

P R A K A R S A *Policy Brief*

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Protecting Indonesia's Interests in UN Tax Convention Negotiations

Key Points:

- Indonesia's tax-to-GDP ratio is only around 10%, far below the Asia-Pacific average of 19.6%, while other ASEAN countries also face similar challenges due to high informality. According to the Tax Justice Network (2024), the world loses USD 492 billion annually to tax abuse, with developing countries bearing the heaviest burden.
- In 2022, the UN General Assembly adopted a resolution to establish a more inclusive global tax cooperation mechanism under the UN. This process advanced in 2024 with the adoption of the Terms of Reference for the UN Tax Convention, which is now entering substantive negotiations until 2027.
- Indonesia faces persistent gaps in cross-border data access, limited beneficial ownership transparency, and underdeveloped tax administration capacity. Regionally, Asia lacks a unified position, and proposals like mandatory arbitration risk undermining Indonesia's fiscal sovereignty in negotiations.
- Indonesia should adopt a proactive stance by leading Asian regional consolidation, prioritizing strategic domestic issues, strengthening cross-border transparency, and rejecting unfair dispute settlement mechanisms. Its role in the UN Tax Convention must also align with the national development agenda, SDGs, and developing countries' solidarity.



UN Tax Convention: Momentum for a Fair Global Tax System

Indonesia faces increasingly severe fiscal challenges amidst increasing development financing needs. Indonesia's tax and social contribution ratio is just 10% of GDP, well below the Asia-Pacific average of 19.6% and Africa's 16% (OECD, 2025). These fiscal constraints limit the state's ability to finance priority programs in health, education, and social protection. At the same time, potential revenue losses from Illicit Financial Flows (IFFs), tax avoidance by multinational corporations, and tax evasion by super-rich individuals continue to harm the country. This problem stems from the current global tax architecture, which is imbalanced and biased against developing countries.

According to the report entitled *The State of Tax Justice 2024*, countries around the world lose approximately USD 492 billion annually due to tax abuse by corporations and wealthy individuals, USD 347.6 billion of which comes from tax avoidance by multinational corporations, and USD 144.8 billion from tax evasion by individuals (Tax Justice Network, 2024). Meanwhile, research by PRAKARSA (2023) revealed that in just the fisheries and coal sectors, the country lost USD 5.58 billion, or IDR 74 trillion, from misinvoicing practices over a ten-year period. Developing countries bear the greatest burden in proportion to their GDP. Moreover, the integrated nature of the global economy and the rapid development of digital technology have made it increasingly complex to monitor cross-border economic activities and to establish fair tax obligations.

The current global tax system also fosters the existence of tax haven countries such as Singapore, the United Arab Emirates, the Bahamas, and Switzerland, which offer very low tax rates or full tax exemptions for foreign investors. This scheme

plays a major role in perpetuating tax avoidance and tax evasion practices. It also enables multinational corporations and wealthy individuals to shift profits out of developing countries, resulting in the loss of potential state revenue, and placing a greater tax burden on the public to cover budget deficits.

Furthermore, policies in tax haven jurisdictions are often designed to conceal the identity of owners and the amount of their wealth, and tend to restrict public access to beneficial ownership information. As a result, tax authorities face difficulties in assessing tax obligations accurately and fairly. The existence of tax havens not only undermines the global economic structure, but can also be classified as a violation of human rights, as they systemically deprive states of resources that should be used to fulfill citizens' basic rights (Beckett, 2019). In addition, the 'race to the bottom' practices in the form of aggressive fiscal incentives implemented by many countries, including in the ASEAN region to attract foreign investment further weaken the tax base (PRAKARSA, 2024).

In response to these global taxation conditions, in December 2022 the United Nations General Assembly adopted resolution A/RES/77/244, proposed by Nigeria on behalf of African countries. The resolution calls for the establishment of a more effective and inclusive international tax cooperation mechanism under the auspices of the UN. This initiative marks a momentum for developing countries to actively shape a global tax system that supports the recovery of state revenues, narrows the space for tax avoidance and evasion, and ensures fiscal sovereignty in the face of increasingly complex global economic challenges.

After intensive negotiations, in November 2024 the United Nations General Assembly adopted the Terms of Reference (TOR) for the UN Framework Convention on International Tax Cooperation

(UN Tax Convention), with the support of 110 countries, including Indonesia. Since then, an Intergovernmental Negotiating Committee (INC) has been established to draft the convention text and initial protocols. The process has now entered the stage of substantive negotiations at the UN, focusing on two crucial protocols: (1) taxation of income from cross-border services in an increasingly digitalized and globalized economy, and (2) mechanisms for the prevention and resolution of cross-border tax disputes. These two protocols are critical in shaping the legal and technical foundations of a fairer and more effective UN Tax Convention for all member states. The negotiation process is expected to continue until 2027.

Why the UN Tax Convention is Important for Indonesia?

Strengthening Fiscal Space

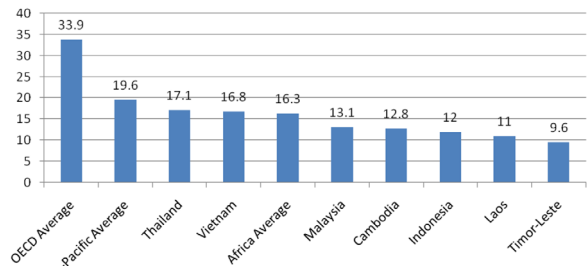
The UN Tax Convention offers Indonesia the opportunity to secure greater taxing rights, particularly from multinational corporations and the digital sector. This additional revenue could be used to finance education, health, social protection, and climate change mitigation and adaptation agendas. Based on Table 2.1, Indonesia's state expenditure needs have reached IDR 3,350.27 trillion in 2024, while state revenue remains at IDR 2,842.48 trillion, with more than 80% of revenue coming from taxes. As a result, the budget deficit must be covered through other instruments, such as debt. Indonesia's debt position has been growing at a faster rate each year compared to state revenue. Meanwhile, the tax to GDP ratio has actually declined over the past two years, indicating that tax revenue growth has not kept pace with GDP growth.

Table 2.1. Realization of Indonesian State Revenue and Expenditure 2020-2024 (trillions of rupiah)

Year	2020	2021	2022	2023	2024
State Revenue	1.647,78	2.011,38	2.635,84	2.783,92	2.842,48
State Expenditure	2.589,9	2.784,4	3.090,8	3.121,21	3.350,27
Surplus/Deficit	947,7	775,06	355,81	337,29	507,80
Tax revenue	1.285,14	1.547,84	2.034,55	2.154,21	2.232,66
Tax to GDP Ratio (%)	8,33	9,1	10,39	10,31	10,09
Indonesia's Debt Position	6.102,05	6.947,72	7.822,62	8.144,69	10.269

(Kementerian Keuangan Republik Indonesia, 2025)

Chart 2.1. Comparison of Tax and Social Contribution Ratios Against GDP in Various Regions of the World, 2023



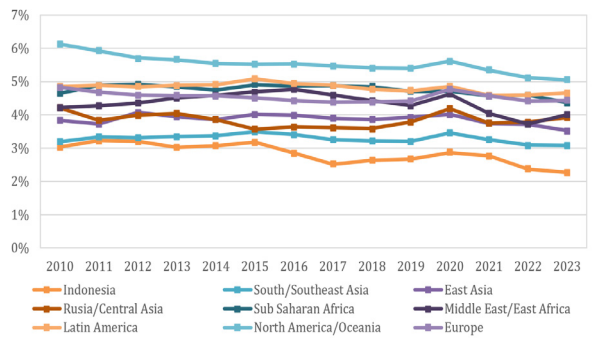
(OECD, 2025)

Apart from Indonesia, several other Southeast Asian countries such as Laos, Timor Leste, Cambodia, Malaysia, Vietnam and Thailand also recorded relatively low tax ratios (OECD, 2025). One of the reasons for the low tax ratio in the ASEAN region is the large size of the informal sector. Nearly 60% of Indonesia's workforce is employed in the informal

sector. High informality results in a narrow income tax base and low compliance levels.

This limited fiscal capacity directly affects the state's ability to finance development, particularly in strategic sectors such as education and health. The following chart shows a comparison of public spending on education as a percentage of GDP across various regions of the world. Public spending on education in Indonesia is only around 2% of GDP, lower than the average in South and Southeast Asia. In North America and Oceania, public spending on education even reaches 5% of GDP.

Chart 2.2. Comparison of Public Funding for Education in Various Regions (% of GDP)



(Bharti, et al., 2025)

Optimizing Tax Potential from the Digital Economy

The digital sector has the potential to support fiscal sustainability along with the rapid development of the digital economy. Indonesia's digital economy, measured by Gross Merchandise Value (GMV), is projected to reach USD 90 billion or IDR 1,420 trillion in 2024. By 2030, GMV is projected to grow by as much as 300%, reaching USD 360 billion, or around IDR 5,000 trillion. With a conservative assumption of an effective tax rate of 2%-3%, this growth could generate additional tax revenues of IDR 100-150 trillion per year (Google; Temasek; Bain&Company, 2024). The government has also recorded an increase in tax revenues from the digital sector, amounting to IDR 40.02 trillion as of July 2025. This revenue is derived from various business lines, including Value Added Tax (VAT) on Trade Through Electronic Systems (PMSE), which contributed IDR 31.06 trillion, as well as taxes from cryptocurrency, fintech, and government digital procurement via the SIPP platform (Direktorat Jenderal Pajak, 2025).

The government has also proposed that e-commerce platforms collect an income tax of 0.5% on PMSE (Trade Through Electronic Systems) activities from business operators with an annual turnover exceeding IDR 500 million. However, Indonesia continues to face major challenges in taxing multinational companies that provide cross-border services without a physical presence (nexus) in the country. Differences in tax policies between countries create loopholes that multinational corporations exploit to engage in aggressive tax avoidance through base erosion and profit shifting (BEPS). These challenges are further compounded by limited access to cross-border economic transaction data and the suboptimal functioning of information exchange systems to identify the beneficial ownership of multinational companies. This convention offers benefits by strengthening the legitimacy

of developing countries like Indonesia to impose taxes on cross-border digital services, expanding the digital tax base, and enhancing transparency and information exchange across jurisdictions. In doing so, the potential for digital tax revenue can be optimized while narrowing the scope for tax avoidance by multinational corporations.

- **Curbing Illicit Financial Flows in Indonesia**

Tax avoidance practices and illicit financial flows (IFF) are major obstacles to achieving fiscal sovereignty and social justice. A study by PRAKARSA (2023) found that Indonesia's fisheries and coal sectors engaged in mis-invoicing practices that resulted in potential state revenue losses of up to IDR 74 trillion between 2012 and 2021.

The high level of IFF in Indonesia is closely linked to weaknesses in the current international tax system, which fails to regulate cross-border flows in a transparent and equitable manner, particularly for developing countries. Numerous loopholes are exploited by multinational corporations to shift profits to low-tax jurisdictions (tax havens), use shell companies and trusts, and manipulate prices in intra-group transactions (transfer mispricing). These gaps leave countries like Indonesia as mere hosts for economic activity without receiving a fair share of tax contributions. The UN Tax Convention offers Indonesia an opportunity to advance cross-border transparency rules, including beneficial ownership registries and automatic information exchange, thereby reducing revenue leakages.

- **Narrowing the Scope for Tax Avoidance by the Super-Rich**

Super-rich individuals often exploit complex global financial networks, including tax haven jurisdictions, trusts, and shell companies, to conceal wealth, shift income, and minimize tax liabilities. As a result, developing countries, including Indonesia, lose billions of dollars each year, according to The State of Tax Justice 2023 report by the Tax Justice Network. Indonesia has implemented a range of anti-tax avoidance measures, such as anti-transfer pricing policies through advance pricing agreements, anti-thin capitalization rules by limiting debt to equity ratios, and anti-treaty shopping provisions by establishing beneficial ownership criteria, among others. Unfortunately, domestic instruments are often not strong enough to detect and prosecute tax avoidance cases involving ultra-wealthy individuals, particularly due to weak cross-border information transparency.

To narrow this room for maneuver, Indonesia needs to strengthen regulations and institutional capacity for cross-jurisdictional wealth reporting. Through this convention, Indonesia has the opportunity to promote information transparency via the Automatic Exchange of Information (AEOI) and a beneficial ownership registry as key steps in uncovering the true ownership of assets that have long been hidden abroad. Beyond that, the convention also presents an important opportunity for Indonesia to advocate for a global minimum wealth tax and a framework for global asset disclosure in international forums, so that tax avoidance by the ultra-wealthy is no longer tolerated or protected by the global financial system. Instead, they can become an important part of expanding the national

tax base, strengthening fiscal justice, and financing the sustainable development agenda.

Main Challenges for Indonesia

Despite the strategic advantages offered by the UN Tax Convention for Indonesia, there are several challenges that must be anticipated to ensure its benefits can be fully realized. First, there remain legacy barriers from an imbalanced global tax system. Second, new risks are emerging from the political and technical dynamics of negotiations.

Politically, Indonesia has supported the adoption of the Terms of Reference (ToR) for the UN Tax Convention in 2024, but domestic political expression on the matter remains limited. Considerations regarding relations with the OECD and Indonesia's diplomatic position in global forums such as the G20 have led the country to adopt a cautious stance. This could weaken consistency in advancing the UNCTC agenda in the UN arena.

At the regional level, Asia's voice is not yet unified. Unlike Africa, which has been able to negotiate a strong common position, Asia (including Indonesia) remains fragmented. Forums such as the ASEAN Tax Forum also remain closed in nature, even though they could serve as important platforms for mainstreaming tax justice issues and building collective bargaining power.

In addition, Indonesia faces three critical technical challenges. First, information and data gaps across jurisdictions remain a major problem. Tax authorities often struggle to access cross-border transaction data, including beneficial ownership information and complex transfer pricing practices. Second, there is a risk of implementing dispute resolution mechanisms that are unfair. The proposal for mandatory arbitration, for example, could disadvantage developing countries and erode fiscal sovereignty. Third, regulatory and institutional capacity remains limited. Indonesia's tax administration is not yet fully equipped to address increasingly sophisticated cross-border tax avoidance practices.

These conditions indicate that the struggle for the UN convention is more than just a technical challenge, it is a global political struggle to demand fiscal justice.

Indonesia's Position and Policy Options

To maximize the benefits of the UN Tax Convention, Indonesia needs to take a more proactive role, as follows:

1. Leading Regional Consolidation in Asia

The government, particularly the Ministry of Finance should take the initiative to promote greater openness in the ASEAN Tax Forum. This step would strengthen the position of Asian countries in countering OECD dominance and position Indonesia as a key driver in the region. For civil society, regional consolidation such as within the Asia Pacific offers an opportunity to build cross-border advocacy networks, thereby increasing political pressure and strengthening public legitimacy.

2. Prioritizing Strategic National Issues

Indonesia must actively bring issues relevant to its domestic context to the UNCTC negotiating table. In the digital

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economy, recognition of the significant economic presence nexus is crucial to securing source country taxing rights. In the extractive sector, the government should review fiscal incentives that weaken revenue and disadvantage local communities, while civil society can highlight the social and environmental impacts. In addition, the push for a global wealth tax should be promoted as a redistribution instrument, an agenda that can be jointly guarded by the government and civil society organizations.

3. Strengthening cross-border transparency

Tax data openness is key to breaking the chain of illicit financial flows. The government can accelerate the implementation of a beneficial ownership registry, expand the automatic exchange of information scheme, and promote the establishment of a global asset registry. On the other hand, civil society must ensure that these mechanisms are transparent and accessible to the public, so they are truly effective in preventing tax avoidance.

4. Advocating for fair dispute mechanisms

Indonesia should reject the mandatory arbitration model, which tends to favor developed countries and potentially harm fiscal sovereignty. Instead, the government can propose more balanced dispute-prevention mechanisms, such as joint audits and mutual agreement procedures with clear deadlines. Civil society can support these efforts by monitoring the negotiation process, exposing potential risks, and reinforcing the narrative that revenue certainty for the state should take precedence over certainty for investors.

5. Aligning with the Global South development and solidarity agenda

Indonesia's position in the UN Tax Convention should not be purely technical, but must align with the national development agenda, the SDGs, and human rights principles. The government can leverage its ties with the BRICS+ forum to build strategic alliances with other developing countries. At the same time, civil society can ensure that this effort truly delivers benefits for fiscal justice, redistribution, and the financing of sustainable development.

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