# PROBLEMS WITH DIGITAL CURRENCY: CRYPTOCURRENCY IN INDONESIA

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***Abstract***

*This study aims to analyze the Indonesian government's policies regarding cryptocurrency transactions and taxation and accounting practices in Indonesia. In addition, this research also conducts literature studies abroad. Commodity Futures Trading Regulatory Agency Regulation No. 13 of 2022 and No. 8 of 2021 concern guidelines for organizing crypto asset physical market trading on futures exchanges to oversee cryptocurrency transactions. Cryptocurrency transactions in Indonesia are considered VAT objects and are subject to income tax. Accountants face a challenge because there is no accounting standard that explains why cryptocurrency must be considered. It is hoped that the Indonesian Accounting Standards Board can conduct discussions related to accounting standards for cryptocurrency. Besides, the government's role is very important in making financial technology policies and systems in order to mitigate the risks of cryptocurrency transactions so that they can benefit investors and the tax system in Indonesia.*

***Keywords:*** *Cryptocurrency; Digital Currency; Accounting for Cryptocurrency.*

## Introduction

Individual activity changes begin to affect the transaction processes they carry out; each individual no longer relies on traditional money but has used virtual money, and all will be connected in this direction in due time. In all digital and electronic activities with data as their main role, individuals are no longer limited by space and time; they can make transactions electronically anywhere, with anyone, and anytime (Danuri, 2019).

Digital currencies may have far-reaching impacts on almost all aspects of social and economic activity (Ji & Shen, 2021).

Cryptocurrency is the first successful application of blockchain technology and can be used as the primary fuel for a global remittance network (Hashemi Joo et al., 2020). Blockchain is a revolutionary technology that can change the world with its convenience, transparency, accuracy, and efficiency in speed and cost. The growth of blockchain use in finance is contingent on its further recognition and trust earned through increasing evidence of successful use cases and testimonials and appropriate legislative changes.

Cryptocurrency is difficult to replace the use of conventional currency as a means of payment in Indonesia because there is no centralized authority that regulates it and the value of cryptocurrency is relatively unstable compared to the conventional currency already circulating in Indonesia, namely the rupiah, so it is difficult to use cryptocurrency as a means of payment at the smallest level, namely daily use (Dwicaksana, 2020).

Policies to accelerate the rate of adoption of digital technology in an economy must rely on increasing the globalization index, which encourages knowledge overflow and competition (Skare & Soriano, 2021). The adoption of crypto assets is increasing rapidly in all parts of the world (cryptoization), which is also found in Indonesia. However, behind these benefits are various risk factors that need to be watched out for (Bank Indonesia, 2022).

Therefore, this study analyzes the Indonesian government's policies regarding cryptocurrency transactions and taxation and accounting practices in Indonesia. In addition, this research also conducts literature studies abroad.

## Metod

This study uses the "triangulation method," which refers to research that combines various data sources to develop a comprehensive understanding (Patton, 2002). This research does not only analyze government policies on cryptocurrency transactions and taxation and accounting practices in Indonesia, but it also conducts literature studies abroad. The qualitative data collection technique is a literature study. It is a technique for collecting, summarizing, and processing library documents (Zed, 2008).

## Results and Discussion

On a different level, while cryptocurrency can be stated as a payment system solution, the level of demand for this type of cryptocurrency is not comparable to the existing supply. What will happen then is that cryptocurrency will not become a means of everyday payment but will become a means of payment or a medium of exchange that will be more specific at a certain level. For now, cryptocurrency can only be an investment tool whose rounds are only bought and then sold; it is difficult if cryptocurrency is directly juxtaposed with money for the use of everyday payment instruments (Dwicaksana, 2020). Below is a graph of the cryptocurrency market (Coin Market Cap, 2023)

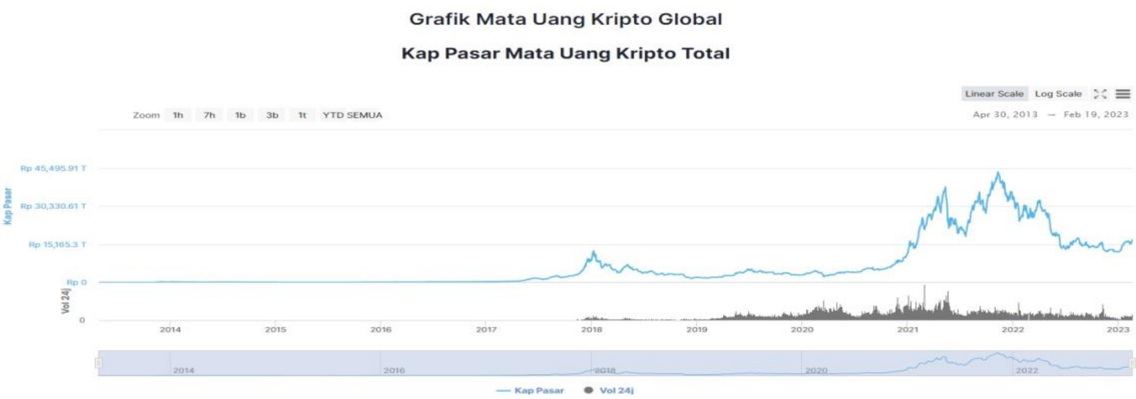


**Figure 1. Source of marketcapcoin**

In Indonesia, Bank Indonesia is the sole monetary authority in the payment system using money, so it can determine which payment instruments are valid in the country. According to Article 11 of Law No. 7 of 2011 on Currency, the Bank Indonesia is the only institution authorized to issue, circulate, and/or withdraw rupiah. It is clearly stated in the article that only Bank Indonesia has the right to manage the rupiah, or the currency that applies in Indonesia (Dwicaksana, 2020).

Under the G20 Indonesia Presidency in 2022, the G20 central banks, together with international institutions, have responded to this dynamic by formulating regulation and supervision of crypto assets and stablecoins, emphasizing the principle of "same activity, same risk, same regulation" (Bank Indonesia, 2022). Stablecoins are digital tokens that are generally transacted using DLT and cryptographic validation techniques in order to achieve a stable value against fiat currency.

Crypto Assets are intangible commodities in the form of digital assets that use cryptography, peer-to-peer networks, and distributed ledgers to manage the creation of new units, verify transactions, and secure transactions without the interference of other parties. The Commodity Futures Trading Regulatory Agency Regulation No. 13 of 2022 governs cryptocurrency trading in the physical crypto asset market (Crypto Asset) on the Futures Exchange (Sembiring, 2022). From the point of view of the anthroposociocultural approach, the need for proper legal regulation of cryptocurrencies has been determined to ensure the realization of the human right to tax. Eastern European countries have more simple and attractive tax rates (Solodan, 2019).

(Panova et al., 2019) found that cryptocurrency transactions in Australia are subject to standard income tax and corporate tax. At the same time, when using cryptocurrencies as an investment, it becomes necessary to pay capital gains taxes. In Norway, Finland, and Germany, cryptocurrencies are subject to capital gains tax and wealth tax. In Bulgaria, digital currency is considered a financial instrument and is subject to the relevant income tax. In Austria, cryptocurrencies are considered by the tax authorities to be intangible assets, and their receipt is treated as an operating activity. Regarding cryptocurrencies, the United States, through its tax regulations in the field of cryptocurrency trading, forces all American cryptocurrency exchanges to verify their clients. Current Chinese law does not contain certain special tax rules and transactions.

At the same time, cryptocurrencies are defined as virtual commodities, not currencies. Sales of digital money are subject to VAT, and income and profits denominated in cryptocurrencies are subject to income tax, corporate income tax, and capital gains tax. Every year, the number of cryptocurrency businesses incorporated in China continues to grow. At the same time, a unified state approach to the legal regulation of cryptocurrency in China is still under developed. Hong Kong's tax laws do not contain specific rules regarding the taxation of cryptocurrencies and operations with them. There was no explanation from the regulator about this. In Brazil, the Central Bank was also the first to warn about the risks associated with using digital money. At the same time, for the tax on cryptocurrency transactions, the Federal Tax Service considers digital money as a financial asset (Warren, 2019). Tax arrangements for cryptocurrency trading activities in Indonesia are regulated by the Regulation of the Minister of Finance of the Republic of Indonesia No. 68/PMK.03/2022 concerning (Menteri Keuangan Republik Indonesia, 2022).

It should be noted that existing models for the recognition and valuation of crypto assets as a means of payment, financial assets, intangible assets, and inventories have many peculiarities in the formation of accounting policies. However, there is no completely correct standard for the accounting and presentation of financial statement information (Grigoras-Ichim & Morosan-Danila, 2016). (Yan et al., 2022) found that survey respondents on investor attitudes towards cryptocurrencies in Xiamen City, a special economic zone (SEZ) and pilot free trade zone (FTZ) in China, generally define cryptocurrencies as investments (45%), inventory (19%), and intangible assets (36%). As many as 84% of respondents stated that the value of a cryptocurrency must be represented by fair value.

(Ayedh et al., 2021) conducted a survey with 10 accountants in Malaysia to gain insight into cryptocurrency knowledge in financial reporting from a practitioner's perspective and found that the majority of them (8 out of 10) suggested that Malaysia does not recognize cryptocurrency as legal tender and should be prohibited from using it in the same way as fiat currency. Furthermore, all of them will not recommend the use of cryptocurrencies to their clients.

Consideration should also be given to the purposes for which the entity holds cryptographic assets to determine the accounting model. Under accounting standards and other considerations that may be relevant to subsets of cryptographic assets. The chart below summarizes the different possible classifications and related measurement considerations:

| Applicable standard | Initial measurement | Subsequent measurement | Movements in carrying amount |
|---|---|---|---|
| Inventory (IAS 2)<br>- Other | Cost | Lower of cost and net realisable value | Movements above cost<br>- N/A<br>Movements below cost<br>- Profit and loss |
| Inventory (IAS 2)<br>- Commodity broker-trader exception | Cost | Fair value less costs to sell | Profit and loss |
| Intangible assets (IAS 38)<br>- Revaluation model (accounting policy choice but requires existence of active market) | Cost | Fair value less any accumulated amortisation and impairment* | Movements above cost<br>- Other comprehensive income<br>Movements below cost<br>- Profit and loss |
| Intangible assets (IAS 38)<br>- Cost model | Cost | Cost less any accumulated amortisation and impairment* | Movements above cost<br>- N/A<br>Movements below cost<br>- Profit and loss |

**Figure 2. PWC source**

(PWC, 2019) IAS 2 does not require inventories to be in physical form, but inventories must consist of assets held for sale in the normal course of business. Inventory accounting may be appropriate if an entity has cryptocurrencies to sell in the ordinary course of business.Entities that actively trade cryptocurrencies, buy them with the intention of reselling them in the near term, and make a profit from price fluctuations or trader margins may consider whether the guidance in IAS 2 for commodity broker-traders should apply. However, if an entity holds cryptocurrency for investment purposes (i.e., capital appreciation) over a long period of time, it will likely notmeet the definition of supply.

- If a cryptocurrency does not meet the definition of one of thecategories above, it is likely to meet the definition of an intangible asset under IAS 38, "Intangible Assets," because: it is a resource controlled by the entity (i.e., the entity has the power to acquire the economic benefits that the asset will generate and to limit the access of others to those benefits) asa result of past events and from which future economicbenefits are expected to flow to the entity;
- identifiable, because they can be sold, exchanged, or transferred individually;
- not cash or non-monetary assets; and
- no physical form.

IAS 38 applies to all intangible assets except those specifically excluded from its scope (for example, inventories).

(France et al., 2022) found that the accounting practice of cryptocurrencies in Indonesia (Case Study: Indodax Company, Bitcoin Indonesia) uses IAS 2 inventories because the company's core business is brokerage, which measures cryptocurrency inventories recorded at fair value less costs to sell and recognized in the income statement and reported in the Report Available for Sales of FinancialAsset Accounts. At the same time, entities applying IAS 38 intangibleassets in the measurement, valuation, and presentation of financial statements refer to computer software and internet domains, not cryptocurrency assets in the form of coins and tokens. In addition, entities that measure and value cryptocurrency assets (cash and tokens) using financial instruments under IFRS 9 Financial Instruments: Recognition and Measurement are calculated and recorded as financial assets at fair value through profit or loss (FVTPL).

## Conclusion

Transactions on cryptocurrencies carry a high risk. This made the government issue cryptocurrency trading regulations regulated by Commodity Futures Trading Regulatory Agency Regulations No. 13 of 2022 and No. 8 of 2021 concerning guidelines for organizing crypto asset physical market trading on the Futures Exchange. In line with Article 4 paragraph 1 of Law Number 8/1983, which was amended by Law Number 7/2021 concerning Harmonization of Tax Regulations (UU HPP), where cryptocurrency is growing widely and becoming a trading commodity, cryptocurrency in Indonesia is a VAT object and is subject to Income Tax. The problem faced by accountants is that there is no accounting standard to explain how cryptocurrency must be taken into account. So accountants must refer to existing accounting standards. It is hoped that the Indonesian Accounting Standards Board can conduct discussions related to accounting standards for cryptocurrency. Besides, the government's role is very important in making financial technology policies and systems in order to mitigate the risks of cryptocurrency transactions so that they can benefit investors and the tax system in Indonesia.

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