessible only through cinemas or physical media are now globally available through internet networks. This change shifts the royalty income basis from traditional models that are relatively easy to monitor to distributed digital income flows that are difficult to identify by tax authorities (Ramli et al., 2021). Such complexity demands taxation systems adapt by utilizing information technology to detect cross-border royalty flows, ensuring legal certainty and fiscal equity remain guaranteed (Anjani et al., 2024).

Income Tax Implications on Film Copyright Royalties

The normative framework positions royalties as Income Tax objects with different taxation consequences according to taxpayers and payment flows, whether such tax subjects are Domestic Taxpayers or Foreign Taxpayers. Article 4 paragraph (1) letter h of the Income Tax Law affirms royalties as PPh objects,

Article 17 regulates progressive rates for individual taxpayers and Corporate PPh rates, Article 23 establishes withholding on royalty payments to domestic subjects and/or permanent establishments, Article 26 regulates final withholding on royalty payments to foreign subjects with possible rate reductions based on Double Taxation Avoidance Agreements (P3B) according to valid tax treaty provisions. The following illustrates several conditions of royalty provision and/or receipt and their taxation aspects:

1. Illustration 1 - Royalties from domestic platforms to individual domestic taxpayer creators

Royalty payments by domestic streaming platforms to domestic taxpayer film creators (individuals) are subject to Article 23 PPh withholding of 15% of gross amounts. Withholding is non-final and becomes credit during annual PPh calculation for recipients, while net income is calculated using Article 17 progressive rates according to Taxable Income layers. This mechanism affirms the withholding role for tax collection at source while maintaining ability-to-pay principles through reconciliation.

2. Illustration 2 - Royalties from domestic platforms to domestic taxpayer production houses (Entities)

Royalty payments by domestic entities to domestic taxpayer entities are also subject to Article 23 withholding of 15% as tax credit. Net royalty income is combined with fiscal profit and subject to applicable Corporate PPh rates (current tax year 22%), so effective burden is influenced by related costs and fiscal loss/profit position. This scheme maintains equity among actors as advance withholding is compensated at corporate level during annual reporting.

3. Illustration 3 - Royalties from abroad directly to domestic taxpayers

Royalty payments by foreign platforms without permanent establishments in Indonesia directly to domestic taxpayer recipients are outside domestic withholding reach, thus not subject to Article 23 when paid. Recipients remain obligated to record and report as taxable income subject to Article 17 in Annual Tax Returns. If source countries conduct foreign withholding, recipients may utilize Article 24 foreign tax credits according to per-country limitations. Credit right determination refers to foreign withholding evidence and applicable P3B provisions.

4. Illustration 4 - Royalties from Indonesia to Foreign Taxpayers without permanent establishments

Royalty payments by domestic payers to foreign taxpayers without permanent establishments are subject to Article 26 PPh of 20% of gross amounts and are final. Rates may be reduced following P3B if recipients are beneficial owners and submit resident documents according to

common treaty relief practices. This construction follows OECD Model Article 12 patterns regarding royalty taxation right allocation between source and residence countries.

5. Illustration 5 - Royalties paid to permanent establishments in Indonesia owned by foreign companies

Royalty payments to Permanent Establishments (BUT) in Indonesia are treated as payments to domestic tax subjects for withholding purposes, thus Article 23 applies at 2% of gross value. Such income is subsequently combined in permanent establishment taxable income calculation and subject to corporate rates at permanent establishment level, while Article 23 withholding becomes PPh credit. The permanent establishment vs non-permanent establishment distinction becomes crucial to avoid misclassification to Article 26 and maintain jurisdiction-based taxation basis coherence.

6. Illustration 6 - Cross-border royalties with sub-licensing and revenue sharing

Global licensing schemes often involve aggregators/distributors channeling royalties to various jurisdictions through revenue sharing. Payments from Indonesia to main license holders abroad are principally Article 26 in source countries, then subsequent payments to sub-recipients follow destination country domestic rules with P3B mitigation. Income flow complexity increases source income uncertainty risks, making beneficial ownership, place of use, and nexus documentation crucial for avoiding disputes and double taxation.

Illustrative Examples of Film Royalty Taxation

1. Article 17 - Royalties received by domestic individual taxpayers

An Indonesian director receives royalties from local streaming platforms totaling Rp 500,000,000 annually. The platform conducts Article 23 PPh withholding of 15% of gross amounts (Rp 75,000,000). At year-end, this income is combined with other income resulting in total Taxable Income (PKP) = Rp 600,000,000. Total PPh Due = Rp 124,000,000, Article 23 Credit = Rp 75,000,000, resulting in remaining underpayment of Rp 49,000,000.

Table 1 Tax Calculation Article 17

PKP Layer	Rate (%)	Tax Base (Rp)	Tax (Rp)
0 - 60.000.000	5	Rp 60,000,000.00	Rp 3,000,000.00
60.000.000 - 250.000.000	15	Rp 190,000,000.00	Rp 28,500,000.00
250.000.000 - 500.000.000	25	Rp 250,000,000.00	Rp 62,500,000.00
500.000.000 - 600.000.000	30	Rp 100,000,000.00	Rp 30,000,000.00

Source: Author's Analysis

2. Article 23 - Royalties paid to domestic taxpayer production houses (Entities)

A production house in Indonesia receives royalties from national television totaling Rp 1,000,000,000. National television withholds Article 23 PPh of 15% or Rp 150,000,000. At year-end, the production house reports total fiscal profit of Rp 2,000,000,000. Remaining tax payable amounts to Rp 290,000,000.

Table 2 Amount of Paid Royalties

Description	Amount (Rp)
Gross Royalty	Rp 1,000,000,000.00
Article 23 PPh (15%)	Rp 150,000,000.00
Fiscal Profit	Rp 2,000,000,000.00
Corporate PPh (22%)	Rp 440,000,000.00
Article 23 PPh Credit	Rp 150,000,000.00
Undepayment	Rp 290,000,000.00

Source: Author's Analysis

3. Article 26 - Royalties paid to Foreign Taxpayers

An Indonesian streaming platform pays royalties to an American company totaling USD 100,000 (exchange rate Rp 15,000 = Rp 1,500,000,000). This Article 26 PPh is withheld by the Indonesian streaming platform (income provider).

Table 3 Amount of Paid Royalties

Description	Amount (Rp)
Gross Royalty (Rp)	Rp 1,500,000,000.00
Article 26 PPh Without P3B (20%)	Rp 300,000,000.00
Article 26 PPh With P3B (10%)	Rp 150,000,000.00

Source: Author's Analysis

4. Article 17 + Article 24 - Royalties from abroad directly to domestic taxpayers

An Indonesian screenwriter receives royalties from Netflix totaling USD 50,000 (exchange rate Rp 15,000 = Rp 750,000,000). Netflix withholds US tax of 10% (Rp 75,000,000). In Indonesia, this income is combined with other income and must be reported as Taxable Income (PKP) of Rp 800,000,000. Thus subject to Article 17 progressive rates with total due of Rp 179,000,000.

Table 4 Tax Calculation Article 17 + Article 24

PKP Layer	Rate (%)	Tax Base (Rp)	Tax (Rp)
0 - 60.000.000	5	Rp 60,000,000.00	Rp 3,000,000.00
60.000.000 - 250.000.000	15	Rp 190,000,000.00	Rp 28,500,000.00
250.000.000 - 500.000.000	25	Rp 250,000,000.00	Rp 62,500,000.00
500.000.000 - 600.000.000	30	Rp 300,000,000.00	Rp 90,000,000.00

Source: Author's Analysis

Table 5 Article 17 Progressive Rate

Description	Amount (Rp)
Gross Royalty (Rp)	Rp750,000,000.00
PPh Withheald Abroad (10%)	Rp75,000,000.00
Indonesian PKP	Rp800,000,000.00
Article 17 PPh Due	Rp179,000,000.00
Article 24 Credit	Rp75,000,000.00
Indonesian Underpayment	Rp104,000,000.00

Source: Author's Analysis

Individual creators and small production houses often bear cash flow burdens due to gross withholding (23/26) while royalties are frequently shared with third parties and preceded by production/promotion costs, making tax cash-flow management and annual tax credit reconciliation crucial. Transparency in royalty reporting by platforms/aggregators reduces misreporting risks and administrative sanctions, with detailed reporting policies aligned with legal certainty needs. Royalty income source determination commonly refers to payer domicile or right utilization location in source countries, then taxation rights are allocated according to P3B. Harmonization of domestic rules with the Inclusive Framework on BEPS including significant economic presence issues minimizes tax arbitrage and strengthens digital economy taxation bases, including film content royalties.

These findings substantiate and extend previous research regarding digital economy taxation challenges while revealing important implementation nuances within the Indonesian context. Pinkney's (2019) identification of interpretive differences in tax treaty applications finds strong empirical support through the complex cross-border royalty scenarios documented in this study, particularly regarding beneficial ownership determination and permanent establishment classification. Our analysis extends this foundational work by demonstrating how these interpretive challenges manifest in specific Indonesian regulatory frameworks, revealing that the systematic categorization of taxation scenarios

across Articles 23, 26, and treaty provisions offers a practical framework for addressing regulatory gaps through targeted policy interventions.

The results obtained from this analysis confirm several key observations made by earlier researchers while revealing new dimensions of the taxation challenges. Pinkney's (2019) work highlighted how different countries interpret tax treaty provisions inconsistently, and our examination of Indonesian royalty taxation demonstrates this challenge in practice. The complexity identified in determining beneficial ownership and permanent establishment status across various payment scenarios directly supports Pinkney's concerns about regulatory ambiguity. However, this study extends beyond theoretical considerations by showing exactly how these problems affect real business operations in Indonesia's film industry, where content creators face genuine uncertainty about their tax obligations when working with international platforms.

These findings strongly align with the OECD's repeated warnings about profit shifting in digital economies, but they also expose gaps that international frameworks have not fully addressed. While the OECD (2020, 2021) correctly identified the fundamental mismatch between traditional tax systems and digital business models, this research shows how this plays out in a specific developing economy context. Indonesia's experience with implementing digital taxation policies reveals both progress and persistent challenges that mirror broader global struggles. The success with VAT collection through PMK No. 48/PMK.03/2020 contrasts sharply with ongoing difficulties in capturing income tax from cross-border royalty payments, illustrating that piecemeal approaches to digital taxation create their own complications.

The relationship between copyright protection and economic sustainability, emphasized by Anjani et al. (2024) and Rahman and Kelana (2022), takes on additional complexity when viewed through a taxation perspective. While these researchers focused primarily on legal mechanisms for protecting creative works, this analysis reveals that taxation policies can either support or undermine these protective efforts. Small creators and production houses face significant cash flow pressures from withholding tax requirements, even when these taxes are eventually refunded or credited. This creates a practical barrier to creative work that legal copyright protection alone cannot address, suggesting that effective support for the creative economy requires coordinated legal and fiscal policy approaches rather than isolated interventions.

CONCLUSION

Analysis demonstrates that film copyright royalties within the digital economy ecosystem possess interconnected legal, economic, and fiscal dimensions. From a legal perspective, Law No. 28 of 2014 concerning Copyright provides the foundation for creators' protection in obtaining royalties as economic rights. This

protection mechanism becomes increasingly relevant when film distribution is no longer limited to conventional channels but also encompasses cross-border digital platforms with more complex business models. From an economic standpoint, digital transformation creates new market opportunities that expand film work reach to global levels. Distribution schemes based on over-the-top (OTT) and video-on-demand (VOD) generate royalty patterns different from traditional systems, thereby increasing income potential for creators. However, digital distribution complexity creates transparency challenges in reporting, particularly when involving aggregators, distributors, and cross-jurisdictional platforms.

From a taxation perspective, Indonesia's income tax system remains founded on the permanent establishment concept of physical presence. This concept is not always relevant in digital economies where foreign companies can obtain profits from domestic markets without physical presence. Consequently, the application of Articles 17, 23, and 26 to film royalties reveals limitations in reflecting cross-border digital transaction realities. Gross withholding mechanisms create significant cash flow burdens for small creators while opening potential for base erosion and profit shifting (BEPS) practices that reduce national tax bases. Overall, existing regulations have provided basic frameworks, but adaptation to digital economic dynamics remains limited. Legal uncertainty and interpretive differences, particularly regarding double taxation agreement utilization and income classification as royalties versus business profits, emphasize the need for digital taxation system reform in Indonesia.

RECOMMENDATIONS

First, the government needs to strengthen film royalty taxation regulations by harmonizing domestic rules with international standards. Reformulation of permanent establishment concepts based on significant economic presence should be considered to maintain taxation relevance within digital economy contexts. Second, enhanced transparency in distribution reporting and royalty payments is required. Global digital platforms and aggregators must be obligated to submit more detailed income reports to tax authorities and film creators, thereby minimizing misreporting risks and administrative disputes. Third, taxation policies must consider proportionality by providing special protection to independent creators and small production houses. Net profit-based withholding schemes or tax incentive provision can help maintain balance between state revenue and national creative industry sustainability. Finally, taxation literacy and education for creative industry practitioners need expansion so creators understand their taxation rights and obligations. This education will strengthen voluntary compliance and create healthy business climates within the film sector.

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