MIB Monthly Newsletter | June 2025

Utilizing International Tax Relations

Cross-Border Indonesian Tax Agreement

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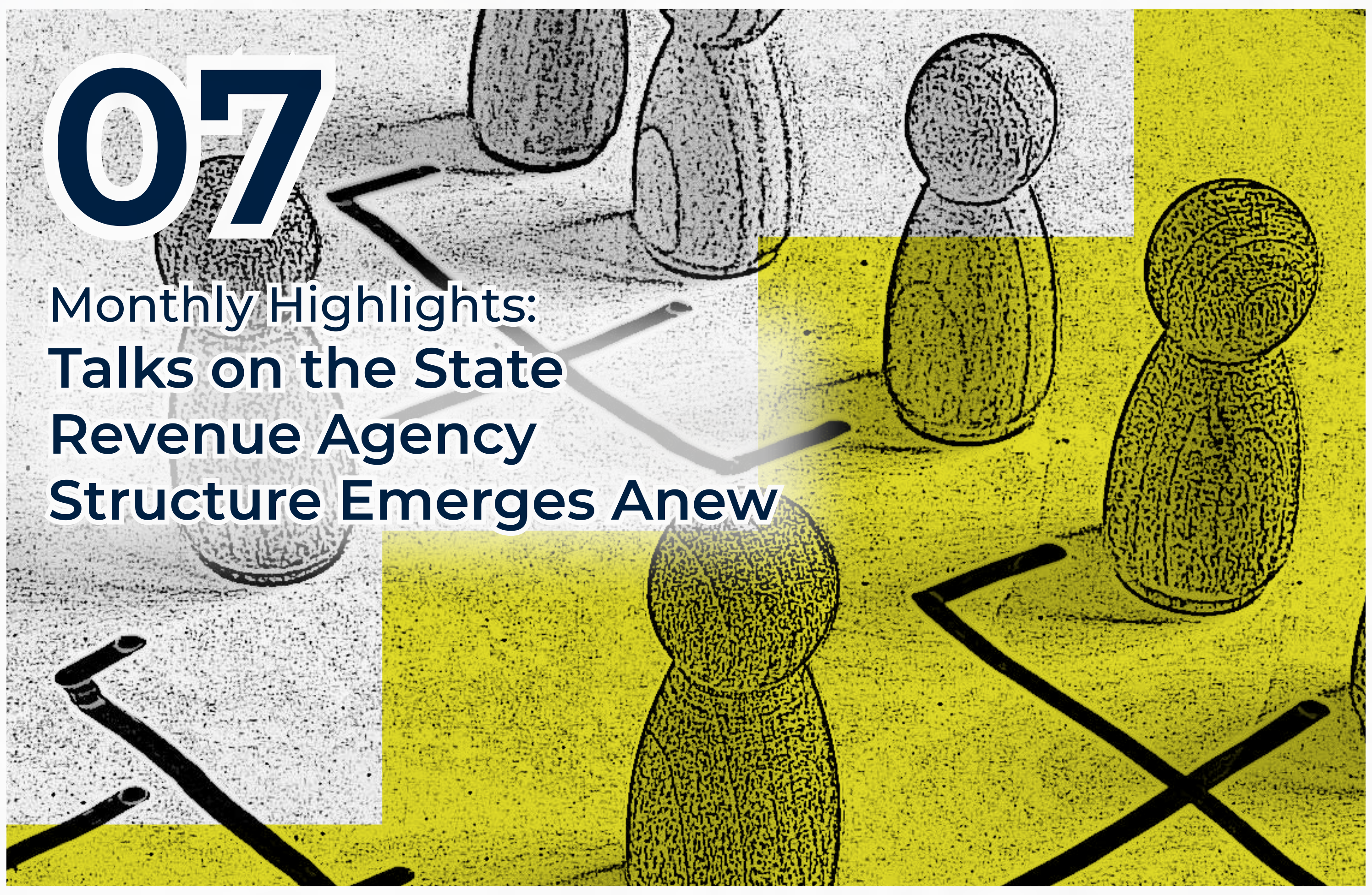
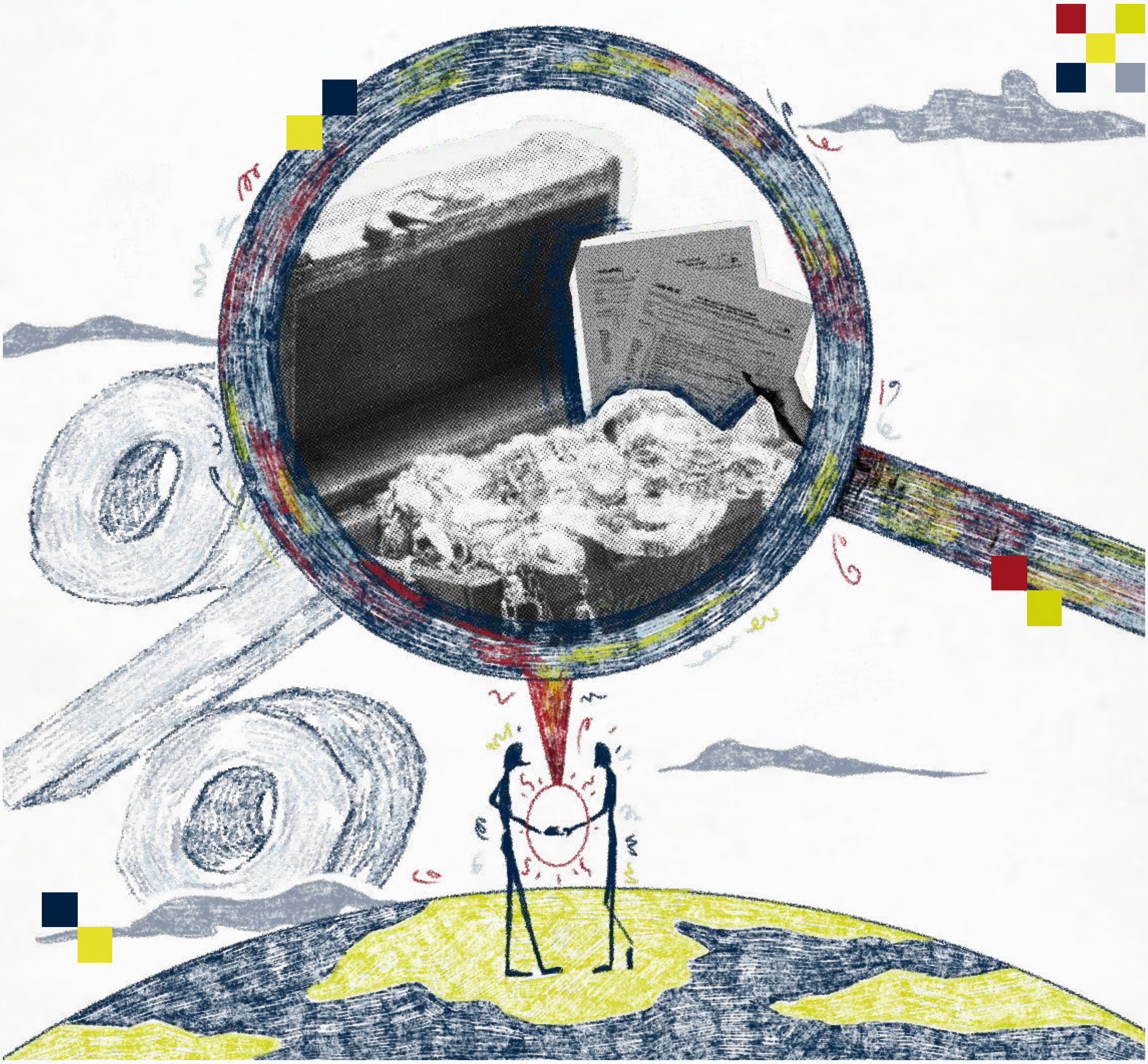




INSIGHT ARTICLE

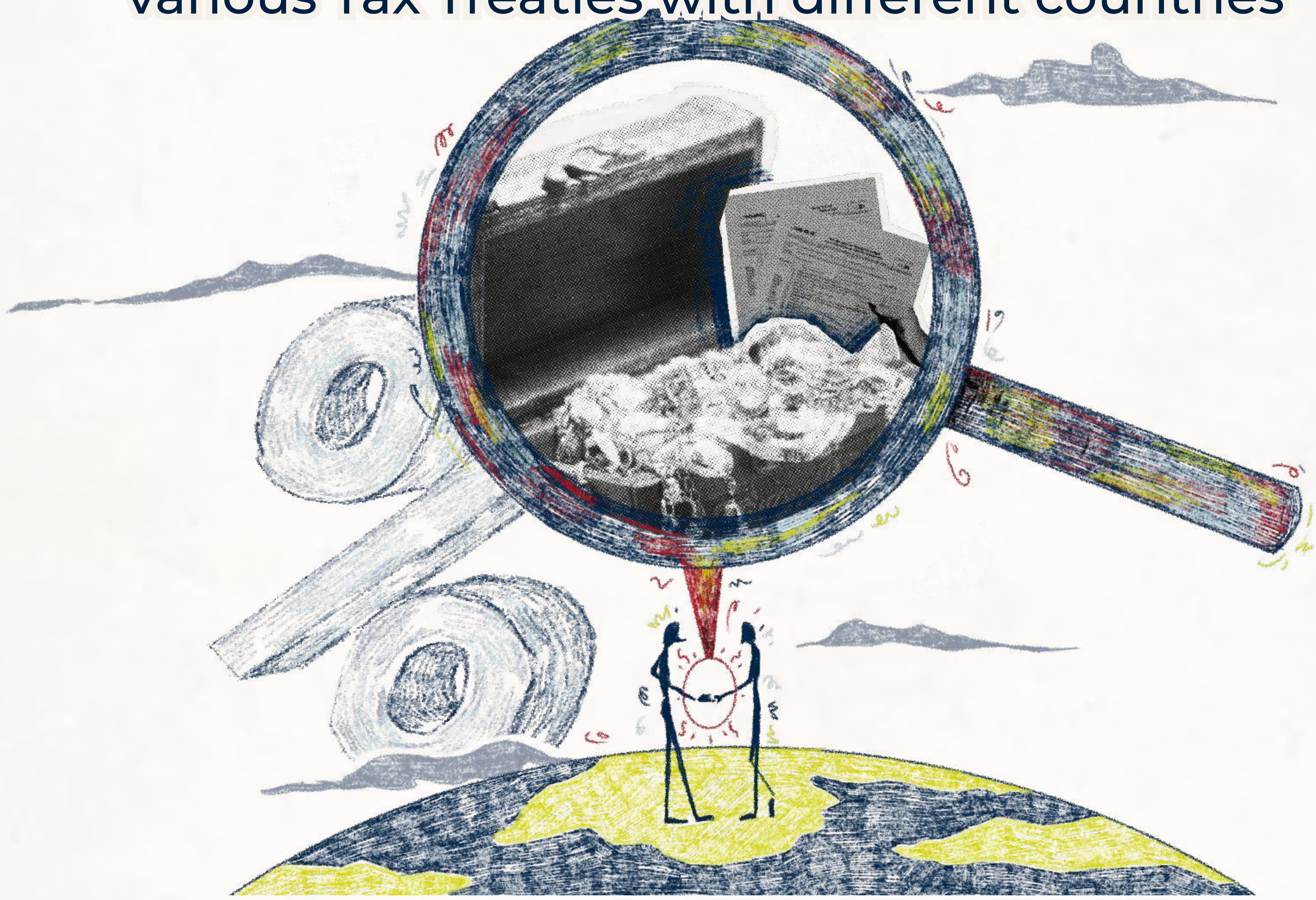
Effectively Imposing Taxes Through Agreements Across Borders

Understanding Indonesia and its imposition of various Tax Treaties with different countries

This article discusses the types on international agreements made between Indonesia and various countries, specifically on the developments and implementation of tax treaties across regions.

Effectively Imposing Taxes Through Agreements Across Borders

Understanding Indonesia and its imposition of various Tax Treaties with different countries



Countries across the globe aim to collaborate in harmony, in hopes of resulting in a fair and just law and system, without the possibility of profiting off the other. In the system, various laws and regulations work together, creating a harmonious flow between countries.

However, this is not achieved easily, as each countries will most likely aim to collect the highest amount of revenue and better the lives of their own citizens. Thus, a compromise must be made and reached – especially in regards to the financial performance of each country.

To run a just financial system, each country must likely implement a strategic partnership with each other – discernible through various regulations and agreements. Indonesia, in particular, has several kinds of agreements in relation to tax and finance implementation with other countries.

The reasoning behind various agreements is to be able to include every scope of the tax and financial system for each country, minimizing the ability to exploit resources from other countries in collaboration with said country.

Indonesia, with its variety of agreements, aim to ensure that all range of the country's financial and tax system, as well as its citizens, are protected from being capitalized on by other countries.

Partnering with Other Countries for Indonesian Tax: The reasoning and the types

The implementation of various agreements from the Indonesian government is mainly to fulfill one goal – protection. The scope of protection itself is broad, not only ensuring protection of the country but all that is included within the country, especially its citizens. Furthermore, the implementation of these agreements will also be able to protect international investors prior to transacting in Indonesia.

These investors are also Indonesia's source of income, thus the need to be protected is essential to the course of tax and financial developments in the country.

Agreements are meant to ensure investors and citizens will have a fair tax imposition, reducing the chances of being "double-taxed" and minimizing their profit.

In addition, the availability of these agreements serves to become a tool to eliminate tax barriers across countries, also expanding the possibilities of collaboration between countries without undermining the efforts of each country to reach and earn their national income and revenue.

The kinds of cross-border agreements used for information sharing

Based on the latest update, the Directorate General of Taxes issued a regulation, the Director General of Taxes Regulation Number PER-8/PJ/2025, which mentioned several agreements used by the Indonesian government as the basis to regulate data swap between countries, namely the **Tax Treaty, Tax Information Exchange Agreement, Convention on Mutual Administrative Assistance in Tax Matters, Multilateral or Bilateral Competent Authority Agreement, Intergovernmental Agreement**, and **other bilateral agreements**.

Tax Treaty
In general, countries across the world adopt the model of tax treaty developed by the Organisation for Economic Cooperation and Development (OECD), firstly made in 1963. Since then, the organization has continuously upgraded and made adjustments to the first model, used to negotiate, interpret, and apply tax treaties between countries.

Tax Information Exchange Agreement
This agreement was developed by the Indonesian government, meant to be a document that becomes the basis for information exchange between Indonesia and other countries or jurisdictions.

Convention on Mutual Administrative Assistance in Tax Matters
This agreement was developed by the Indonesian government in order to regulate several aspects of administrative tax matters, including tax collection assistance and notification of declaration withdrawal for tax matters.

Multilateral or Bilateral Competent Authority Agreement
This agreement is made between authorities of different jurisdictions, both in a bilateral and multilateral setting.

Intergovernmental Agreement
This agreement was developed between two or more governments in the hopes of solving mutual issues between participating countries.

Indonesian Tax Treaty: The summary of agreements based on regions

In Indonesia, a tax treaty is defined as an agreement between two countries where the regulation discusses the allocation of tax revenue from tax imposition and collection between the two countries. Tax treaties are available to ensure that both countries receive fair distribution, as well as ensuring that the parties involved in cross-border transactions are protected from double taxing.

Each country has different provisions when it comes to tax treaties. In general, countries around the globe have adopted the OECD model, initially developed in 1963, with now over 3,000 countries and jurisdictions using the model to carry on cross-border transactions and taxes.

Indonesia, however, does not fully implement the OECD model, but rather has developed its own, called the Indonesian Model. The Indonesian Model for tax treaties is comprised of parts from the OECD model as well as the United Nations (UN) model, where the Indonesian government aims to adjust both models to better adapt to national trade conditions.

Currently, there are 71 countries and jurisdictions across the globe that has partnered with Indonesia and developed tax treaties in accordance with the conditions of each country. These countries are spread across regions, and it is fundamental to determine how a related party can avoid being exorbitantly taxed.

Asia-Pacific (APAC)
The Asia-Pacific region consists of multiple countries located throughout East Asia, South Asia, Southeast Asia, and Oceania. In total, there are around 50 countries and jurisdictions in this region, with Indonesia having tax relations with around 22 countries.

For example, Indonesia with Australia decided that income received in both countries will be taxed under the respective countries' Income Tax Law. This also comprises income that comes from permanent establishment, which includes a place of management, a branch, an office, or even a factory established in each country.

Revenue that is sourced from businesses done in corroborating countries is taxable only in that State unless the enterprise carries on business in the other Contracting State through a permanent establishment situated in that other State.

If the business is carried out in such manner, then the revenue of the company may be taxed in the other State but only so much of them as is attributable to the permanent establishment, sales in that other State of goods or merchandise of the same or a similar kind as those sold through that permanent establishment, or other business activities carried on in that other State of the same or a similar kind as those carried on through that permanent establishment.

Tax treaty between Australia and Indonesia also covers income that comes from dividends, properties, royalties, and even individuals performing services, and entertainers.

Similar to Australia and Indonesia, the tax treaty between Singapore and Indonesia also decided that tax will be imposed on income or revenue sourced from each respective country. If an Indonesian business is running its operations in Singapore, then said business will be imposed to the income tax rate following the Singapore tax law.

Between Singapore and Indonesia, the tax treaty also includes taxing companies with association, in the case of a company of a Contracting State that participates directly or indirectly in the management, control, or capital of a company of the other Contracting State.

This also includes the same people are participating directly or indirectly in the management, control, or capital of an company of a Contracting State and an enterprise of the other Contracting State, then any profits which would, but for those conditions, have accrued to one of the companies, but, by reason of those conditions, have not so accrued, may be included in the profits of that company and taxed accordingly.

United States of America (USA)
In general, Indonesia also has agreements with the United States of America in order to avoid any double taxation, especially since there is a discrepancy of tax rate and its imposition provision between the two countries. Similar to Australia and Singapore, income or revenue in relation to either country will be taxed with the Income Tax rate of the respective countries.

In the Tax Treaty between the United States and Indonesia, it is mentioned that revenue sourced from stock transactions, also known as capital gains, will not be imposed on Indonesian investors as long as they fulfill certain requirements, including the non-existent permanent establishment and time limitations. Doing so, Indonesian investors will only pay their taxes in Indonesia, and will not have to pay taxes on American soil.

Additionally, the United States also imposes an income tax rate of 15% on income originating from dividends, lower than the 30% rate applicable if a country does not have any agreements with the United States. Indonesian investors who receive income from American companies' dividends will only be imposed with a 15% income tax rate.

Europe, Middle East, and Africa (EMEA)
There are multiple continents included in the Europe, Middle East, and Africa (EMEA) region. In total, there are roughly 116 countries and jurisdictions that span across several continents, including Europe, Africa, Asia, as well as North America, considering Greenland falls under the North American continent. From those countries, Indonesia made dealings with around 30 countries and jurisdictions across various continents.

As an example, between Netherlands and Indonesia, there has been changes made to the initial tax treaty agreement first made and ratified in 2022. Amendments are made in order to increase the amount of investments going into each country.

In addition, South Africa is also among the countries that Indonesia has tax relations with. In the case of South Africa and Indonesia tax treaty, the latest adjustments were made by the issuance of the Director General of Taxes Notification NumberSE-8/PJ/2024, entailing details on lower dividends tax rate and prevention of improper tax treaty imposition.

Between the United Kingdom and Indonesia, a tax treaty agreement was first established in 1994, and has been effective since 1995 until now. Based on the treaty, income owned by United Kingdom residents sourced from, for example, dividends, interests, other pensions, and royalties, are imposed with a certain tax rate from Indonesian government.

For instance, income from portfolio dividends for United Kingdom residents will be imposed with a ‘treaty rate' of 15% in Indonesia. Income from interests will be imposed with a 10% rate, where it can be exempted as long as United Kingdom residents paid the taxes to the United Kingdom government or paid in respect of a loan made, guaranteed or insured by the United Kingdom Export Credits Guarantee Department or the Commonwealth Development Corporation.

Additionally, other pensions are taxable in both the United Kingdom and Indonesia, whereas income from government pensions will only be taxable in Indonesia unless Taxable only in Indonesia unless the individual is a resident and national of the United Kingdom.

The European Union and Indonesia

On top of the imposition of tax treaties as part of a tax agreement between Indonesia and several countries in the European continent, the Indonesian government and European Union (EU) officials have been discussing the ratification and implementation of a new agreement named Indonesia-European Union Comprehensive Economic Partnership Agreement (I-EU CEPA).

This agreement will encompass regulatory aspects of financial and trade between the two jurisdictions, with the agreement consisting of several pillars, including access to goods and services trading market, investments and public procurement, as well as harmonization on trade regulations, partnerships, and capacity building.

The latest update on the regulation discussion showcase that around 90% of text in the law has been finalized, which means that both jurisdictions can look forward to enacting the agreement in hopes of expanding the trade market and increasing the export volume from Indonesia to the EU.

What is the Benefit Behind a Tax Treaty?

As previously mentioned, a tax treaty is beneficial not only for the participating countries and jurisdictions, but also for the citizens of each country, including those looking forward to becoming an investor.

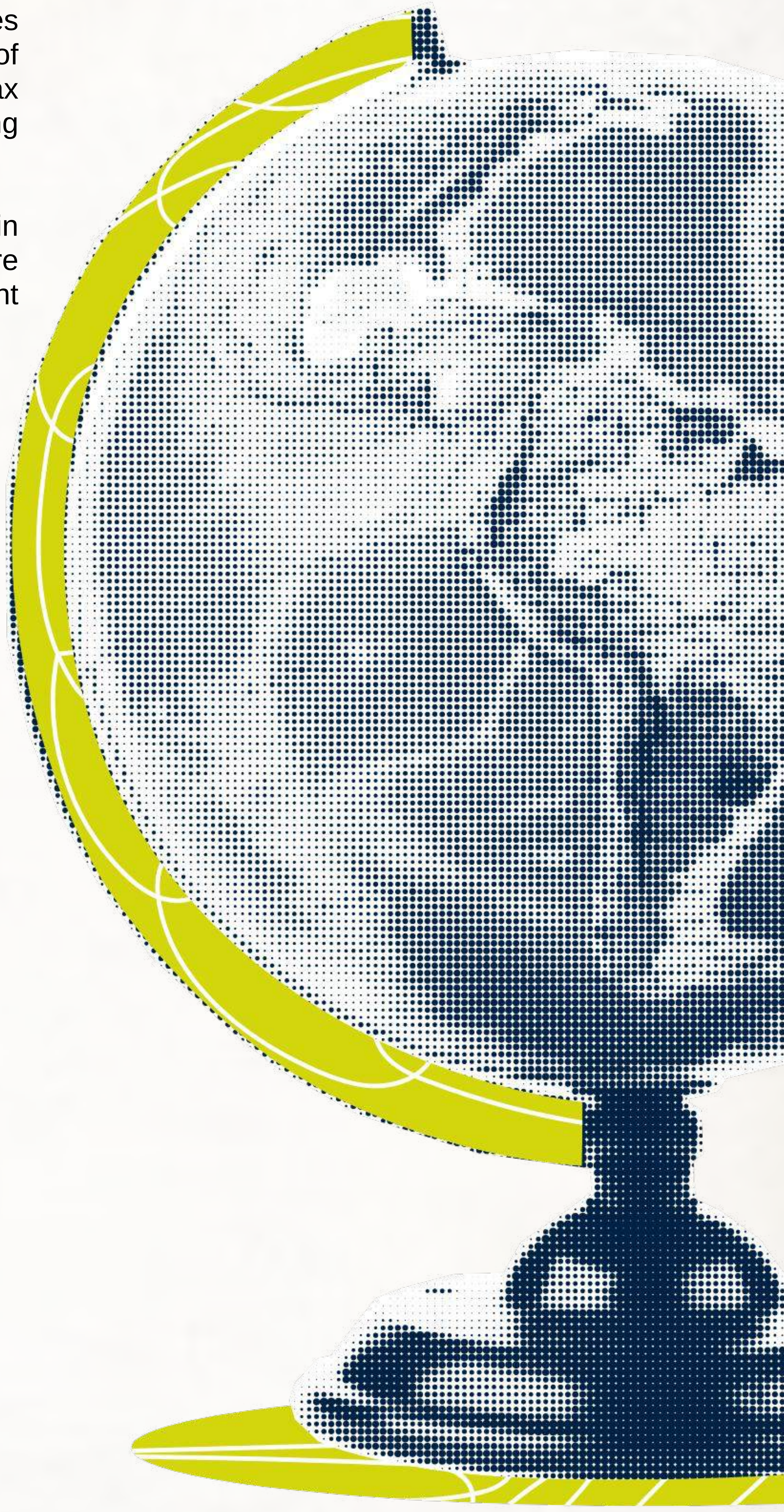
Behind the implementation of a tax treaty, there are several pillars that can be utilized. For example, the presence of a Treaty Relief, a tax facility provided by Indonesian government and its respective partner country or jurisdictions, resulting in a lower amount of tax rate imposed on income received by individuals or foreign taxpayers.

However, this tax facility should first be claimed by ensuring that the tax treaty between corresponding countries is still in action, and individuals should first submit a form. After submission, individuals or foreign taxpayers can enjoy a lower income tax rate imposed on income sourced from dividends, interests, even royalties.

Furthermore, the availability of a tax treaty between countries can prevent any misinformation on tax and financial data, strengthening data safety and information exchange between countries. Tax treaties can also improve the conditions of international trade market, with a lower tax rate being offered, as well as increasing the capital flow.

Thus, it is important for those engaging in businesses and investments to be aware of a tax treaty that might be convenient and can be utilized for a better revenue.

> **“It is important for related parties to understand the imposition of a tax treaty and its regulation for cross-border tax activities.”**



June 2025

Monthly Highlights

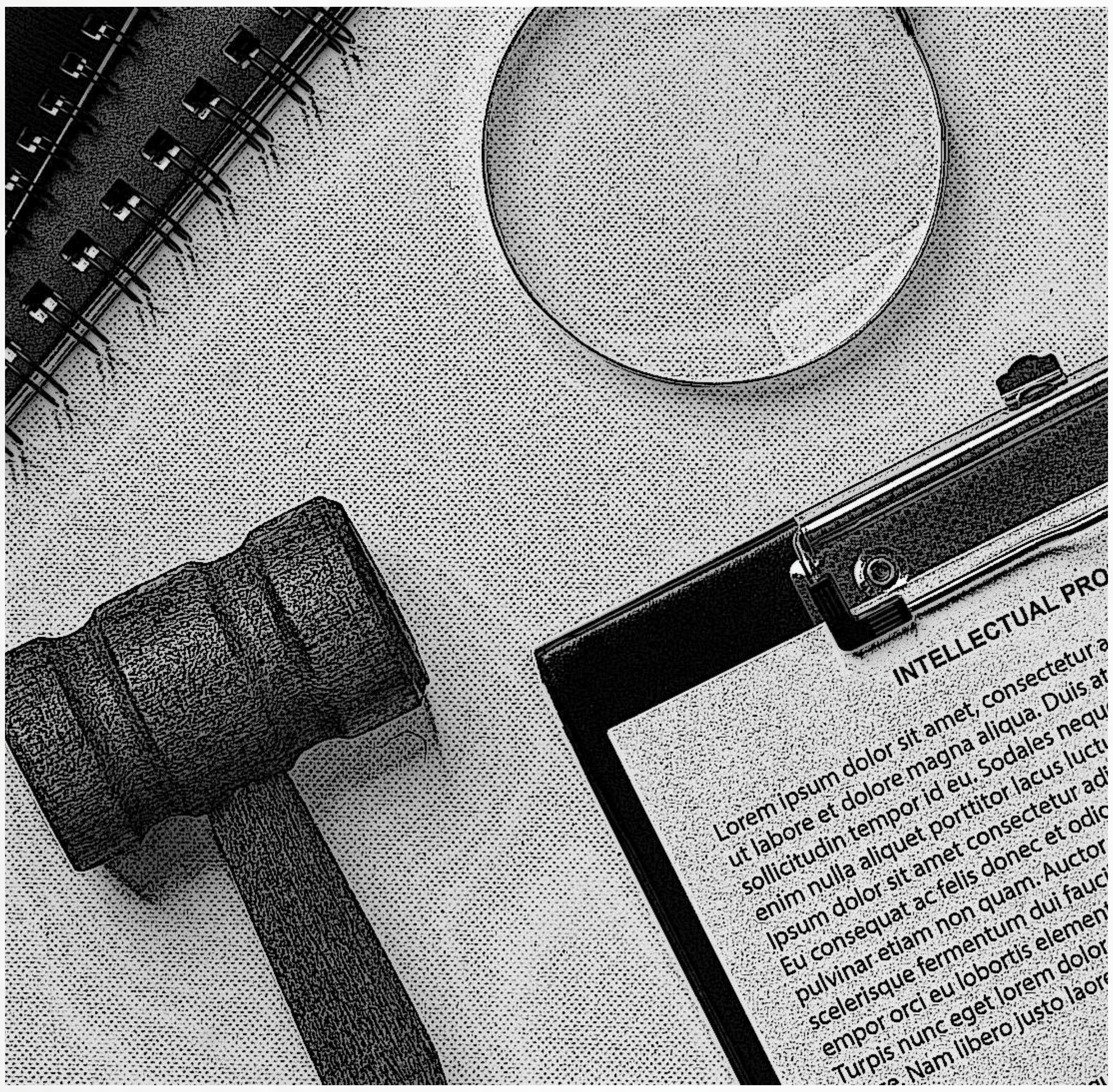
The Directorate General of Taxes, and by extension, the government, issued several regulations to accommodate and adjust current tax regulations. Changes are made in the hopes of exceeding current tax conditions in Indonesia, presently decreasing in revenue.

Government-borne VAT for Plane Tickets During School Vacation Period

The government issues a provision concerning a tax incentive, specifically for VAT imposed on plane tickers. During the school holiday period, the government will be bearing 5% of the total VAT imposed on plane tickets.

This incentive is regulated in PMK No. 36/2025, and will applicable until 31 July 2025 starting from 5 June 2025. This incentive is hoped to lessen the burden for passengers and lower the plane tickets' prices.

> Read more here



The Government Issues Regulations to Manage Tax Administration

The Directorate General of Taxes issued several regulations that manages the implementation of tax administrative services, especially following the implementation of the Core Tax Administration System or Coretax.

The regulation is Director General of Taxes Regulations No. PER-7/PJ/2025 and PER-8/PJ/2025. The former discusses several administrative services on Taxpayer Identification Number and Land Building Tax, while the latter discusses the implementation of Coretax for tax administration.

> Read more here & here

Next read 08 Talks on the State Revenue Agency Structure Emerges Anew & Jakarta Collaborates with DJP and DJPK for Stronger Tax Collection

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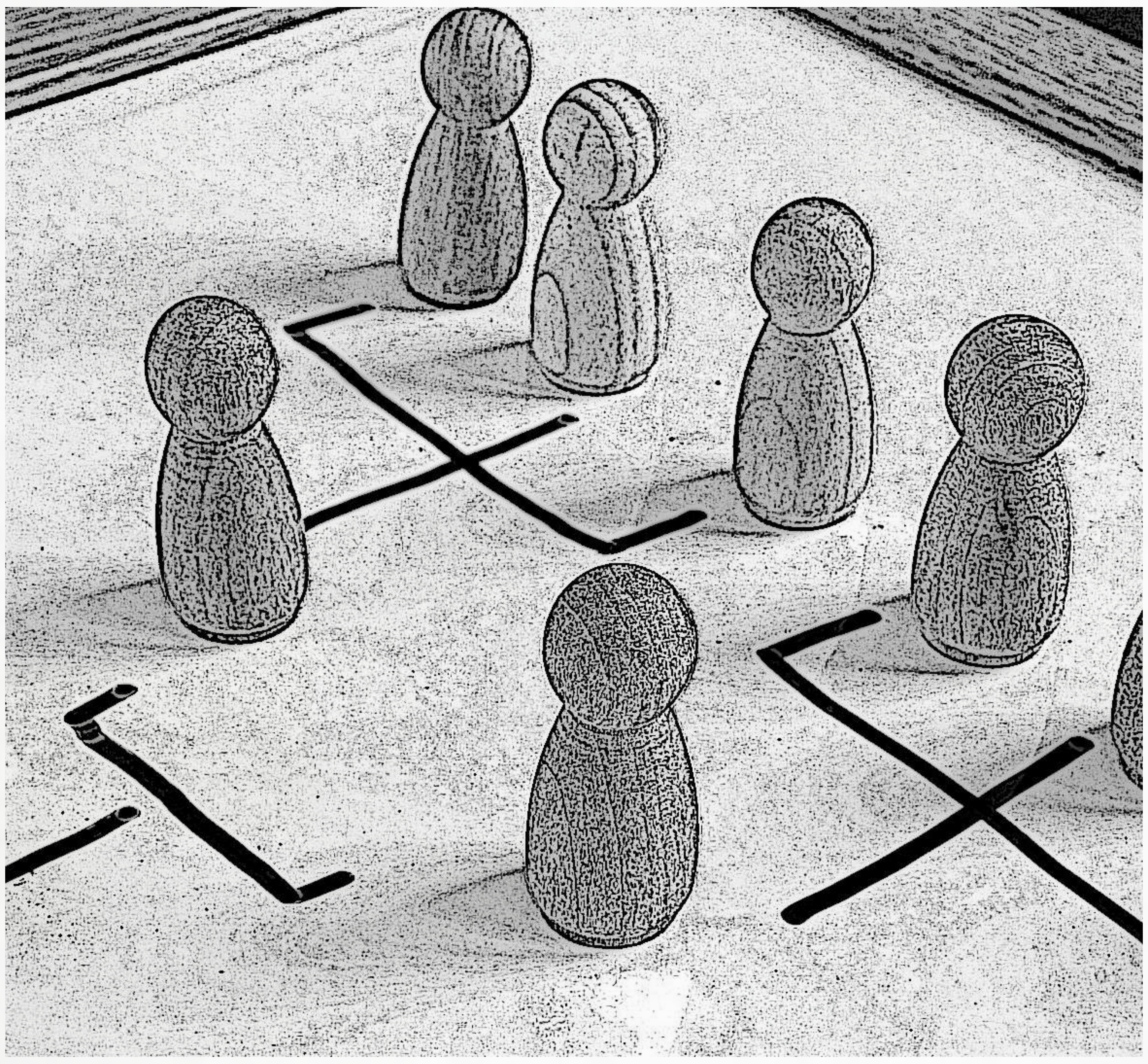

Talks on the State Revenue Agency Structure Emerges Anew

Based on the explanation from the National Campaign Team, the State Revenue Agency, one of the programs promised in the campaign by the current president, have already developed an organizational structure that may be subject to change following its development of implementation.

The "leaked" organizational structure is comprised of a State Ministry alongside its Deputies, which are the Deputy of Operations and the Deputy of Internal Affairs.

> Read more here

Jakarta Collaborates with DJP and DJPK for Stronger Tax Collection

In order to optimize tax revenue collection, the Directorate General of Taxes, Directorate General of Fiscal Balance, and the regional government of Jakarta has decided to conduct a joint partnership.

This partnership will hopefully push local taxing power and result in a higher tax compliance rate, alongside a higher collected tax revenue. The plan for optimization includes administrative digitalization and integration of regional and national data.

> Read more here

Next read 09 Levy and Duty Regulation on Hajj Goods from Participants is Renewed & International Tax Highlights

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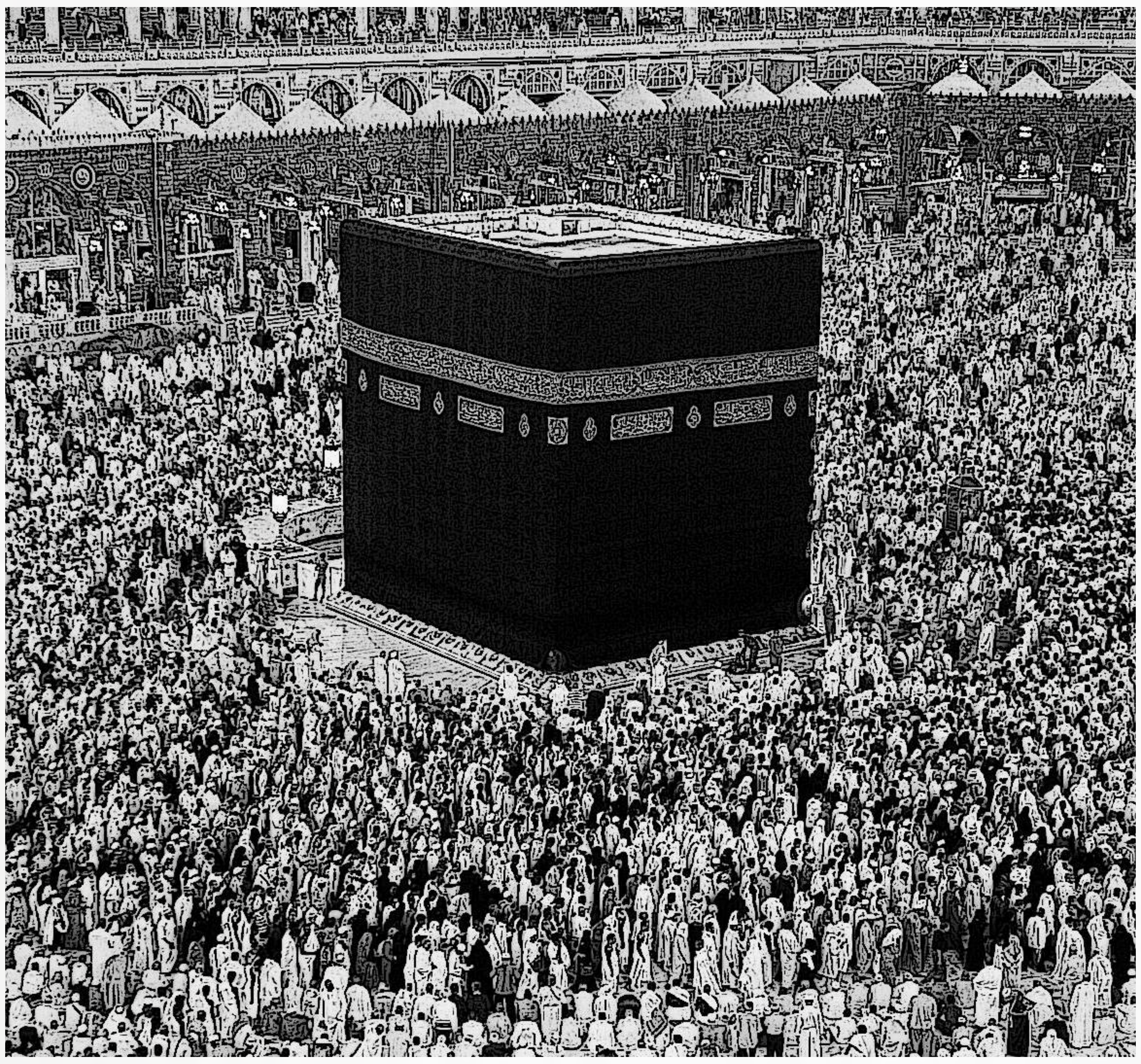


Levy and Duty Regulation on Hajj Goods from Participants is Renewed

As a way to lessen the burden from Hajj participants, the government issued a regulation detailing an updated version of the goods brought back to Indonesia by Hajj participants.

Based on the new regulation, which is the Ministry of Finance Regulations (PMK) No. 34 Year 2025, the Free-on-Board (FOB) limit is now increased to US$500 in total for personal items.

Other items, or personal items exceeding the FOB limit will be imposed with levies and duties accordingly.

> Read more here

International Tax Highlights

Malaysia Expands Tax Collection on Construction and Financial Services

In order to optimize and increase their collected tax revenue, the Malaysian government will be expanding their tax basis imposition, particularly on financial and construction services industries, starting in July 2025.

> Read more here

Vietnam Plans on Increasing Tax Rate on Alcoholic Drinks

Vietnam will be focusing on regulatory aspects of alcoholic drinks in order to lower the alcohol consumption rate from its citizens. The new rate will be planned to reach 90% in 2031.

> Read more here

Germany Explores Digital Tax Amidst United States' Prohibitions

The German government is exploring the possibilities of imposing a digital tax on companies, notably post-United States' complaints on digital taxes on their companies.

> Read more here

June 2025

Monthly Tax Revenue

Marking the end of the fifth month, the government only reports the collected amount of tax revenue in both gross and net amounts, limiting information on the details and types of collected taxes. However, regional governments are publishing numbers on their tax revenue, showcasing regional growth.

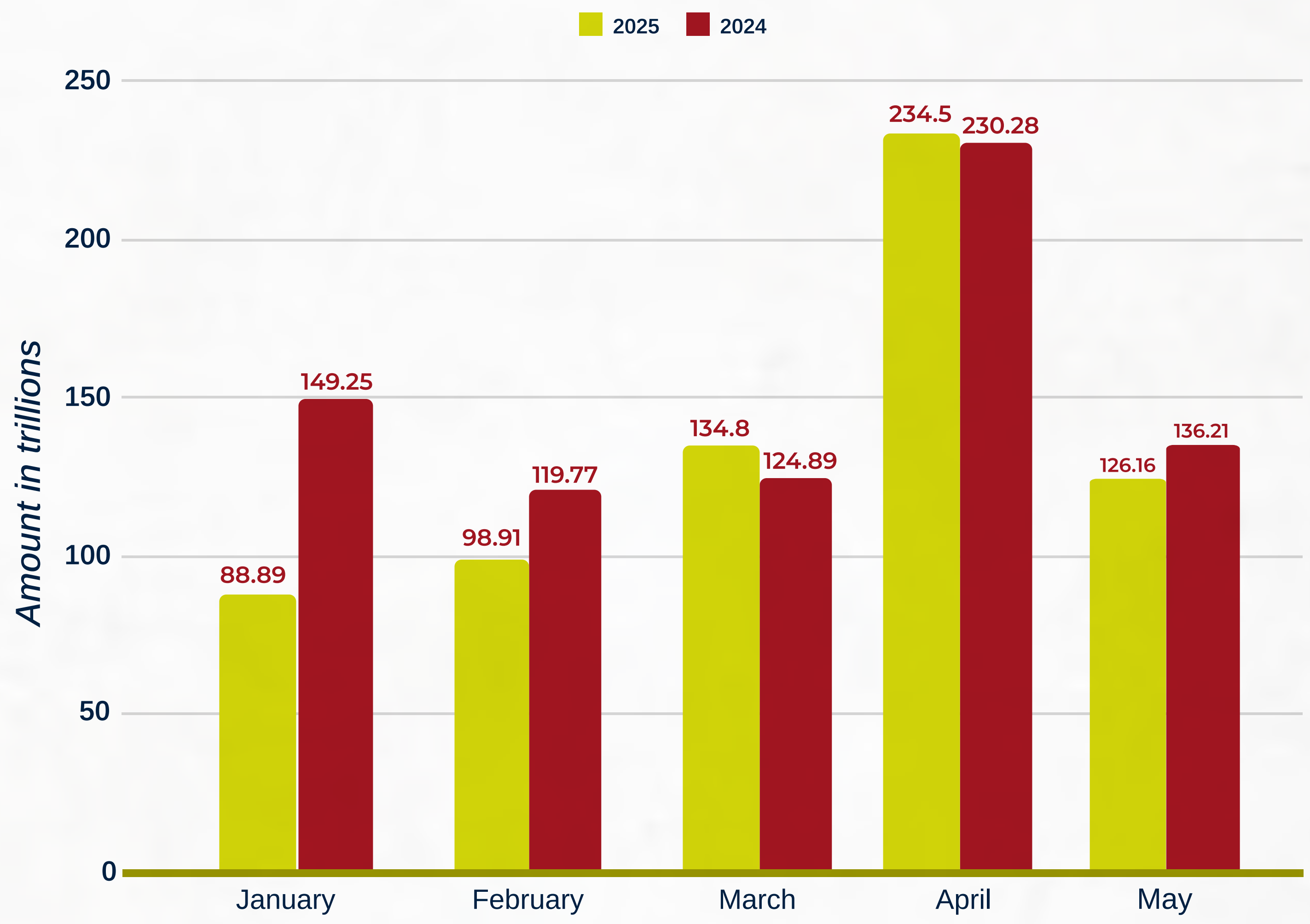
Net Collected Amount of Tax Revenue Reached IDR683.26 T

Based on the report published by the Ministry of Finance, the collected amount of net tax revenue amounts to IDR683.26 trillion until the end of May 2025. The gross amount of collected tax revenue, however, reached IDR895.77 trillion.

This collected amount of tax revenue is fulfilling 31.2% of the targeted amount for 2025. The amount is also affected by the amount of filed tax returns, with the government noting a trend of decreasing amount in May after reaching its peaks in March and April.

Growth on the gross amount of collected tax revenue is due to installments of Corporate Income Tax Article 26.

Collected Amount of Tax Revenue Until May 2025



Regional Collected Tax Revenue

East Nusa Tenggara

The collected amount of tax revenue in East Nusa Tenggara amounted to IDR707.72 billion in May 2025, where it fulfilled 21.6% of the targeted amount of IDR3.24 trillion in 2025.

East Java

East Java has collected an amount of IDR39.38 trillion until May 2025, with the number fulfilling 37.21% of thr target for 2025.

In addition to the tax revenue, the collected excise and customs revenue has reached IDR52.41 trillion until May 2025.

Banten

In Banten, the collected amount of tax revenue until May 2025 reached IDR26.28 trillion, an improvement in comparison to the collected amounts of the past two months.

The number is fulfilling 32.38% of the target and received a high contribution from the collected revenue of the Non-oil and gas income tax.

Bali

The regional government of Bali reports a collected amount of tax revenue that reached IDR6.26 trillion until May 2025, with the amount fulfilling 34.68% of the targeted 2025 amount.

Additionally, the collected tax revenue in Bali grew 11.44% in comparison to the collected amount last year during the same time period.

West Nusa Tenggara

West Nusa Tenggara reported a collected amount of IDR1.72 trillion for their tax revenue until May 2025. This number is a result from the amount of collected income tax, becoming the highest contributor for the revenue.

Aceh

Based on reports, the collected amount of tax revenue in Aceh until 31 May 2025 reached an amount of IDR1.24 trillion or 21.03% of the targeted amount.

> Read more here

Tax Calendar

July 2025

Tax Calendar

July 2025

MON	TUE	WED	THU	FRI	SAT	SUN
30	1	2	3	4	5	6
7	8	9	10	11	12	13
14 National Tax Day	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31	1	2	3
4	5	6	7	8	9	10

Reminders

14 July 2025 **National Tax Day**
15 July 2025 **Payment Deadline** – June 2025 Art. 4(2), 15, 21/26, 22, 23/26 Income Tax, and 25 Income Tax, SME Final Income Tax, and Self-Assessed VAT
20 July 2025 **Submission Deadline** – Value Added Tax Invoices
21 July 2025 **Filing Deadline** – June 2025 Art. 4(2), 15, 21/26, 22, 23/26, and 25 Income Tax
31 July 2025 **Payment and Filing Deadline** – June 2025 Value Added Tax

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