CHAPTER TWO

LITERATURE REVIEW

A. Bitcoin

Satoshi Nakamoto, known as the maker of bitcoin in 2008 and formally discharged on third of January 2009[16], was enlivened to make it facilitate the exchange in the web-based business. Bitcoin is an online communication protocol that promotes the use of online virtual cash[17]. Bitcoin, just like computer files such as mp3 and gif, are stored in a program known as a wallet[18] or in an online coinbase service.

Bitcoin is the driving pattern of excellent monetary standards around the world.[19] It is decentralized where there is no national bank or single overseer and no real portrayal of the money needed. Bitcoin works in a peer to peer (P2P)[20]. P2P arrange permits the exchange of bitcoin occurs between clients straightforwardly, without an intermediary. Bitcoin is structured by utilizing the cryptography framework to control the exchange as the changeless private

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16 Joshua Davi, Newyorker, 2011, "The Cryptocurrency: Bitcoin and Its Mysterious Inventor" Taken from https://www.newyorker.com/magazine/2011/10/10/the-crypto-currency accessed on January 6th 2019 at 08.30 PM

17 Rainer Böhme, et al, *Loc.cit.*

18 Nikolei M. Kaplanov, *Op.cit* p. 116

19 Misha Tsukerman, *Loc.cit.*

20 A P2P network is a system of computer, which everyone can be as both customer and server, with the goal that each can trade computer on the system.

payment.[21] Bitcoin is a computerized advantage for work as a model of trade that utilizes cryptography to verify its exchanges, to control the production of additional units, and to confirm the exchange of benefits.

Bitcoin becomes very famous among the other virtual currency because the characteristic of bitcoin which is rivalrous and scarce that can only be transferred through blockchain. The blockchain is a secretly worked and decentralized framework, requiring no customary money related to organization or focal controlling element for exchanges. A helpful method to picture the blockchain is as a goliath book, with each new square a page added to the best. Each new page contains every one of the exchanges in the system that have been finished since the last page was included. All the bitcoin miner are contending in a race to take care of a mind-boggling math issue that will include the following page over all the more seasoned pages on the open record. Whichever the miner effectively includes the next page is remunerated in bitcoins by the bitcoin protocol.[22] This analogy is beneficial when understanding what makes the blockchain a secure public ledger.[23]

The bitcoin protocol does not use human assistance, so the possibility of human error that can be generated from human actions can be minimized or even eliminated. The protocol used in bitcoin is entirely based on an algorithm. As it is

[21] Jeffrey Simser, 2015, "Bitcoin and Modern Alchemy: In Code We Trust", *Journal of Financial Crime*,v. 22 no. 2, p. 156-169
[22] Joshua Fairfield, 2015, "BitProperty", *Southern California Law Review*, vol. 88, p. 17
[23] Craig K. Elwell et al, *Loc.cit*..

known that the algorithm is based on mathematics, the calculations in the bitcoin protocol are absolute and there is no possibility of human error.

Bitcoin's value does not depend on the government. Instead, a bitcoin's value is absolutely from the element of the free market activity.[24] Bitcoins can be attained through three different ways:

a. In return for ordinary cash face to face or on an online trade;

b. In return for the closeout of products or administrations and;

c. Through mining.[25]

Mining utilizes a computer preparing capacity to tackle complex math issues both to keep up the blockchain open record and to "find" new bitcoins. The idea of mining takes a little reference from Hal Finney's hypothesis created by Nick Szabo, the hypothesis to comprehend exact frameworks of proof-of-business related to the reason for delivering installment instruments, with which cash can be delivered to be traded and reused.

Alongside innovative improvements, present diggers never again utilize conventional PCs or workstations, yet utilize a unique device called ASIC (Application Specific Integrated Circuit), which is an uncommon electronic circuit made to perform numerical computations utilized in the bitcoin framework. Mineworkers or diggers can create bitcoin all the more proficiently as far as

[24] Nikolei M. Kaplanov, *Op.cit.* p. 115
[25] Craig K. Elwell, *Op.cit.* p. 2

expenses because ASIC has higher detail computation abilities than a conventional computer with low power utilization.

The situation of bitcoin in Indonesia does not satisfy the prerequisites for installment instruments by law, as is known in the Law No. 7 of 2011 concerning Currency is expressed that Indonesia perceives the Rupiah as a legal mechanism of trade. The Central Bank of the Republic of Indonesia has issued an announcement in regards to the status of bitcoin in Indonesia on Press Release No: 16/6/Dkom with the title "The Central Bank of the Republic of Indonesia Statement Regarding Bitcoin and Other Virtual Currency" which mostly expresses that bitcoin and other virtual monetary forms are not instrumented as authentic installments in Indonesia, the dangers related with utilizing bitcoin are borne by the proprietor/client of the bitcoin being referred to. This was additionally upheld by The Central Bank of the Republic of Indonesia Regulation No. 11/12/PBI/2009 concerning Electronic Money, in which bitcoin does not satisfy the components as electronic cash.

B. Tax

Tax as an obligation to surrender a portion of wealth to the State treasury caused by a situation, event, and action that gives a particular position, but not as a punishment, according to regulations set by the government and can be forced.

However, there is no direct service from the state, to maintain general welfare.[26] While according to the Law No 28 of 2007 on General Provisions and Tax Procedures, tax is compulsory contributions to the state-owned by an individual or entity that is compelling based on the law, by not getting compensation directly and used for state needs for the greatest prosperity of the people.[27] Tax comprises of the capacity of the budgeting for the consumption of government programs and the flowing work for government arrangements in the social and monetary fields.[28]

A country's tax income is very dependent on the tax compliance of its citizens. Tax compliance is a situation where the Taxpayer fulfills all tax obligations and executes his taxation rights.[29] If tax compliance is high, it makes the tax income in the state also high. To make the tax compliance high, the state must pay attention to the four basic principles of tax collection, and the principles are principles of justice, legal principles, economic principles, and principles of efficiency.[30]

In Indonesia, there are some kinds of taxes, and those taxes are categorized into three main categories,[31] namely:

1. Based on Class

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[26] Sudirman et al, 2015, *Pengantar Ilmu Pajak : Kebijakan dan Implementasi di Indonesia*, Jakarta, Rajawali Pers, p. 2
[27] Article 1 Law No 28 of 2007 on General Provision and Tax Procedure
[28] Mardiasmo, 2011, *Perpajakan*, Yogyakarta, Andi Publisher, p. 1
[29] Ni Ketut Muliari dan Putu Ery Setiawan, 2012, "Pengaruh Persepsi Tentang Sanksi Perpajakan dan Kesadaran Wajib Pajak Pada Kepatuhan Pelaporan Wajib Pajak Orang Pribadi di Kantor Pelayanan Pajak Pratama Denpasar Timur", *Jurnal Ilmiah Akutansi*, ISSN 2303-1018, p.3
[30] Hadi Irawan, 2003, *Pengantar Perpajakan*, Malang, Bayumedia, p.10.
[31] Siti Resmi, 2014, *Perpajakan : Teori dan Kasus, Edisi Kesepuluh*, Jakarta, Salemba Empat, p 6

a. Direct Tax

Direct taxes are taxes that must be borne by taxpayers themselves and cannot be delegated or charged to others.

b. Indirect Tax

Indirect tax is a tax that can eventually be obtained, charged or delegated to other people or third parties.

2. Based on Character

a. Subjective Tax

Subjective tax is a tax that imposes attention to the personal condition of a taxpayer or tax imposition that takes into account the subject's condition.

b. Objective Tax

Objective tax is a tax that applies to paying attention to its object in the form of goods, circumstances, actions or events that result in the obligation to pay taxes, regardless of the personal circumstances of the tax subject or residence.

3. Based on Collection Institution

a. State Tax

The State Tax is the tax collected by the central government and used to finance State households in general.

b. Regional Tax

Regional tax is a tax collected by the local government both at the level I and at the level II and used to finance the household of each region.

In collecting tax, Indonesia adopted three systems of tax collection. Those are official assessment system, self-assessment system, and withholding system.[32]

Self-assessment its self is a tax collection system that authorizes Taxpayers to determine the amount of tax payable annually according to the applicable Taxation Law.[33] In this case, the taxpayer must have the initiative to calculate and pay their tax. Tax officials only has the duties to provide counseling and supervise the taxpayer in the order they will comply to pay the tax.

This Self-Assessment System has been implemented in Indonesia since 1967 through the Law No. 8 of 1967, Jo. PP 11 of 1967 concerning Procedures for the Collection of Taxes on Income Taxes, Corporate Taxes, and Wealth Taxes, better known as the system of Calculating Own Taxes / Calculating Person Taxes (MPS / MPO). However, in the implementation it turned out that this system did not produce the expected results, and even the revenue from the tax sector declined. It can be said that tax collection with the MPS / MPO system fails because it is not supported by an honest attitude of taxpayers, as well as intensive

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[32] Ahmad Tjahyono, dan Muhammad Fakhri Husein, 2000, *Perpajakan*, Yogyakarta: Akademi Perusahaan YKPN. p. 26-27

[33] Djuanda, Gustian & Irwansyah Lubis, 2002, *Pajak Pertambahan Nilai dan Pajak Penjualan atas Barang Mewah*, Jakarta, PT Gramedia Pustaka Utama p. 65

and accurate supervision from the government/tax administration. Also, the sanctions applied are not sufficient.

The system failure did not dampen the optimism of the tax apparatus to build a modern taxation system. The government and various groups support the concept of Self Assessment System as something reasonable and has a potential in the future so that the conceptual Self Assessment System used has been applied since 1984 until now. The system is ideal for Indonesia's taxation system. Ideal, because the system is implemented in the social environment, which at that time still had a relatively low tax knowledge and awareness. In that environment, there are still many people who view taxes negatively, so people try to avoid them.

C. Income Tax

Income Tax is a tax imposed on the subject of tax on income received or obtained in a tax year. The subject of Income Tax is anything that has the potential to earn income and become a target to be a subject to Income Tax.[34]

Based on the Law No 36 of 2008 on Income Tax, the subjects of income tax are a person, undivided inheritance and legal institution.[35] While those categorized as an object of income tax are:

1. Reimbursement or compensation relating to work or services received or obtained, including salaries, wages, benefits, honorariums, commissions,

[34] Siti Resmi, *Op.cit p 74-75*
[35] Article 2 Law No 36 of 2008 on Income Tax

bonuses, gratuities, pensions, or other forms of compensation, unless otherwise specified in the Law.

2. Prizes from sweepstakes or jobs or activities or awards.
3. Operating profit.
4. Gain due to sales or due to the transfer of property
5. Reimbursement of tax payments that have been charged as fees.
6. Interest includes premiums, discounts, and rewards for debt repayment guarantees.
7. Dividends, by name and in any form, including profits from insurance companies to policyholders, and the distribution of the remaining proceeds of cooperative operations.
8. Royalty.
9. Leases and other income related to the use of assets.
10. Receiving or obtaining periodic payments.
11. Benefits due to debt relief, except up to a certain amount applied by Government Regulation.
12. Profit due to foreign exchange differences.
13. Difference due to revaluation of assets.
14. Insurance premium.
15. Contributions received or obtained by associations from members consisting of taxpayers who run businesses or free jobs.

16. Additional net wealth from income that has not been taxed.[36]

D. Value-added tax

Value added tax is a tax imposed on domestic consumption, both for the consumption of taxable goods (BKP) and taxable services (JKP).[37] Value Added Tax is a substitute for Sales Tax. This is because Sales Tax is deemed to be no longer sufficient to accommodate community activities and has not yet reached the target of development needs, among others, to increase state revenues, encourage exports, and even tax distribution. Value-added tax is regulated by the Law No 42 of 2009 on value-added tax on goods and services and sales tax on luxury goods.

The law on value-added tax divides the object of tax into 2 (two) categories, BKP and JKP. BKP or taxable goods are tangible goods, which according to nature or law can be movable or immovable property and intangible assets subject to tax under the Act. While JKP or taxable services is every service activity based on an agreement or legal action that causes an item or facility or provides facilities or rights available to be used, including services carried out to produce goods due to orders and ordering materials and instructions.[38]

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[36] Article 4 Law No 36 0f 2008 on Income Tax

[37] Supramono & Damayanti, 2009, *Perpajakan Indonesia: Mekanisme dan Perhitungan*, Yogyakarta, Andi Publisher, p. 125

[38] Article 1 point 6 Law No 42 of 2009 on Value Added Tax on Goods and Services and Sales Tax on Luxury Goods