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Progressive Legal Paradigm in Batam's Fiscal Transformation: Regulatory Reconstruction Towards Eco-Digital Logistic Hub 2045

Totok Catur Wismo Malaicanto

Doctoral Program in Law, Universitas Borobudur, E-mail: kkptotok@gmail.com

Abstract. *The development of the digital economy has driven significant growth in e-commerce activities, including in free trade zones. This situation creates new challenges in the implementation of Value Added Tax (VAT) policies, particularly related to tax administration mechanisms, digital transaction oversight, and the balance between state revenue interests and the sustainability of digital economy actors. This study aims to analyze VAT policies on e-commerce in free trade zones and formulate a policy reconstruction model that is fairer and more adaptive to the development of the digital economy. This study uses a normative legal research method with a legislative approach, a conceptual approach, and a comparative approach. The theoretical framework of this study uses the theory of distributive justice proposed by John Rawls. The results show that VAT policies on e-commerce still face various problems, including the complexity of tax administration, limited oversight of digital transactions, and high compliance costs for micro and small businesses. Therefore, this study proposes a reconstruction of digital VAT policies through the implementation of a Simplified VAT Scheme, a Marketplace Tax Collection Model, and special regulations for small-value digital transactions. This policy model is expected to create a digital tax system that is simpler, fairer, and able to support the development of the digital economy in free trade zones.*

Keywords: *Digital VAT; Electronic Commerce; Tax Policy.*

1. Introduction

Developments in information and communication technology have driven significant transformations in global economic activity. The emergence of various digital platforms has given rise to new business models in electronic commerce (e-commerce), enabling transactions to be conducted quickly, across borders, and without physical presence. This phenomenon has not only transformed trade patterns but also presented new challenges for the legal system, particularly in the areas of tax regulation and fiscal policy. Tax systems previously designed to oversee conventional economic transactions are often unable to fully accommodate the dynamic, technology-driven characteristics of the digital economy.

This situation is also evident in the Batam Free Trade Zone and Free Port, which holds a strategic position as a gateway to Indonesia's international trade. Since its inception, Batam was designed as an economic zone with various fiscal facilities to enhance national economic competitiveness. However, in practice, the implementation of fiscal policy in the region still faces various obstacles, particularly in the face of the increasingly rapid development of the digital economy. Tax regulations that overemphasize administrative compliance often create obstacles for micro and small businesses operating in the e-commerce sector.

One of the main issues that has emerged is the dominance of a legalistic-positivistic approach in fiscal law enforcement practices. Within this paradigm, law is viewed solely as a set of written norms that must be applied textually without considering the evolving social and economic dynamics within society. This approach has the potential to create a gap between the law's objective of creating justice and the reality of policy implementation as perceived by the public, particularly digital micro-enterprises. In the context of a rapidly evolving digital economy, an overly rigid legal approach can actually hinder innovation and increase compliance costs for small businesses.

Within this framework, the Progressive Legal thought developed by Satjipto Rahardjo becomes highly relevant for analysis. Progressive Law positions law as a means to achieve human well-being, not merely a formalistic administrative mechanism. This paradigm emphasizes that law must be able to adapt to social change and be oriented toward values of utility and substantive justice. Thus, law functions not only as a tool for controlling behavior but also as an instrument for community empowerment and a driver of development.

Several previous studies have discussed the regulatory challenges in the digital economy and the importance of fiscal policy reform in addressing technological developments. Research by Reuven S. Avi-Yonah highlights the difficulties of conventional tax systems in overseeing cross-border digital economic activity. Meanwhile, research by Mark Fenwick, Wulf A. Kaal, and Erik PM Vermeulen emphasizes the importance of a regulatory sandbox approach as a mechanism for testing new policies in the face of accelerating technological innovation. A World Bank study also shows that the success of developing special economic zones is greatly influenced by the government's ability to create a regulatory framework that adapts to the development of digital technology.

While these studies have made important contributions to understanding the dynamics of digital economic regulation, studies specifically linking the progressive legal paradigm to fiscal policy reconstruction in free trade zones, particularly in Batam, remain relatively limited. Most studies focus more on the technical aspects of digital taxation or on economic zone development from a purely economic perspective. Therefore, research is needed that integrates the perspective of progressive legal theory with fiscal policy analysis in the context of digital economic transformation in border regions.

Based on this background, this study aims to analyze the fiscal law paradigm applicable in the Batam Free Trade Zone and formulate a policy reconstruction that is more adaptive to the development of the digital economy. This study also seeks to examine how progressive legal principles can be implemented in fiscal policy to create a more responsive, humanistic, and future-oriented legal system. With this approach, it is hoped that this research will make an academic contribution to the development of progressive legal theory while providing policy recommendations for Batam's transformation into an Eco-Digital Logistics Hub 2045.

2. Research Methods

This research used a normative legal research method, which focused on analyzing legal norms contained in legislation, court decisions, and legal doctrines developed in scientific literature. Normative legal research aims to discover legal principles, legal foundations, and legal concepts that can be used to address the legal problems being studied. In the context of this research, a normative approach is used to analyze the Value Added Tax (VAT) policy in e-commerce activities in free trade areas, particularly in Batam, as well as to formulate a fiscal policy reconstruction model that is more adaptive to the development of the digital economy.

The analysis of legal materials in this study was conducted qualitatively using legal interpretation methods. The analysis was conducted by examining the relationship between applicable legal norms and the theoretical concepts used in this study. In the analysis process, the author also used an argumentative approach to formulate a fiscal policy reconstruction model that is more adaptive to the development of the digital economy. This analysis is expected to produce a policy concept that balances the state's interest in generating tax revenue with the needs of digital businesses to achieve a simple, fair, and innovation-supportive regulatory system.

3. Result and Discussion

3.1 Dynamics of Electronic Commerce Development in Free Trade Areas

Advances in information technology have spurred the emergence of various new business models in e-commerce. Digital economic activity enables businesses to conduct transactions quickly and efficiently, reaching global markets without

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geographical boundaries. This phenomenon is also evident in the Batam free trade zone, which enjoys a strategic position as an international trade hub.

As a region designed from the outset to enhance national economic competitiveness, Batam enjoys various fiscal facilities aimed at attracting investment and encouraging trade activity. However, the development of the digital economy has presented new challenges to the taxation system, particularly in the application of Value Added Tax (VAT) to e-commerce transactions.

In practice, digital transactions often involve multiple parties located in different jurisdictions, making it difficult for fiscal authorities to accurately determine tax obligations. Furthermore, the platform-based nature of e-commerce also presents challenges in tax oversight and collection. These conditions require a fiscal policy that adapts to the dynamics of the digital economy without hindering innovation and business development.

3.2 Problems of VAT Policy in Electronic Commerce

The Value Added Tax (VAT) regulation on e-commerce activities is essentially aimed at creating fiscal fairness between conventional and digital businesses. However, in its implementation, this policy still faces various administrative and regulatory obstacles.

One major issue is the complexity of tax administration procedures, which often becomes a burden for micro and small businesses operating in the digital economy. Tax administration systems that require the use of various reporting applications and require complex documentation have the potential to increase compliance costs for small businesses.

Furthermore, tax regulations that overly emphasize administrative approaches can also hinder the development of digital business innovation. In this context, tax policies must not only address state revenue but also consider the sustainability of the digital economy ecosystem developing within society.

Therefore, a more flexible and adaptive fiscal policy approach is needed to balance the state's interest in obtaining tax revenue with the need for digital businesses to obtain a simple and unburden some regulatory system.

3.3 Distributive Justice Perspective in Tax Policy

The concept of distributive justice is an important theoretical foundation for formulating fair and proportional tax policies. In John Rawls' theory of justice as fairness, social justice must be achieved through the fair distribution of social benefits and burdens within society.

According to Rawls, the principle of distributive justice emphasizes that social and economic inequality can only be justified if it provides the greatest benefit to the least advantaged groups in society (the difference principle). In the context of tax policy, this principle implies that the tax system must be designed in such a way that it does not impose a disproportionate burden on groups with lower economic capacity.

In the context of e-commerce in free zones, digital micro-enterprises often face various resource constraints, including capital, technological capacity, and understanding of tax regulations. Therefore, implemented VAT policies must take these conditions into account to avoid creating structural barriers to small business development in the digital economy.

Thus, the application of the principle of distributive justice in tax policy is not only related to the formal distribution of the tax burden, but is also related to efforts to create a regulatory system that is able to support the sustainable economic development of society.

3.4 Comparison of Digital Tax Policy Models in Various Countries

In response to the development of the digital economy, various countries have developed tax policy models that are more adaptive to the characteristics of e-commerce. Several of these policy models can serve as references in formulating more effective tax policies in Indonesia.

1. Marketplace Tax Collection Model

This model is implemented in the European Union, where marketplace platforms act as the party responsible for collecting and remitting taxes on transactions made through them. This approach is considered effective because it simplifies the oversight process and reduces the administrative burden on small businesses.

2. Simplified VAT Scheme

Several countries, such as Singapore, have implemented a simplified Value Added Tax (VAT) scheme for digital transactions. This scheme is designed to reduce the complexity of tax administration and simplify tax compliance for small-scale digital businesses.

3. Low Value Import Scheme

This model is being implemented in Australia to regulate tax collection on low-value imported goods purchased through digital platforms. Under this scheme, the tax collection obligation is shifted to the marketplace platform or digital service provider facilitating the transaction.

These various policy models demonstrate that a more flexible and adaptive regulatory approach can increase the effectiveness of the tax system in addressing the development of the digital economy.

3.5 Reconstruction of the Digital VAT Policy Model Based on Distributive Justice

Based on the analysis of various problems that arise in the implementation of VAT policy in e-commerce, a reconstruction of fiscal policy is needed that is more adaptive to the development of the digital economy.

Reconstruction of this policy can be carried out through several approaches, including:

1. Simplification of tax administration procedures for digital micro-entrepreneurs.
2. Implementation of a digital platform-based tax collection system to increase supervision efficiency.
3. Development of a fiscal policy model that takes into account the principle of distributive justice in the distribution of the tax burden.
4. Implementation of a regulatory sandbox mechanism to test digital tax policies before they are widely implemented.

With this approach, it is hoped that a VAT policy system can be created that is not only capable of increasing state revenue but also capable of supporting the sustainable development of the digital economy.

The Comparison Table of Global Digital Tax Policy Models

Country / Region	Digital Tax Policy Model	Tax Collection Mechanism	System Advantages	Relevance for Indonesia
European Union	Marketplace Tax Collection Model	The marketplace platform is responsible for collecting and remitting VAT on transactions that occur on the platform.	Facilitate tax monitoring and reduce the administrative burden on small business owners.	This model can be applied to large e-commerce platforms in Indonesia
Singapore	Simplified VAT Scheme	A simple VAT scheme for digital transactions with a more flexible reporting system.	Reducing the complexity of tax administration and increasing tax compliance	Suitable for digital MSMEs in free trade areas
Australia	Low Value Import Scheme	Taxes are collected by marketplace platforms or digital service providers on low-value imported goods.	Expanding the digital tax base and increasing tax collection efficiency	Can be a reference in managing cross-border digital transactions
Indonesia	VAT on Trade Through Electronic Systems (PMSE)	VAT collection is carried out by digital platform providers appointed as tax collectors.	Expanding oversight of digital transactions	Still need to simplify the administration system for small business actors

Comparative Analysis

Based on this comparison, it can be seen that various countries have developed tax policy models that are more adaptive to the characteristics of the digital economy. The European Union, for example, has implemented a platform-based tax collection system that allows tax authorities to more easily monitor digital transactions occurring in marketplaces.

Meanwhile, Singapore has adopted a simpler approach by providing a simplified Value Added Tax scheme for digital businesses. This approach is considered effective in improving tax compliance without creating an excessive administrative burden for small businesses. On the other hand, Australia has developed a policy model focused on taxing low-value imported goods purchased through digital platforms. This approach aims to create equality between domestic and foreign businesses in the tax system. In the Indonesian context, the VAT policy on Electronic Commerce (PMSE) has actually adopted some principles from the platform-based tax collection model. However, the implementation of this policy still faces various administrative challenges, particularly for micro-enterprises engaged in e-commerce.

Therefore, the reconstruction of Value Added Tax policy on e-commerce in a free trade area needs to consider the principle of distributive justice, which emphasizes the need for a proportional distribution of the tax burden. This approach aligns with John Rawls' theory of justice, which emphasizes that social systems should be designed to provide the greatest benefits to the least advantaged groups in society. By integrating the principle of distributive justice into digital fiscal policy, it is hoped that the implemented tax system will not only be able to increase state revenue but also be able to create a more inclusive and sustainable digital economic ecosystem.

Diagram of a Digital VAT Policy Model Based on Distributive Justice

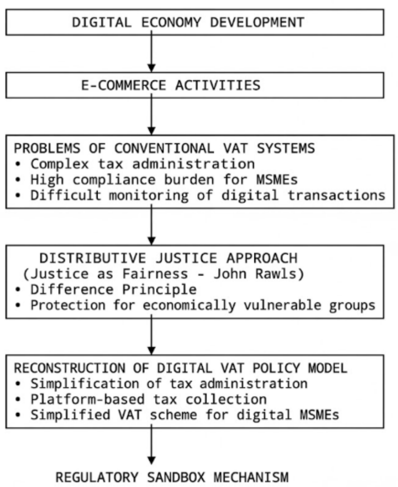

Diagram Description

The diagram illustrates that the development of the digital economy presents various challenges in implementing the conventional Value Added Tax system. The complexity of tax administration and the high cost of compliance for small businesses are among the main problems in the current digital tax system. Therefore, a reconstruction of VAT policy based on the principle of distributive justice is needed to ensure that the implemented tax system does not impose a disproportionate burden on micro and small businesses.

Through this approach, a digital VAT policy model can be designed with simpler mechanisms, including through digital platform-based tax collection and the implementation of a more flexible tax scheme for digital businesses. This policy can be implemented through a regulatory sandbox mechanism, a policy framework that allows for limited regulatory testing before widespread implementation. This is expected to create a fairer, more adaptive digital tax system capable of supporting the development of the digital economy ecosystem in a free trade zone.

4. Conclusion

Based on the results of the analysis carried out in this study, several conclusions can be drawn as follows. *First,* the development of the digital economy has driven an increase in e-commerce activity, occurring rapidly and across borders. This situation presents new challenges in the implementation of Value Added Tax (VAT) policies, particularly in free trade zones with distinct economic characteristics. Conventional tax systems, still dominated by an administrative approach, often struggle to monitor digital transactions taking place across various electronic platforms. *Second,* the implementation of VAT policy in e-commerce currently faces various obstacles, particularly the complexity of tax administration and high compliance costs for micro and small businesses. An overly complex tax administration system has the potential to hinder the development of digital businesses, necessitating a simpler and more adaptive fiscal policy approach to technological developments. *Third,* the distributive justice perspective, as proposed by John Rawls, provides a relevant theoretical framework for formulating fairer tax policies. The principle of justice as fairness emphasizes that social systems should be designed to provide the greatest benefits to the least advantaged groups in society. In the context of VAT policy on e-commerce, this principle requires a fiscal policy that does not impose a disproportionate burden on digital micro-enterprises. *Fourth,* reconstructing the VAT policy model for e-commerce in free trade areas can be achieved through several approaches, including simplifying tax administration, implementing a digital platform-based tax collection system, and developing a simpler VAT scheme for small-scale digital businesses. This policy can be implemented through a regulatory sandbox mechanism, a policy framework that allows for limited regulatory testing before widespread implementation. With this approach, it is hoped that a VAT policy system can be created that is not only capable of increasing state revenue but also capable of supporting the development of a more inclusive and sustainable digital economic ecosystem in the free trade area.

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