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ANALYSIS OF THE APPLICATION OF INCOME TAX ON INCOME DERIVED FROM ONLINE GAMBLING ACTIVITIES IN INDONESIA

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Abstract
Online gambling in Indonesia has grown rapidly, with the Financial Transaction Reports and Analysis Center (PPATK) recording 12.3 million active players in 2025, up from 8.8 million in 2024, while the number of online gambling transactions continued to rise sharply from 2021 to 2025, even as their aggregate value declined in 2025 following intensified government prevention efforts. This phenomenon raises the question of whether income obtained from online gambling activities can be treated as an object of Income Tax (PPh), even though the activity itself is prohibited by law. This study uses a qualitative approach with a case study method to analyze the application of PPh to income received by online gambling players in Indonesia. Data were collected through documentation and interviews with players and stakeholders, including government officials, academics, and tax practitioners. The findings show that under Article 4 paragraph (1) of the Income Tax Law, income is not classified by the legality of its source, so the Directorate General of Taxes (DJP) has the authority to tax it; this income cannot be equated with lottery prizes because it fulfills the elements of gambling rather than a draw. Two collection mechanisms were identified: a withholding system, relevant if the activity were legalized by appointing platforms as withholding agents, and self-assessment combined with law enforcement, applicable without legalization. Between the two alternative types of PPh, Final Income Tax is found to be more relevant than Personal Income Tax due to its administrative simplicity and potential to improve taxpayer compliance.
Keywords: Final Income Tax; Illegal income taxation; Online gambling tax

INTRODUCTION

Online gambling has grown rapidly in Indonesia, driven by advances in technology and increasingly widespread internet access. In 2025, Pusat Pelaporan dan Analisis Transaksi Keuangan (PPATK) recorded 12.3 million active online gambling players in Indonesia(Katadata, 2025).This figure represents an increase from 8.8 million players recorded in 2024. PPATK's Head, Ivan Yustiavandana, stated that 80% of online gambling players are members of the public earning Rp5 million or less per month (Katadata, 2025). The age groups of 20–30 and 31–40, which should be the primary drivers of the economy, are instead the groups most exposed to online gambling.

Table 1. Number and Value of Online Gambling Transactions 2021 -2025

Year	Number of Transactions	Transaction Value
2021	43,6 million	IDR 57,91 trillion
2022	104,79 million	IDR 104,42 trillion
2023	168 million	IDR 327 trillion
2024	209,5 million	IDR 359,81 trillion
2025	422,1 million	IDR 286,84 trillion

Source : Processed by the Authors (2025)

The number of players is not the only cause for concern, but also the resulting economic impact is equally significant. PPATK has released data on the number and value of online gambling transactions from 2021 to 2025. PPATK also reported that the turnover of online gambling funds reached Rp286.84 trillion across 422.1 million transactions. This turnover fell by 20% compared to 2024, which reached Rp359.81 trillion. This decline occurred because of the effective joint strategy between the government and the private sector in preventing and eradicating online gambling from multiple fronts (PPATK, 2026). Notably, this decline in value was accompanied by a sharp increase in the number of transactions, from 209.5 million in 2024 to 422.1 million in 2025. This pattern suggests a shift in player behavior toward smaller but more frequent transactions, likely in response to intensified government monitoring and blocking efforts, as players attempt to avoid detection by splitting their transaction amounts.

The value of online gambling transactions in Indonesia remains considerably high. This phenomenon shows that the illegal status of online gambling in Indonesia does not deter the public from engaging in such activities, and the funds spent by players provide no benefit to the state and may even be detrimental to it. Meanwhile, in several other countries, such as the United States, this activity is legalized in certain states and can generate state revenue through taxation. The Indonesian public tends to view gambling as something ordinary because it has existed since long ago. Initially, gambling was regarded as a leisure activity (Ismail, 2019). Ismail (2019) also states that this activity has gradually evolved through the addition of a wagering element intended to heighten the excitement of play. The public continues to gamble despite the existence of various regulations prohibiting the activity.

The steady rise in the number of online gambling transactions during 2020-2025, even as their aggregate value declined in 2025, reflects the public's high level of interest in this sector. Gambling, particularly online gambling, also affects the national economy because it falls within the underground economy, where such activity is not included in GDP calculations (Rezky, 2021). Yet, as part of the underground economy, the online gambling sector has a significant effect on state revenue, with the tax ratio serving as one of its key indicators *(Oktavira & Pratiwi, 2024)*.

There remains a theoretical gap in research on gambling in Indonesia, which is still dominated by studies on its social and legal aspects. Kurniawan et al (2022) examine law enforcement by the Indonesian National Police against online gambling offenders. Juhara et al (2025) likewise study the effectiveness of law enforcement against online gambling in Indonesia. Laras et al (2024) highlight the social, economic, and psychological impacts on online gambling players in Indonesia. A similar study was conducted by *Rafiqah & Rasyid (2023)* who analyzed the impact of online gambling on the socioeconomic life of the community in Pekanbaru. Meanwhile, the practical gap lies in the applicable tax regulations, tax law does not distinguish between income obtained through lawful or unlawful means (Hazmi, 2024). The Income Tax Law defines income as any increase in economic capacity received or obtained by a taxpayer, whether originating from within or outside Indonesia, that can be used for consumption or to increase the taxpayer's wealth, under whatever name and in whatever form. As long as an increase in income or economic benefit can be identified, the state is entitled to levy tax on it. Given this phenomenon surrounding gambling, Direktorat Jenderal Pajak (DJP) should be able to explore the tax potential of this sector using the prevailing tax regulations.

The limited body of research and the gaps identified above indicate the urgency of a more in-depth investigation into the potential PPh revenue from online gambling players. This study therefore aims to analyze the method of applying PPh to the additional economic capacity obtained by online gambling players in Indonesia.

LITERATURE REVIEW

Underground Economy Theory

The underground economy refers to market-based economic activity, whether legal or illegal, that is not recorded in official statistics and is therefore excluded from GDP calculations (Faal, 2003; Tanzi, 2002). Feige (1990)classified the underground economy into the illegal economy, the unreported economy, the unrecorded economy, and the informal economy, with gambling falling into the first category. Schneider and Enste (2013)proposed two approaches for estimating its size: a direct approach through surveys of participants in such activities and audits of reported taxable income, and an indirect approach through macroeconomic indicators such as the discrepancy between expenditure-based and income-based GDP, the discrepancy between labor force participation in the legal and actual sectors, and monetary approaches.

Optimal Tax Theory

Optimal tax theory emphasizes designing a tax system that maximizes state revenue while also maximizing social welfare *(Hosea & Susilawati, 2023),* including through Pigouvian taxes that internalize the negative externalities of an economic activity. Under this theory, taxes must be designed and implemented in a way that reduces market inefficiency and distortion while increasing state revenue to fund government expenditure and provide public goods.

Sin Tax

A sin tax is a repressive tax levied on goods or behaviors considered harmful and difficult to curb (Munir et al., 2022), with the main criteria being inelastic demand, the potential for self-harm, and negative externalities on society (Lorenzi, 2004). Online gambling satisfies all three criteria, making it relevant to position within the sin tax framework. Sin taxes are also imposed on various goods or activities considered harmful to society because they can generate substantial revenue. When state budgets face a deficit, sin taxes are often proposed by lawmakers as an initial step to cover the shortfall (Munir et al., 2022).

Final Income Tax

Final income tax, or Income Tax under Article 4 paragraph (2), is a tax imposed at a final rate and withheld on certain types of income under the Income Tax Law, whereby the amount withheld cannot be credited in the final calculation of Corporate or Individual Income Tax (Klikpajak, 2019; Tjahjono, 2015). This scheme is applied on the grounds of withholding simplicity and reduced administrative burden for both taxpayers and the DJP, employing a withholding tax system in line with the pay as you earn principle, with rates ranging from 0.1% to 25% of gross turnover, depending on the object of taxation. Payment is made either through withholding by the income payer or self-payment by the taxpayer, with deadlines varying between the 10th and 20th of the following month, while reporting must be submitted through the Article 4(2) Periodic Tax Return in accordance with Regulation of the Director General of Taxes Number PER-53/PJ/2009, no later than the 20th or 25th of the following month.

Direct Tax Self Assessment

Taxes are classified into direct taxes, which cannot be shifted to another party, such as PPh, and indirect taxes, which can be shifted, such as VAT. Self-assessment, meanwhile, is a system in which the taxpayer plays an active role in calculating, paying, and reporting their own tax obligations through the government's online administration system *(Sihombing & Sibagariang, 2020)*. Direct taxes are levied based on economic capacity or income regardless of source, in line with the worldwide income principle adopted by Indonesia, under which resident taxpayers are taxed on their entire income and are required to report income derived from abroad on a self-assessment basis. Where a resident taxpayer earns gambling income abroad, the imposition of tax takes into account the applicable Double Taxation Avoidance Agreement, through a mechanism of either withholding tax or independent remittance, and may make use of a foreign tax credit under Article 24 of the Income Tax Law to avoid double taxation. A tax credit itself represents the accumulation of tax that has been withheld or collected by another party, including PPh payable abroad, which can reduce the taxpayer's year-end tax liability.

METHODS

This study uses a qualitative approach with a case study design *(Creswell & Creswell, 2018)* to gain an in-depth understanding of how additional economic capacity is obtained from online gambling activities and how it applies to the taxation system. Primary data were obtained through semi-structured interviews, while secondary data were drawn from journals, institutional publications, and tax regulations (Sugiyono, 2023). The research was conducted in the Special Capital Region of Jakarta, three of whose five administrative cities rank among the areas with the highest online gambling transaction values in Indonesia, as well as at the Head Office of the Directorate General of Taxes.

Informants were selected using purposive and snowball sampling techniques, comprising officials from the Directorate of Tax Regulations I, a tax consulting practitioner, a researcher from a tax policy research center, an academic, and five active online gambling players, anonymized and residing across five administrative cities of Jakarta, as presented in Table 2.

Table 2. List of Research Informants

Code	Institution/ Background	Number
DJ-01, DJ-02, DJ-03	Directorate of Tax Regulations I, DJP	3 persons
KP	Tax consulting practitioner	1 person
DD	Tax policy researcher	1 person
AK	Tax academic	1 person
Player 1-5	Active online gambling players (anonymized)	5 persons

Source : Processed by the Authors (2025)

Data were analyzed using *Braun & Clarke (2006)* thematic analysis through six stages: familiarization with the data, generating initial codes, constructing themes, reviewing themes, defining and naming themes, and producing the report. The trustworthiness of the data was tested through credibility (source and method triangulation, member checking), transferability (detailed and systematic presentation of results), dependability (audit by the supervising lecturer), and confirmability (verification against recordings, transcripts, and field notes).

RESULTS AND DISCUSSION

Taxation of Illegal Activities

Indonesia adheres to a civil law system, in which statutory law serves as the primary source of law. Law Number 36 of 2008 concerning Income Tax (PPh) does not explicitly state that income derived from illegal activities is subject to tax. However, Article 4 paragraph (1) of the Income Tax Law explains that tax does not distinguish the source of income, whether from illegal or legal activity. Moreover, the regulation draws no distinction or boundary between income from legal and illegal activities. This is supported by the following statement from Informant DJ-03:

> *"If we look at the Income Tax Law, the object of income tax is any increase in economic capacity, and it's stated 'in whatever form.' So that includes the underground economy too. Whether it's legal or illegal, from a tax perspective it still falls under the meaning of income."* (Interview with Informant DJ-03, June 3, 2025).

Informant AK made a similar point in the following interview:

> *"From the definition of income, it's clear — and it's not just about online gambling. Any increase in economic capacity is a tax object. So gambling, prostitution, corruption — they should really be taxed."* (Interview with Informant AK, June 11, 2025).

Aisya et al. (2025) stated that income is regarded as a tax object because it can represent an economic capacity that genuinely increases purchasing power and expands a person's potential to accumulate wealth. This also includes income obtained from gambling, corruption, prostitution, narcotics, and similar sources. Income obtained by players from online gambling activity therefore falls within the scope of a tax object.

Regarding the tax authority's power to collect tax from illegal activities, under Article 4 paragraph (1), DJP has the authority to collect tax on income obtained by players from online gambling activity because DJP faces no restriction in taxing a source of income. This is consistent with research by Hazmi (2024) on the taxation of prostitution, which found that

DJP indeed has the power to tax sex workers and the related chains of parties involved. Meanwhile, *Hingun & Nafiu (2015)* found that tax authorities in Canada and Australia place relatively little weight on the legality of an activity when assessing income tax.

Application of PPh

Classification of Online Gambling Income

To determine which type of PPh can be applied to income obtained from online gambling activity, that income must first be categorized under the types of income recognized by the Income Tax Law. Based on Table 3, online gambling income can be categorized into two types: lottery prizes and non-lottery prizes.

Table 3. Comparison between Lottery/Sweepstakes Prizes and Gambling

Comparison Aspect	Lottery/Sweepstakes Prize	Gambling
Definition	Something determined by a draw (lottery)	A game involving money or valuables staked as a wager
Elements	1. No wager of property/assets involved 2. Involves a game that determines a winner 3. No party is harmed	1. Involves a wager of property/assets 2. Involves a game used to determine a winner 3. A party is harmed
Purpose	1. For promotion 2. To obtain a certain opportunity 3. To determine a particular turn	To obtain profit

Source : Processed by the Authors (2025)

Fundamentally, “undian” (draw) and “lotre” (lottery) carry the same meaning but differ in definition and practice within society. A lottery is often equated with a form of gambling, while a draw is not, owing to differences in their definitions. This is consistent with the view of Informant DJ-03 in the following interview:

> *“Income from online gambling is different from lottery-prize income. In a lottery prize, no one is harmed, and it’s legal income. Generally, from the giver’s side, a lottery prize is used to reward customers, or it can also be a promotional expense. That’s different from online gambling, whose main purpose is to obtain instant financial gain — both for the gambler and for the operator.”* (Interview with Informant DJ-03, June 3, 2025)

Informant KP expressed a similar view in the following interview:

> *“It’s not a service, not employment, and not a prize either, in my opinion. Because with a prize, there’s no effort involved — a prize is just given to you. There’s no effort needed to obtain it. Whereas with gambling, there’s a struggle. There’s effort involved in getting it . . . .”* (Interview with Informant KP, June 2, 2025).

According to the Indonesian Dictionary (KBBI), a draw (“undian”) is defined as something determined by lot (lottery), while gambling is a game that uses money or valuables as a wager. Puspita et al., (2021) identified three elements that must be present for an activity to be categorized as gambling: a wager of property from both parties, a game that determines who wins and who loses, and the winning party taking the wagered property while the losing party loses theirs. A lottery prize, by contrast, is fundamentally given as a form of appreciation or as a promotional strategy to raise funds as part of product marketing, so that not every draw can be categorized as gambling (Nasution, 2022). Nasution (2022) also gave examples of draws that are not considered gambling: a prize given by another party for promotional purposes, a draw to obtain a certain opportunity, and a draw to determine a certain turn or order.

Meanwhile, income obtained by online gambling players cannot be equated with a lottery prize, even though it satisfies the definition of income under Article 4 paragraph (1) of the Income Tax Law. This is because the two differ in the source of the income: Article 2 of Minister of Social Affairs Regulation No. 3 of 2024 states that one of the elements that must be met in holding a Free Prize Draw ("Undian Gratis Berhadiah"/UGB) is that it must be a genuine draw and must not contain any element of gambling. Online gambling prizes, on the other hand, satisfy the elements of gambling as set out by Puspita et al., (2021). Prizes obtained by players from online gambling activity therefore remain categorized as income under Article 4 paragraph (1), because no specific provision currently governs this matter separately.

Tax Collection System

The discussion of the tax collection system in this section is divided into two schemes: one relevant if online gambling is legalized, and one that can be applied without requiring such legalization. First, if online gambling is legalized, the government could apply a withholding system. This scheme would be easier to implement if online gambling activity were legalized, as noted by Informant DD in the following interview:

> *"In my opinion, if we're talking about who the collector should be, how the collection design should look, and so on, and making it easier from the tax authority's side — logically it's simply easier if they're legalized."* (Interview with Informant DD, July 7, 2025).

A withholding system is a tax collection mechanism in which a third party is authorized to withhold or collect the tax owed by a taxpayer (Gaspersz et al., 2025). Under Article 32A paragraph (1) of the General Provisions on Taxation Law (KUP), DJP could appoint a platform as the withholding agent for players' income if online gambling were legalized. One possible collection mechanism is the VAT scheme for Trade Through Electronic Systems (PMSE), as noted by Informant DJ-03 in the following interview:

> *"PMSE actors have effectively already been appointed as withholding agents. But if it becomes legal, it could work the same way. The foreign-based party could become a PMSE actor too — something similar to that. So they'd be appointed as the withholding agent."* (Interview with Informant DJ-03, June 3, 2025).

However, in the context of online gambling, PMSE VAT cannot be applied because gambling winnings are not a VAT object but a PPh object. This is consistent with Kusumawati et al. (2021), who found that PMSE VAT applies only to transactions involving digital taxable goods or services. A more relevant scheme is instead the Final Income Tax mechanism used for stock sales on the stock exchange. Under this scheme, a Final Income Tax of 0.1% of the gross value of a stock transaction is withheld by the stock exchange operator at the time the sale transaction is settled. Accordingly, if online gambling is legalized, the stock-exchange collection scheme is considered more relevant than the PMSE VAT scheme.

The stock-exchange sales scheme is adopted only insofar as its collection mechanism, not its rate, given the differing risk characteristics and taxation objectives between stock transactions and online gambling activity. The rate proposed in this study continues to draw on the practice of Final Income Tax implementation in other countries.

Second, a scheme that can be applied without requiring legalization: this can be carried out through a self-assessment mechanism combined with law enforcement. DJP can become involved in tax audits of other criminal offenders. When law enforcement officers have already conducted an investigation into a criminal offense, DJP has an opportunity to step in and follow up from a tax perspective, as noted by Informant DD in the following interview:

> *"If it isn't legalized, as it is now, then of course the only thing that can be done is enforcement, in my opinion. Enforcement — find out what the data looks like, then they report whatever is missing. Or they get hit with a tax assessment and so on. But then, if it's still treated as illegal going forward, like I said at the start, this definitely won't be sustainable."* (Interview with Informant DD, July 4, 2025).

Players' responses to the possibility of taxation illustrate the compliance challenges of a non-legalization scheme. Three of the five players said they would stop playing if the activity were taxed and would switch to other sites that do not withhold tax, as Player 5 put it:

> *"I'd just look for another site. Why would I want that? We've already spent a lot of money, and now we'd get taxed too. It's not even guaranteed we'll win — our odds of losing could be 80%."* (Interview with Player 5, June 15, 2025).

Given the current illegal status of this activity, the feasible approach is law enforcement. In this scenario, DJP can impose tax after the offender has already been subject to legal action. This is supported by Informant DJ-02:

> *"DJP still has full authority to audit a taxpayer who is undergoing legal process by law enforcement officers (for example, arrested by the police) on suspicion of a general criminal offense, such as narcotics, corruption, or gambling. An audit can be carried out if there are indications of non-compliance with tax obligations, including suspected tax evasion or unreported assets."* (Interview with Informant DJ-02, June 3, 2025).

Within this mechanism, DJP can cooperate with other parties such as the police. Tax is imposed only after players have first gone through legal process, as Informant DJ-02 explained in the following interview:

> *"The sequence that can generally happen starts with an arrest or criminal investigation by the police or the Corruption Eradication Commission [KPK], then unusual assets or fund flows are discovered, followed by coordination between agencies, and then DJP carries out a tax audit or a preliminary evidence examination, followed up with administrative sanctions or a tax crime prosecution."* (Interview with Informant DJ-02, June 3, 2025).

This is consistent with the elucidation of Article 29 paragraph (1) of the KUP Law, which explains that DJP has the authority to conduct audits to test taxpayer compliance. This mechanism was once applied in the Al Capone case in the United States. Al Capone was a Chicago mobster who sold liquor and was ultimately apprehended by Elliot Ness on tax evasion charges involving unreported income. In this case, the United States government used the net worth method to crack the tax avoidance case (Kačaljak, 2015).

Alternative Types of PPh

As explained in the classification section above, online gambling income is categorized as a tax object under the general provision of Article 4 paragraph (1) of the Income Tax Law. However, the fact that this income does not meet the elements of a lottery prize does not foreclose the possibility of taxing it — it simply means the income falls outside the existing Final Income Tax regime that applies specifically to lottery prizes, and must instead be assessed under a separate legal basis. There are two alternative types of PPh that can be applied to income obtained by players from online gambling activity: Final Income Tax and Personal Income Tax (OP). Consistent with the two collection schemes discussed above, Final Income Tax can only be applied if online gambling has been legalized, because this scheme requires the existence of a third party formally appointed by the government as a withholding agent. Personal Income Tax (OP), on the other hand, is the option available without requiring legalization, applied through a self-assessment mechanism combined with law enforcement.

To avoid the appearance of inconsistency, it is necessary to distinguish two separate questions. The first is whether online gambling income can be taxed under the existing Final Income Tax regime for lottery prizes (*(Government Regulation No. 132/2000)* and its implementing rules) — this study answers no, because gambling income fails the lottery-prize elements set out in Article 2 of Minister of Social Affairs Regulation No. 3 of 2024. The second is whether a new, purpose-built Final Income Tax scheme could be created for gambling income specifically. This study answers that such a scheme is administratively attractive, borrowing only the withholding mechanism used for stock transactions under Article 4(2) of the Income Tax Law — not its legal basis, its rate, or its object — and would require its own implementing regulation, analogous to how the 0.1% stock-transaction final tax itself required a dedicated government regulation before it could be enforced. The rejection and the proposal therefore operate on two different legal bases and are not in tension.

Final Income Tax (PPh Final)

First, Final Income Tax could be an option applicable to income from online gambling activity because of its practicality in tax collection, as suggested by Informant AK:

> *"Personally, I'd rather just make it final, so the auditors don't have to deal with the hassle anymore. Just give it the highest tax rate."* (Interview with Informant AK, June 11, 2025).

Informant DD expressed a similar view:

> *"One solution the government could definitely offer is simplification. And simplification could certainly fall under a special regime — in this case, a final one."* (Interview with Informant DD, July 4, 2025).

Informant DJ-01 added several considerations supporting a Final Income Tax scheme:

> *". . . Some of the considerations, you can read the explanation again — it's for the sake of investment growth, simplicity in collection, and reduced administrative burden for taxpayers. Because under Final Income Tax, they no longer have an obligation to account for it again in their annual tax return. That's about it, really."* (Interview with Informant DJ-01, June 3, 2025).

The elucidation of Article 4 paragraph (2) of the Income Tax Law states that simplicity of tax collection and a reduced administrative burden for individual taxpayers and DJP are among the considerations for granting Final Income Tax treatment. Once Final Income Tax has been applied, the taxpayer no longer has an obligation to account for that income in the Annual Tax Return, but still retains an obligation to report the Final Income Tax owed in the Annual Tax Return.

Regarding when the tax becomes due, the tax system follows the pay-as-you-earn (PAYE) principle, under which tax is paid when a person earns income. The PAYE mechanism embodies the principle of convenience of payment, which holds that tax should be collected using a method and at a time that is most convenient. This is consistent with Informant DJ-03's statement in the following interview:

"For us, it's the pay-as-you-earn principle. So you pay once you obtain the income. In my opinion, that's once it's actually been realized — meaning the person has genuinely made a profit." (Interview with Informant DJ-03, June 3, 2025).

Informant DD further stated that tax becomes due once the operator has paid out funds to the player:

> *"So, as for when it becomes due — this means we're talking about it being 'legal,' so to speak, and another party should already be allowed to be the withholder. If that's the case, then once the operator pays out the money — in an online context, that means the balance — they should have already withheld the tax on that."* (Interview with Informant DD, July 4, 2025).

In other words, tax can be withheld at the moment winnings are paid out by the operator. This is consistent with Samosir and Hadi (2024), who found that the best time to impose tax is the moment closest to when the taxpayer actually receives the income. Winarsih (2023) likewise found that the appropriate moment is when the taxpayer receives a salary or a prize.

Tax serves both a budgetary function and a regulatory function. The budgetary function is one of tax's roles in financing various state expenditures, while the regulatory function is tax's role in steering economic growth through tax policy. As Informant DJ-03 put it:

“. . . The Final Income Tax must be applied at the highest rate [e.g., 30% and above], with the hope that tax’s regulatory function will create a deterrent effect on an activity that produces negative effects . . . But to determine the rate range with certainty, a cost-benefit analysis and a regulatory impact analysis are needed.” (Interview with Informant DJ-03, June 3, 2025).

The Laffer curve can be used as a basis for determining the optimal tax rate. The Laffer curve explains that an excessively high tax rate does not always generate higher tax revenue. A rate that is too high can burden the public and result in lower state revenue. Informant AK suggested a rate of around 50%–75% in the following interview:

“In my opinion, besides its budgetary function, we also have a regulatory function. Just impose 50% on all of it, on whatever income there is. If it can go up to 75, that’s not a problem either. Because it’s purely windfall — like a lottery prize.” (Interview with Informant AK, June 11, 2025).

Informant DD offered a similar view on the rate:

“If the answer is to restrict it — even though it’s already illegal, but restricted — then a higher tax would certainly also become a deterrent effect. So people who want to try their luck at online gambling will think twice before doing it. Or, going back to it, if it’s meant to become part of a future roadmap for our economy, to diversify our revenue, then maybe the PPh rate could be reconsidered — how high it should be. So it really depends on the government’s intent to impose this.” (Interview with Informant DD, July 4, 2025).

Income from online gambling should be subject to a high tax rate because gambling generates negative externalities. This is consistent with *(Ginting & Irawan, 2022)*, who noted that governments use the regulatory function of tax as an additional tool to achieve specific policy goals. Wu and Willet, as cited in *Hosea & Susilawati (2023),* also argued that a Pigouvian tax rate should be set as high as possible in response to such activity.

The Philippines and India are examples of countries that apply Final Income Tax to gambling. In the Philippines, the Bureau of Internal Revenue has clarified that jackpot prizes and other winnings from casino and gambling activities fall within the statutory definition of "winnings" and are therefore subject to final withholding tax under Sections 24(B)(1), 25(A)(1), and 25(B) of the National Internal Revenue Code of 1997: a 20% final withholding tax applies to resident individuals, while non-resident aliens not engaged in trade or business within the Philippines are subject to a 25% final withholding tax, with the tax withheld directly by the gaming operator before payment to the winner, regardless of the amount won (Bureau of Internal Revenue, 2026). India likewise applies Final Income Tax to gambling income through Section 115BB of the (India Income Tax Act 1961, 1961), which impose a flat 30% tax on winnings from lotteries, card games, races, and gambling or betting of any form or nature whatsoever; the corresponding withholding obligation under Section 194B requires the payer to deduct tax at source on any such winnings exceeding ₹10,000.

The views of Informants AK and DD, who proposed rates as high as 50%–75%, reflect a strong emphasis on tax’s regulatory function as a deterrent instrument. However, drawing on the Laffer curve and optimal tax theory discussed earlier, an excessively high rate risks being counterproductive, particularly under a self-assessment scheme without legalization, where reporting compliance depends entirely on the taxpayer’s own awareness. An extreme rate could reduce the incentive for voluntary reporting and instead push the activity further underground. This study therefore adopts the rate range applied by the Philippines and India (20%–30%) as the point of balance between the regulatory and budgetary functions of tax, while preserving the administrative feasibility of implementation.

Personal Income Tax (PPh OP)

Second, Personal Income Tax (OP) could be an option if the government wishes to tax income from online gambling activity without having to legalize it. As Informant KP put it:

> *". . . As for the type of PPh, it should be Personal Income Tax."* (Interview with Informant KP, June 2, 2025).

Personal Income Tax is thus one available option.

Arianty (2022) stated that Personal Income Tax is a subjective type of tax, meaning the timing of its imposition depends heavily on the taxpayer's subjective circumstances, and the size of the tax burden borne by a person depends on that person's economic capacity. This is consistent with optimal tax theory, which emphasizes the use of progressive rates to maximize social welfare while also achieving state revenue targets.

In this scheme, income obtained by players could be categorized as other income reported in the Annual Individual Tax Return. This was noted by Informant DJ-03 in the following interview:

> *"So from DJP's side, well, that's just how it is — if they want to put it under other income, we don't insist that it has to be income from business or independent profession. Because with business income, there are costs involved."* (Interview with Informant DJ-03, June 3, 2025).

DJP has no objection if a player wishes to include income from this activity under other income. Informant DJ-01 further added the following in an interview:

> *"And of course we're not going to openly, explicitly, put in that 'illegal activity' [category], because that's still prohibited in Indonesia."* (Interview with Informant DJ-01, June 3, 2025).

They further noted that Article 4 paragraph (1) already provides for various types of income:

> *"But there really is, under point p — a net wealth increase originating from income that hasn't yet been taxed. That's basically the catch-all. Whatever doesn't fit — say it doesn't fit under 'other' — it goes in here."* (Interview with Informant DJ-01, June 3, 2025).

For players with a high level of tax awareness, they could, in technical terms, report income obtained from this activity as other income. This is consistent with Pusparini (2022) regarding casino gambling winnings, which must likewise be included in the Annual Tax Return as other income.

Article 4 paragraph (1) of the Income Tax Law states that taxable income covers any increase in a taxpayer's economic capacity, regardless of its origin or form. Accordingly, if a player is a resident taxpayer and earns income from abroad, that income can be taxed. This is consistent with the worldwide income principle adopted by Indonesia. A country that adopts this principle taxes all income received by its resident taxpayers regardless of whether that income originates domestically or from abroad. *(Setiabudi & Prasetyo, 2021)* likewise found that, in determining a taxpayer's income base, Indonesia adopts the worldwide income principle, so that a resident taxpayer's PPh object covers all income received both domestically and abroad, in whatever name and form.

In taxing income from online gambling, the existence of a Double Taxation Avoidance Agreement (P3B) is an important consideration, because tax already paid in the country where the platform operates can, in principle, be credited in Indonesia under Article 24 of the Income Tax Law to avoid double taxation, with the amount of the credit capped at the tax owed abroad. However, such crediting can only occur if the taxpayer holds proof of payment or proof of withholding for the foreign PPh, as required under Minister of Finance Regulation No. 192 of 2018. In practice, this requirement is difficult to satisfy because most online gambling platforms operate illegally and therefore do not issue withholding certificates to players, meaning the foreign tax cannot be credited. In addition, online gambling activity also carries a risk of loss, since the odds of winning can be manipulated by the operator, so players do not always earn a profit. Such losses cannot be deducted or offset against other income, because the Income Tax Law only allows business-loss compensation for domestic-source losses, while losses from abroad cannot be taken into account in calculating taxable income. Thus, although a foreign tax credit mechanism is available under the P3B provisions and Article 24 of the Income Tax Law, applying it to online gambling income faces administrative and legal obstacles that make the benefit of this provision difficult to realize in practice.

Japan's income tax framework offers a comparable model through its Personal Income Tax (PPh OP) mechanism, even though its tax code does not contain a provision addressing online gambling specifically. Under Japan's National Tax Agency guidance, winnings from games of chance such as horse and cycle races fall under "occasional income" (ichiji shotoku), which is combined with other categories of income and taxed through the aggregate taxation (self-assessment) system rather than through a separate withholding scheme (Japan Income Tax Guide, 2024). Drawing on this practice, Indonesia could consider applying a similar mechanism by categorizing online gambling income as other income combined with other income sources in the Annual Tax Return. Under such a mechanism, the PPh owed would be calculated based on total taxable income after accounting for the various deductions provided under tax regulations, so that the amount of tax paid would depend on each taxpayer's individual circumstances.

In summary, Table 4 presents a comparison between Final Income Tax and Personal Income Tax.

Table 4. Comparison between Final Income Tax and Individual Income Tax

Comparison Aspect	Final Income Tax	Individual Income Tax
Objective	Simplification	Tax equity based on economic capacity
Collection Mechanism	Withholding System	Self-Assessment
Rate	20%-30% (referencing Philippine and Indian practice); informants proposed a range up to 50%-75%, which requires further study	Progressive rate under Article 17
Tax Credit	Cannot be credited	Can be credited
Loss Compensation	Not regulated	Not available
Comparator Country	Philippines and India	Japan
Advantages	1. Simplifies compliance for taxpayers 2. Can improve taxpayer compliance 3. Reduces compliance costs 4. Maximizes productivity	1. Tax is imposed based on ability to pay 2. Income can be credited
Disadvantages	1. Requires a withholding agent 2. Overrides the principle of equity and ability to pay 3. Creates an administrative burden	Depends on taxpayer awareness

Source : Processed by the Authors (2025)

CONCLUSION

Based on the results and discussion above, it can be concluded that income from online gambling activity can be taxed in Indonesia despite the illegality of the activity itself, because

Article 4 paragraph (1) of the Income Tax Law does not distinguish the source of income, whether from legal or illegal activity, so that DJP has the authority to collect tax without first having to legalize the activity. In terms of classification, this income cannot be equated with a lottery prize because it satisfies the elements of a wager, a game that determines winners and losers, and the presence of a harmed party, and is therefore categorized as a tax object under Article 4 paragraph (1) of the Income Tax Law rather than falling under the Final Income Tax provisions for lottery prizes. Regarding the collection mechanism, this study identifies two applicable systems: a withholding system, relevant if the government legalizes the activity by appointing platform operators as withholding agents modeled on the Final Income Tax scheme used for stock-exchange transactions, and self-assessment combined with law enforcement, applicable without legalization through cooperation with law enforcement officers, as illustrated by the precedent of the Al Capone case in the United States.

In terms of the type of PPh that can be applied, this study concludes that Final Income Tax is the more relevant option compared with Personal Income Tax (OP), owing to its advantages in administrative simplification, improved taxpayer compliance, and reduced compliance costs, as applied in the Philippines and India with rates ranging from 20% to 30%. By contrast, the Personal Income Tax approach applied in Japan is considered less suitable, because its administrative complexity and high compliance costs do not align with the informal and high-risk character of online gambling activity. Overall, this study affirms that although online gambling is a legally prohibited activity, the income generated from it can and should be taxed on the basis of the ability-to-pay principle, with a Final Income Tax scheme applied through a withholding mechanism as the most optimal option for implementation in Indonesia, whether under a legalization scenario or without legalization through a self-assessment approach combined with law enforcement.

Recommendations

This study faces limitations in obtaining data, both from players and from government agencies. Future research is therefore encouraged to involve additional informants, such as law enforcement officers or PPATK, to obtain a more comprehensive perspective. Future research could also focus on the potential PPh revenue from the side of online gambling operators, given that they control the distribution of players' winnings and therefore represent a potentially more significant source of tax revenue. Further research could also examine the possibility of applying other types of tax within this sector.

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