



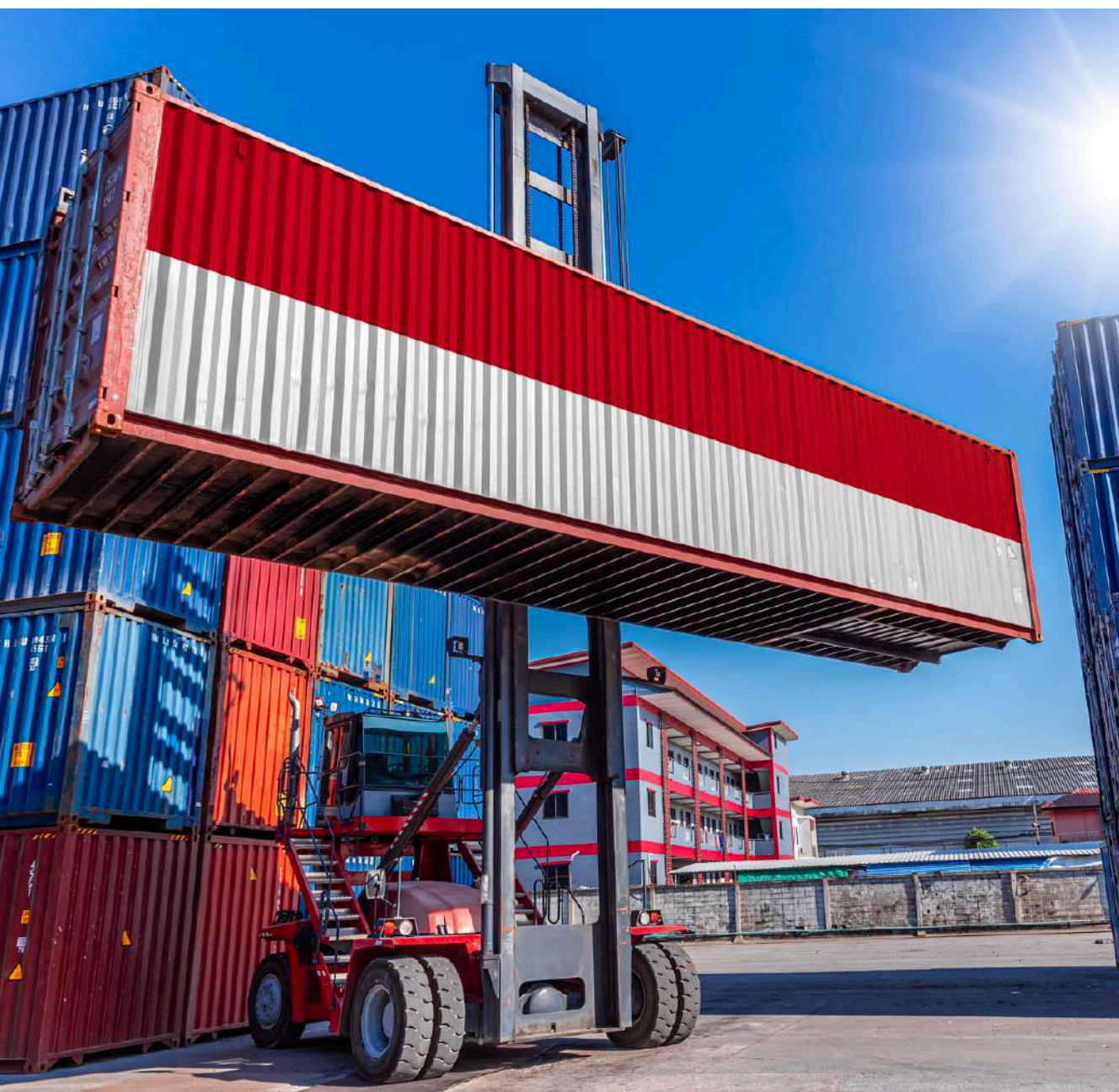
**PRAKARSA**  
Welfare Initiative for Better Societies

Policy Paper

The Risk of Pseudo-Compliance:

# **Assessing the Limits of Global Tax Standards for Indonesia's Fiscal Justice and the Reform Agenda for Meaningful Accession**

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# **The Risk of Pseudo-Compliance: Assessing the Limits of Global Tax Standards for Indonesia's Fiscal Justice and the Reform Agenda for Meaningful Accession**

*Risiko Kepatuhan Semu: Menilai Keterbatasan Standar Pajak Global bagi Keadilan Fiskal Indonesia dan Agenda Reformasi bagi Akses yang Bermakna.*

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# Executive Summary

Indonesia's accession to OECD membership through the *Committee on Fiscal Affairs* (CFA) requires a comprehensive overhaul of international tax regulation. Although Indonesia has responded consistently to the OECD reform agenda since 2016, this formal compliance does not in itself strengthen Indonesia's cross-border taxing rights. This is reflected in a tax ratio that has stagnated at around 10% and in the contribution of Article 26 Income Tax (PPH Pasal 26) to GDP, which has not budged from the 0.28%–0.39% range despite nominal growth in international transactions. *This policy paper* argues that OECD accession needs to be assessed by its real impact on Indonesia's taxing capacity and fiscal justice, not merely by the passive adoption of standards.

This paper produces the following key findings:

1. OECD accession should be judged not only by formal compliance but by its impact on Indonesia's taxing capacity and fiscal justice. Indonesia has adopted various OECD/G20 standards, yet that adoption has not automatically strengthened cross-border tax revenue.
2. Article 26 Income Tax (PPH Pasal 26) revenue has risen in nominal terms, but its contribution to GDP has stagnated. This indicates that growth in cross-border transactions has not been fully translated into stronger taxing rights for Indonesia as a source country.
3. GMT as a Partial Correction: The 15% Global Minimum Tax under PMK 136/2024 closes only part of the problem. The DMTT space over foreign MNEs in Indonesia is narrow, while the largest revenue potential lies instead in the outbound.
4. CbCR data indicate a risk of profit shifting by Indonesian multinationals to low-tax jurisdictions. However, the aggregate and non-public nature of CbCR limits public oversight and independent analysis by civil society.
5. Tax treaties are a strategic loophole that has not been sufficiently corrected. Without renegotiating its tax treaties (P3B) and strengthening anti-abuse rules, Indonesia remains at risk of losing taxing rights through treaty shopping.

OECD accession must be reframed from a mere endpoint achievement into a strategic negotiating platform. Indonesia must firmly avoid the position of a passive *standard taker* and must champion a fairer design of global taxation for emerging-market countries. To realise this, the government needs to urgently renegotiate its tax treaties (P3B) with the main jurisdictions that have long functioned as *treaty hub* such as the Netherlands, Singapore, and Hong Kong, in order to curb the widespread practice of *treaty shopping*. This regulatory overhaul must be accompanied by a reorientation of tax-authority supervision through stronger *Controlled Foreign Corporation* (CFC) rules and *transfer pricing* audit capacity dedicated to targeting the *outbound* operations of multinational enterprises (MNEs) headquartered in Indonesia. At the multilateral level, Indonesia needs to assertively build a coalition with other developing countries within the *Inclusive Framework* and the *UN Tax Committee* to push for raising the Global Minimum Tax (GMT) threshold so that it aligns better with the reality of corporate income tax rates. This entire agenda of regulatory and diplomatic improvement must ultimately be supported by expanding access to *Country-by-Country Reporting* (CbCR) data at the company level to the public, so that independent verification and civil-society oversight of MNE tax compliance can function effectively.

Image 1. OECD Global Parliamentary Network Meeting 2024



Source: OECD

# Background

Since its formal application for OECD membership in 2023, Indonesia has made significant progress, including the submission of an initial memorandum in June 2025.

The accession process itself requires various adjustments across many areas, as set out in the OECD Accession Roadmap, including in the fiscal area under the framework of the Committee on Fiscal Affairs (*Committee on Fiscal Affairs*). These adjustments require various regulatory and governance reforms in international taxation, in particular a commitment to avoid double taxation, the implementation of measures to prevent base erosion and profit shifting (*Base Erosion and Profit Shifting/ BEPS*), strengthening transfer pricing rules (*transfer pricing*), and enhancing the tax transparency framework.

This paper adopts a between-countries fiscal-justice perspective, in which Indonesia, as a source and market country, continues to lose taxing rights over value created within its economy. Indonesia's normative compliance with OECD/BEPS standards since 2016 has not stopped fiscal leakage. The problem is not non-compliance. Rather, there is a structural gap between adopting the standards and having the capacity to benefit from them. International standards designed in the context of developed countries with strong administrative capacity and home-country positions for multinational enterprises do not automatically produce equivalent taxation capacity when adopted by source countries. This applies to the asymmetric design of the global regime, the distribution of the domestic tax burden, and enforcement capacity that has not yet caught up. This gap, not non-compliance, is the central argument of this analysis. Within Indonesia's OECD accession, the elimination of double taxation appears to reflect the central orientation of global tax policy: reducing barriers to cross-border trade and investment. This approach emphasises preventing the double taxation of the same income in more than one jurisdiction, thereby contributing to greater legal certainty and encouraging international capital mobility. From the perspective of a source country such as Indonesia, however, reducing double taxation without a commensurate safeguard for taxing rights risks narrowing the tax base and reducing potential state revenue, particularly when existing treaty structures are used to shift profits to low-tax jurisdictions.

These developments are also reflected in the expansion of the international tax-treaty network as the main instrument for implementing global standards. Globally, the number of bilateral tax treaties grew from 1,035 in 1990 to about 5,100 in 2025, covering 146 jurisdictions (OECD, 2025). This increase points to a tendency toward harmonising tax policy across countries through the adoption of treaty models and practices promoted by the OECD. Indonesia itself has 71 double taxation avoidance agreements (tax treaties/P3B), a number exceeding the global average and almost on par with the profile of OECD countries. This reflects a high level of commitment to reducing double taxation. However, the breadth of the tax-treaty network also widens the risk surface for the improper use of treaties through *treaty shopping*.

This issue is pressing because the momentum of the *technical review* of the Committee on Fiscal Affairs, now entering its phase in mid-2026, opens a window to help shape the accession terms, while also posing the risk that Indonesia enters as a passive standard taker amid a rapidly shifting landscape, for example following the United States' withdrawal from the Two-Pillar framework, the deadlock over Pillar One, and the *Agreement on Reciprocal Trade* (February 2026), which forecloses the digital-tax option. As a civil-society input to the accession process, this paper unpacks these issues and formulates a reform agenda that can be pursued from within the accession framework.

# The OECD and Indonesia's Tax Reform

The *Base Erosion and Profit Shifting* (BEPS) project, developed by the OECD together with the G20, is a collective response to the mismatch between the existing international tax system and an increasingly integrated and digitalised global economy. The OECD estimates that BEPS practices cause global tax-revenue losses of USD 100–240 billion per year, or about 4–10% of total corporate income tax revenue (OECD, 2015). Through 15 action plans, the initiative promotes regulatory harmonisation, strengthening of the arm's length principle in *transfer pricing*, and improved transparency, with the aim of ensuring that profits are taxed where real economic activity takes place and value is created. Indonesia has consistently adopted various BEPS recommendations since 2016, as reflected in a series of domestic regulations set out in the following table.

Table 1. **Progress in Adopting the OECD/G20 BEPS Framework**

Year	OECD/G20 Recommendation	Regulation in Indonesia
2016	<i>Action 13 : Re-examine Transfer Pricing Documentation</i>	Minister of Finance Regulation (PMK) No. 213/PMK.03.2016 as the basis for <i>Country-by-country Reporting</i>
2017	<i>Action 15: Develop a Multinational Instrument</i>	Ratification of the <i>Multilateral Convention to Implement Tax Treaty Related to Measures to Prevent Base Erosion and Profit Shifting (MLI)</i> in June 2017
2019	<i>Action 14: Make Dispute Resolution Mechanism More Effective</i>	PMK No. 49/PMK.03/2019 on procedures for implementing the mutual agreement procedure ( <i>Mutual Agreement Procedure/ MAP</i> )
2020	<i>Action 1: Addressing the Tax Challenges of the Digital Economy</i>	Introduction of 11% VAT on intangible goods/ services from abroad
2022	<i>Action 3: Strengthen Controlled Foreign Company (CFC) Rules</i>	Enactment of Law No. 7 of 2021 on the Harmonisation of Tax Regulations and Government Regulation (PP) No. 55 of 2022

	<i>Action 4: Limit Base Erosion via Interest Deductions and Other Financial Payments</i> <i>Action 6: Prevent Treaty Abuse</i> <i>Action 7: Prevent the Artificial Avoidance of Permanent Establishment Status</i>	
2023	<i>Action 8 – 10 : Assure that Transfer Pricing Outcomes are in Line with Value Creation</i>	PMK No. 172 of 2023 on the application of the arm’s length principle ( <i>Arm’s Length Principle</i> )
2024 - 2025	<i>The OECD/G20 Inclusive Framework on BEPS Pillar 2</i>	PMK No. 136 of 2024 on the imposition of a global minimum tax under international agreement

The adoption record above shows that Indonesia has responded to the OECD reform agenda consistently and over a relatively short period. However, consistent formal adoption does not in itself guarantee effective implementation. As the following sections explain, there is a persistent gap between regulatory commitment and measurable fiscal impact. That gap is the focus of this paper’s analysis in the context of Indonesia’s accession process through the *Committee on Fiscal Affairs*.

# Cross-Border Taxation and Fiscal Justice in Indonesia

Over 2012–2024, Indonesia’s tax-to-GDP ratio stagnated at around 10%, far below the OECD average (34%) and the average of comparable *emerging market* countries. VAT and the luxury-goods sales tax (PPN and PPnBM) dominate the revenue structure, accounting for 36% of total tax revenue in 2024, followed by corporate income tax under Articles 25/29 at 14%. Article 26 Income Tax (PPH Pasal 26), a direct mirror of cross-border taxing capacity, grew in nominal terms from IDR 24 trillion in 2012 to IDR 82 trillion in 2024, yet its contribution to GDP remained stagnant in the 0.28%–0.39% range. The increase in international economic activity has thus not automatically produced a proportional strengthening of fiscal revenue. To understand the mechanisms underlying this stagnation, the following section analyses Country-by-Country Reporting *Country-by-Country Reporting* (CbCR) data, which give a more detailed picture of the taxation patterns of multinationals operating in and from Indonesia.

## 1. The Gap Between Nominal Rates and Fiscal Reality

The *Country-by-Country-Reporting* data show a significant gap between Indonesia’s statutory corporate income tax rate of 22% and the effective tax rate paid by multinational enterprises (MNEs) headquartered in Indonesia on their foreign operations. Based on 2021 OECD CbCR data, 468 MNE groups headquartered in Indonesia recorded total profit before tax of USD 75.87 billion, with total tax paid of USD 7.77 billion, equivalent to an *effective tax rate (ETR)* 10.25%. By contrast, 1,505 foreign MNE groups operating in Indonesia recorded total profit before tax of USD 56.38 billion, with tax paid of USD 10.63 billion, or an ETR of 18.85%. Despite smaller total profits, foreign MNEs tend to pay more tax than Indonesia-based MNEs.

Table 2. Summary of Country-by-Country Reporting, Indonesia 2021

Indicator	MNEs based in Indonesia			Foreign MNEs operating in Indonesia		
	Positive Profit	Negative Profit	Total	Positive Profit	Negative Profit	Total
Number of MNE Groups	333	167	500	892	573	1465
Number of MNE Sub-Groups	521	277	798	695	455	1150
Number of Entities	12.820	913	13.733	3.736	1.048	4.784
Total Profit Before Tax (USD million)	80.697	(4.830)	75.867	60.475	(4.375)	56.100
Total Tax Paid (USD million)	7.655	119	7.774	10.244	267	10.511

Note: Negative Profit indicates sub-groups with pre-tax losses.

Source: OECD Corporate Tax Statistics - CbCR Aggregate Totals by Jurisdiction, Indonesia 2021.

The pattern of profit concentration at the jurisdiction level reinforces this picture. CbCR data indicate that jurisdictions with low effective tax rates record far higher profit per employee than jurisdictions with more substantial real economic activity (see Appendix 1). For example, Indonesian MNEs operating in Mauritius have only 4 employees yet record profit per employee of about USD 8 million, with an ETR of 0.6%. Similar patterns appear in Macao (ETR 1.2%), Hong Kong (ETR 0.6%), and Singapore (ETR 7.2%). This pattern is consistent with the *profit shifting* hypothesis as documented in the BEPS literature. Beer, de Mooij, and Liu (2020) find that more than one-third of global MNE profits are booked in jurisdictions disproportionate to their real economic contribution. Even so, given the aggregate nature of the data, this pattern cannot fully exclude legitimate alternative explanations at the entity level<sup>1</sup>.

<sup>1</sup> The analysis uses aggregate *Country-by-Country Reporting* (CbCR) data published by the OECD (2023) and further processed by the PRAKARSA research team. The data are anonymised and aggregated at the jurisdiction level, so they do not permit identification of the behaviour of individual corporate entities. The main indicators used – profit per employee and the cash-basis effective tax rate (*effective tax rate*/ETR) – serve as proxies to detect profit-distribution patterns disproportionate to real economic activity. It should be noted that such patterns can arise from a variety of factors, including: base erosion and profit shifting (BEPS) practices, legitimately *capital-intensive* or *IP-intensive* business models, differences in accounting standards across jurisdictions, and legitimate *holding* ownership structures. The aggregate data do not allow these factors to be disentangled conclusively. The findings in this section are therefore indicative and should be read as a basis for policy diagnosis, not as causal confirmation of tax-avoidance practices at the company level.

A comparison of the *outbound* (10.25%) and *inbound* (18.85%) ETRs produces a diagnostic finding that runs counter to common assumptions. Indonesia is in fact more successful at taxing foreign MNEs operating domestically than at preventing domestic MNEs from booking profits in low-tax jurisdictions. The majority of foreign MNEs from major jurisdictions pay ETRs far above the 15% threshold, such as China (18.75%), the United States (31.36%), and Japan (56.71%). This phenomenon carries a fairly clear implication: Indonesia's main weakness lies not in enforcement against inbound foreign MNEs, but in weak cross-border anti-avoidance rules for MNEs headquartered in Indonesia. This pattern overturns the common stereotype that developing countries are always passive victims of foreign MNEs.

Figure 1. Distribution of Indonesian MNEs by Profit per Employee and ETR, 2021

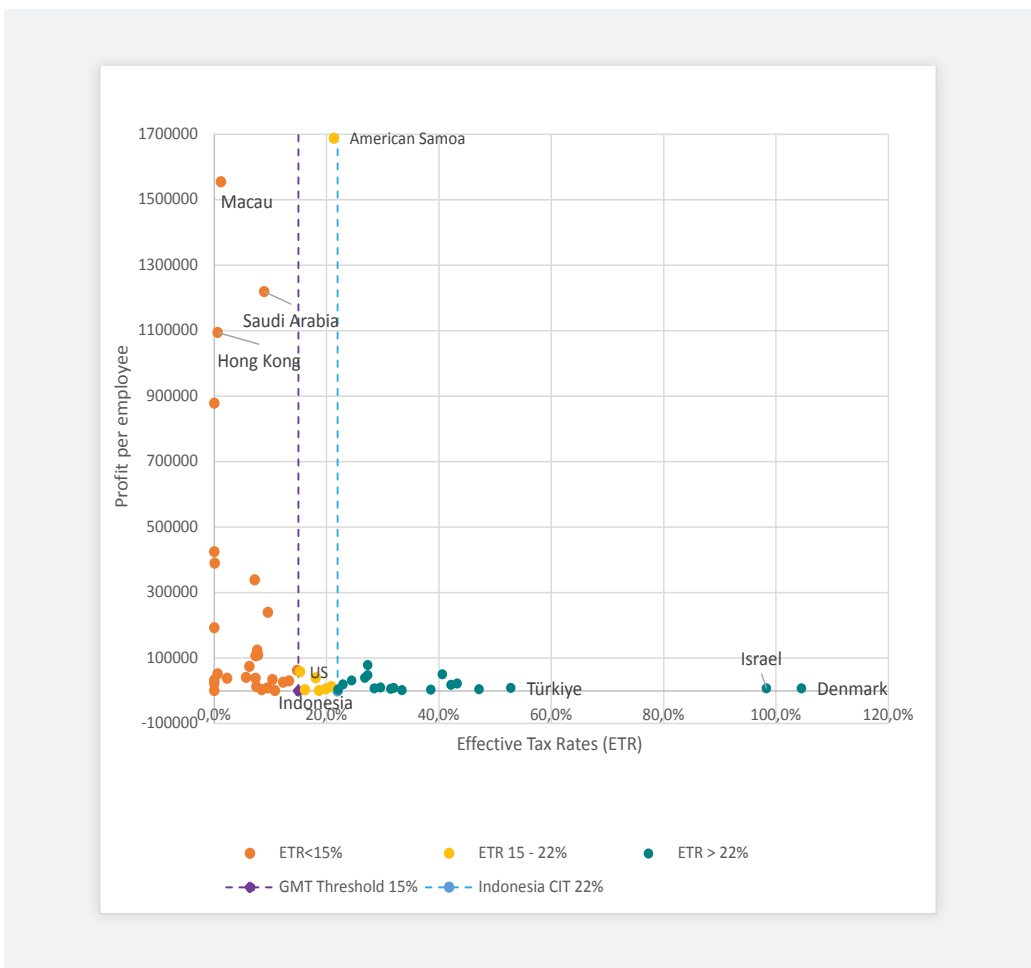
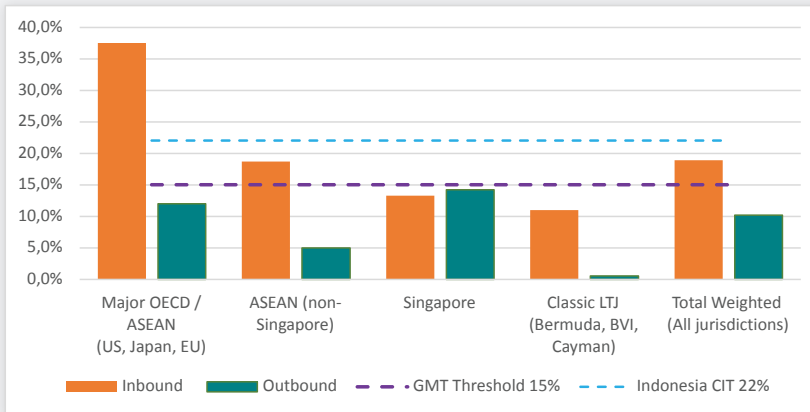


Figure 2. Comparison of Outbound and Inbound ETR by Jurisdiction Group, 2021



## 2. The 15% Global Minimum Tax: A Partial Corrective Instrument

In the context of the paradox above, the 15% Global Minimum Tax implemented through PMK 136/2024 needs to be assessed proportionally, in terms of both its potential and its limitations. The global minimum tax, established under Pillar Two of the OECD/G20 BEPS framework, requires multinational enterprises with consolidated turnover above €750 million to pay a minimum effective tax of 15% in every jurisdiction in which they operate. Its main mechanism is the *top-up tax*, an additional tax levied to close the gap between an entity's actual ETR and the 15% threshold. *Top-up tax* is imposed through three sequential channels: the *Qualified Domestic Minimum Top-Up Tax (QDMTT)*, which gives collection priority to the country where the entity operates (the *host country*); the *Income Inclusion Rule (IIR)*, which shifts the collection right to the headquarters' country of residence if the QDMTT is not applied; and the *Undertaxed Profits Rule (UTPR)* as a residual mechanism that allows other countries in the same group to collect the *top-up tax* top-up tax not yet collected through the two preceding channels. Indonesia implements the GMT through PMK 136/2024, applying the QDMTT and IIR partially from tax year 2025, making Indonesia one of six ASEAN members that have taken concrete legislative steps in response to this global tax regime (DGT, 2026; PRAKARSA, 2024).

CbCR analysis shows that the total tax gap from the outbound operations of Indonesian MNEs reaches USD 4.1 billion<sup>2</sup> (IDR 69.7 trillion) if the 15% GMT is fully applied. However, most of that potential would be collected by the MNEs' parent-residence countries through the IIR, not by Indonesia. Meanwhile, the Indonesian Directorate General of Taxes projects

<sup>2</sup> The *tax gap* estimate of USD 4.1 billion is calculated using the formula:  $Tax\ Gap = \text{MAX}(0, (15\% - \text{cash ETR}) \times \text{Profit Before Tax})$  applied to each jurisdiction where Indonesia-based MNEs recorded a cash ETR below the 15% GMT threshold, based on OECD aggregate *Country-by-Country Reporting (CbCR)* data for 2021. The *tax gap* estimate is likely lower if an accrued basis consistent with the GloBE Model Rules is used.

domestic revenue collectible by the DGT through the top-up tax mechanism in the range of IDR 3.8–8.8 trillion (DGT Performance Report, 2025).

Table 3. Tax gap by main jurisdiction of Indonesian MNEs' outbound operations, 2021

Jurisdiction	Actual ETR	Total profit (USD million)	GMT 15% tax gap (USD million)
Chinese Taipei	7,69%	12.650	924
Indonesia (domestic) <sup>1</sup>	12,63%	~33.600	797
Philippines	0,09%	2.280	340
Hong Kong (China)	0,63%	1.630	234
British Virgin Islands	0,51%	1.540	223
<b>Total</b>			<b>2.518</b>

<sup>1</sup> Note on Indonesia (domestic): calculated using a cash ETR basis of 12.63%. Using an accrued basis (ETR 15.94%) consistent with the GloBE Model Rules, this gap approaches zero. Figures for other jurisdictions are unaffected. Source: OECD CbCR data, 2021 (processed by the authors).

The distribution of the tax gap across major jurisdictions is striking. Chinese Taipei (Taiwan) accounts for the largest tax gap, about USD 924 million, from the difference  $(15\% - 7.69\%) \times \text{USD } 12.65 \text{ billion}$ . Indonesian MNEs' domestic operations themselves contribute USD 796.8 million. The next jurisdictions are the Philippines at USD 340 million, the British Virgin Islands at USD 223 million, and Hong Kong at USD 234 million.

The DMTT space over foreign MNEs in Indonesia is far narrower than the potential revenue space over Indonesian MNEs operating abroad. CbCR data show that the majority of foreign multinationals operating in Indonesia already pay effective tax rates well above the 15% threshold: the ETR of China-headquartered MNEs is recorded at 18.72%, the United States at 31.36%, and Japan at 56.71%. Japan's very high ETR reflects a combination of extensive taxation on the parent-country side and the limited benefits obtainable from double taxation avoidance agreements. Of all the home jurisdictions of foreign MNEs operating in Indonesia, only two have an inbound ETR below the GMT threshold: Bermuda, with an ETR of 11.01% and a tax gap of USD 133.8 million, and Singapore, with an ETR of 13.34% and a tax gap of USD 38 million. The total DMTT space available over foreign MNEs in Indonesia is therefore only about USD 172 million, equivalent to IDR 2.9 trillion<sup>3</sup>.

<sup>3</sup> Exchange-rate assumption: USD 1 = IDR 17,000

The USD 172 million figure is less than 5% of the revenue potential that the parent countries of Indonesian MNEs can collect through the IIR. This asymmetric pattern is consistent with the critique of Devereux, Vella, and Wardell-Burrus (2023) that the Pillar Two regime tends to deliver greater fiscal benefits to developed countries (the MNEs' parent residences) than to developing countries (host countries). Clausing, Saez, and Zucman (2021) offer a similar critique, arguing that the GMT design, with its 15% threshold, sets the political compromise too close to the preferential rates of low-tax jurisdictions.

The 15% GMT threshold is still 7 percentage points below Indonesia's statutory CIT (22%) and below the CIT of most OECD countries. The economic incentive for MNEs to shift profits from Indonesia to jurisdictions offering an ETR of 15–21% therefore remains intact. The GMT closes only the gap to jurisdictions below 15%.

Pillar Two is a minimum floor and therefore not a comprehensive solution to base erosion. PRAKARSA (2024) proposes revising the GMT threshold to a minimum of 21–25%. The *Independent Commission for the Reform of International Corporate Taxation* (ICRICT) (2024) recommends an effective global minimum tax rate of 25% on multinationals' profits per jurisdiction and judges the 15% figure to be historically too low. Without raising the threshold, Pillar Two risks neutralising tax incentives in *tax haven*, jurisdictions, while leaving tax competition in the 15–22% range to run uncorrected.

On the other hand, the large gap between the 22% statutory CIT and the 10.25% outbound ETR does not stem from a single mechanism. It is an aggregation of two distinct channels. Distinguishing the two matters so that policy diagnosis does not fall into conflation. The first channel is *profit shifting*. Profit is moved to low-tax jurisdictions through intra-group transfer pricing, debt shifting, or *intangible-asset allocation*. As a result, taxable profit reported in Indonesia shrinks. This is the channel referred to as corporate income tax base erosion (Beer et al., 2020; Tørsløv et al., 2022). The statutory 20% rate of Article 26 Income Tax (PPH Pasal 26) is reduced to 5–15% for dividends and 10% for interest and royalties, depending on the tax-treaty provisions applicable with the jurisdiction concerned. This channel works not by reducing reported profit but by reducing the rate applied to payments leaving Indonesia, thereby eroding the *withholding tax*.

CbCR data reinforce the hypothesis that both channels are active simultaneously in Indonesia. Singapore records an outbound ETR of 14.16% on Indonesian MNE operations and is repeatedly identified in the literature as a *regional treaty hub* that facilitates the reduction of *withholding tax* through its treaty network. The Netherlands records an even lower outbound ETR, namely 6.47%, consistent with the findings of PRAKARSA and SOMO (2019), which document the use of the Indonesia–Netherlands tax treaty (P3B) through conduit-company structures (*conduit company*). Weyzig (2013) documents quantitatively that more than 50% of foreign direct investment inflows to Indonesia from Europe were once routed through Netherlands-based structures in the period before the Multilateral

Instrument took effect. Beer, Klemm, and Matheson (2019) find a similar pattern meta-analytically: *treaty shopping* reduces developing countries' *withholding tax* revenue by an average of 15–25%.

The synthetic implication of this two-channel analysis is clear. PMK 136/2024 addresses only part of the base-erosion problem: the GMT corrects cases of ETRs below 15% but does not recover withholding-tax revenue lost to preferential treaty rates. Moreover, in its fiscal logic, the GMT may strengthen MNEs' incentive to shift from using tax holidays toward treaty-based avoidance structures that are harder to detect and measure.

The accession agenda through the Committee on Fiscal Affairs should therefore place tax-treaty (P3B) network reform on a priority equal to GloBE implementation. Such reform includes strengthening anti-treaty-abuse mechanisms through the principal purpose test (PPT) and limitation on benefits (LOB) under BEPS Action 6 (OECD, 2015).

# The Stagnation of Multilateral Reform on Digital Economy Taxation

Beyond base-erosion practices through conventional mechanisms, Indonesia's cross-border tax challenges are becoming more complex with the rapid growth of the digital economy. This transformation not only changes multinationals' business models but also widens the gap between where economic value is created and where it is taxed.

Indonesia is currently one of the largest digital-economy markets in Southeast Asia. The national digital economy is estimated to have reached about USD 90 billion in 2024, up roughly 13% from the previous year (Google & Temasek, 2024). E-commerce dominates at around USD 65 billion, followed by digital media at about USD 8 billion. Digital payments recorded gross transaction volume of USD 404 billion, a figure that exceeds the overall digital-economy value because it captures all transaction flows, including account-to-account transfers, not only the economic value added.

The Subscription Video-on-Demand (SVoD) sub-sector offers a concrete illustration of cross-border tax challenges in the digital era. Indonesia is the largest SVoD market in Southeast Asia, with tens of millions of subscribers and revenue reaching USD 552 million, or about IDR 9 trillion, in 2024 (CNBC, 2025). The market structure shows strong dominance by foreign multinationals such as Netflix and Disney+. Payments made by Indonesian consumers are recorded as company revenue in other jurisdictions, particularly in the country where the parent entity or the centre of intangible-asset management is located. Yet many of these companies do not meet the criteria for a Permanent Establishment (BUT) in Indonesia, so the state cannot tax the economic activity occurring within its territory. This shows that a physical-presence-based Permanent Establishment definition structurally limits the state's capacity to tax digital business models.

In response to these limitations, the government introduced an alternative approach through the concept of Significant Economic Presence, as regulated in Government Regulation (PP) No. 80 of 2019 and reinforced by PMK No. 48/PMK.03/2020. This approach aims to extend Indonesia's taxing rights over foreign digital companies without requiring a physical presence. In practice, however, implementation has been directed more toward levying Value-Added Tax (VAT) on Trade Through Electronic Systems (PMSE). Global digital companies such as Netflix, Spotify, LinkedIn, and Zoom have been appointed as collectors

of 11% VAT on transactions by Indonesian consumers. The Directorate General of Taxes recorded PMSE VAT revenue of IDR 10.32 trillion, collected by 246 PMSE operators in 2025 (DGT, 2026). Although this policy has successfully broadened the tax base on the consumption side, it has not addressed the taxation of corporate profits. The state obtains tax only on domestic consumption, while profits generated from economic activity in Indonesia continue to be reported and taxed in other jurisdictions.

The limitations of a physical-presence-based tax regime and the predominance of consumption-tax instruments form the basis for international tax reform through the OECD/G20 Inclusive Framework, particularly BEPS Pillar One: the Unified Approach. Pillar One aims to reallocate taxing rights over multinationals' profits to market jurisdictions where the countries where consumers or users are located through two main components. Amount A reallocates part of the residual profit of the largest and most profitable MNEs to market jurisdictions, providing a basis for a country such as Indonesia to tax part of the profit previously reported in other jurisdictions. Amount B simplifies the application of the arm's length principle to routine distribution and marketing activities, increasing legal certainty and reducing the potential for transfer-pricing disputes.

Geopolitical developments since early 2025, however, have fundamentally altered the prospects for implementing Pillar One. The United States withdrew from the entire Two-Pillar agreement through an executive memorandum signed on the first day of President Trump's second term (EY, 2025). This withdrawal is fatal to the operationalisation of Amount A: the MLC that serves as Pillar One's legal instrument requires ratification by at least 30 countries representing 60% of the ultimate parent entities of in-scope MNEs under Amount A. Without the United States, home to the majority of the world's largest MNEs, that critical-mass threshold cannot be met (OECD, 2023). As of June 2026, the MLC has not been opened for signature, and the European Commission itself acknowledges that Pillar One discussions are on hold (European Parliament, 2025).

The Pillar One deadlock effectively forecloses the multilateral route for Indonesia to tax the profits of digital multinationals operating in its market. A number of jurisdictions that had committed to removing their Digital Services Tax (DST) as part of the Pillar One agreement are now retaining or reintroducing their DSTs, including the United Kingdom, France, and India. For Indonesia, however, applying a DST faces particular challenges owing to commitments set out in the Agreement on Reciprocal Trade (ART) signed with the United States on 19 February 2026.

The ART states that Indonesia may not impose a DST or similar tax that is discriminatory against US companies, whether de jure or de facto. Although textually this provision is not an absolute prohibition, its interpretation can be highly subjective. The dominance of US digital platforms in the Indonesian market could give the US grounds to claim that any DST is discriminatory in practice, regardless of the provision's textual neutrality. This risk

is compounded by the absence of an independent arbitration mechanism in the ART: in the event of a dispute, the US could unilaterally raise tariffs again without a neutral and binding dispute-settlement process. In practice, Indonesia is in a position where a DST as a unilateral instrument remains legally open but politically and economically closed.

The situation Indonesia faces is therefore not merely a domestic policy matter but a reflection of a more systemic design weakness in the international digital-tax architecture. Pillar One was designed with high coverage thresholds and a ratification mechanism requiring the involvement of major jurisdictions, a design inherently vulnerable to shifts in the political positions of large countries. When that multilateral mechanism does not operate as designed, emerging-market countries that lack adequate alternative instruments face a fiscal gap that is hard to correct in the short term. In this context, the OECD needs to consider reforms to digital-taxation schemes that are more resilient to changes in single-jurisdiction participation and that better reflect the capacity and interests of emerging-market countries in the design process. In addition, the OECD can play a role in issuing guidance that helps member countries and Inclusive Framework partners ensure that digital-tax commitments in bilateral trade agreements do not conflict with the policy space guaranteed under the international tax framework, so that the resulting standards can apply effectively and fairly to all parties involved.

## The Way Forward and Policy Recommendations

Indonesia's OECD accession is entering a decisive phase. The initial memorandum was submitted in June 2025, and the Committee on Fiscal Affairs will be one of the committees that most intensively assess Indonesia's readiness. The question is no longer whether Indonesia will align with OECD standards where the process has been under way since 2016, but on what terms Indonesia enters the framework and what position it wants to fight for from within. A tax ratio stagnating at around 10%, an Indonesian MNE outbound ETR of 10.25%, and a narrow inbound DMTT space (only USD 172 million) show that Indonesia is entering the international tax regime from a point of structural weakness that needs to be acknowledged and addressed explicitly.

Indonesia needs to avoid being a passive *standard taker*. The OECD CFA sets eight substantive conditions for new members ranging from the elimination of double taxation and a commitment to the *arm's length principle* through to the BEPS package. These conditions must be met with commensurate administrative capacity, not merely normative adoption that grants legal certainty to MNEs without Indonesia obtaining comparable revenue. At the same time, the allocation of reform resources should follow empirical evidence, not merely the order of OECD recommendations. CbCR data show that Indonesia's largest leakage occurs through the *outbound* channel involving domestic MNEs that book profits in low-tax jurisdictions, and through the *treaty* channel that reduces Article 26 Income Tax (PPH Pasal 26) through the tax-treaty (P3B) network rather than through enforcement against inbound foreign MNEs.

OECD accession is also not an *endpoint*, but a negotiating platform. OECD membership gives Indonesia access to the technical forums where international tax standards are formulated, thereby placing the country in a structurally more advantageous position than that of a *rule-taker* outside the framework. Over the medium-term horizon, Indonesia has an interest in pushing for reforms that are fairer to developing countries, including through coalitions with ASEAN countries and G77 members in the Inclusive Framework and the UN Tax Committee. OECD membership should be obtained without sacrificing Indonesia's fiscal space. Every CFA condition met must be accompanied by strengthened domestic capacity

and a stronger negotiating position in multilateral forums. Without both, accession risks becoming a diplomatic achievement with no meaningful distributional outcome for state revenue.

The analysis in this paper yields several recommendations addressed to the Government of Indonesia and the OECD. They are formulated with regard to the empirical findings on base-erosion patterns, administrative-capacity constraints, and the dynamics of a global tax-governance system in transition.

## Recommendations to the OECD

### 1. Reforming the Digital-Taxation Architecture to Be More Resilient to Geopolitical Uncertainty

The current Pillar One design shows a high degree of dependence on the participation of large economies, particularly the home countries of digital multinationals. This dependence creates a structural vulnerability: when one or a few key countries withdraw support or delay implementation, the entire architecture becomes ineffective. For developing countries such as Indonesia, this generates uncertainty in revenue planning and weakens the legitimacy of a global tax reform that has been negotiated over a long period.

In this context, the OECD needs to consider a more modular alternative design that does not depend entirely on universal consensus, for example, by strengthening implementation mechanisms based on *critical mass* or by providing *fallback measures* that still grant taxing rights to market countries. Such reform would enhance the OECD's credibility as a global standard-setter while ensuring that the benefits of reform are not delayed by geopolitical dynamics beyond developing countries' control.

### 2. Strengthening the Representation of Developing-Country Interests

Although the *Inclusive Framework* formally adopts the principle of inclusivity, in practice the policy-making process still exhibits asymmetries of capacity and influence between developed and developing countries. Developing countries often face technical, resource, and information constraints, so their negotiating position tends to be reactive rather than proactive. As a result, global policy design risks reflecting the interests of MNE home countries more than those of source or market countries.

The OECD needs to actively correct this imbalance through more substantive, not merely procedural, mechanisms. This can be done by strengthening technical support, opening more equal deliberative space, and integrating developing-country perspectives from the earliest stages of policy formulation. Without such reform, there is a risk that global standards will continue to reproduce inequities in the distribution of taxing rights, ultimately weakening the legitimacy of the international tax system itself.

### **3. Strengthening Support for Global Tax Transparency and Data**

Limited data availability remains one of the main obstacles to evaluating the effectiveness of international tax policy. At present, access to Country-by-Country Reporting (CbCR) data is generally still restricted to tax authorities, so independent analysis by academics, civil society, and other stakeholders is constrained. This reduces accountability and slows the identification of increasingly complex tax-avoidance practices.

The OECD needs to take a more progressive role in advancing global transparency standards, including through the adoption of *public CbCR*. Besides improving the quality of policy analysis, this transparency would also create reputational pressure on multinationals to comply more fully with their tax obligations. Over the long term, stronger transparency would reinforce the legitimacy of the international tax system and support the goal of more inclusive growth.

## **Recommendations to the Government of Indonesia**

### **1. Priority Renegotiation of Tax Treaties (P3B) with Treaty-Hub Jurisdictions**

The most urgent step the government needs to take is renegotiating its Double Taxation Avoidance Agreements (tax treaties/P3B) with three jurisdictions that empirically function as treaty hubs, namely the Netherlands, Singapore, and Hong Kong . The lead actor is the Directorate General of Economic and Fiscal Strategy (DJSEF) of the Ministry of Finance as the formulator of the negotiating position, with technical support from the Directorate General

of Taxes (DGT) for impact analysis and the Ministry of Foreign Affairs as the implementer of bilateral diplomacy. The renegotiation should cover three elements that are already standard in BEPS Action 6: a principal purpose test based on substantive economic activity, stricter beneficial-ownership provisions, and a limitation-on-benefits clause specific to conduit-company structures. This document's findings show that the effective tax rates of Indonesian MNEs in the Netherlands and Singapore are far below Indonesia's domestic corporate income tax rate of 22%, a pattern consistent with the conduit-company structures documented in earlier literature.

The urgency of tax-treaty renegotiation is structural, not cyclical. As long as Indonesia's tax-treaty network is not reformed, implementing the global minimum tax (GMT) through PMK 136/2024 will close only part of the base-erosion problem. The GMT corrects profit shifting that produces effective rates below 15%, but does not recover Article 26 Income Tax (PPH Pasal 26) revenue eroded by preferential withholding-tax rates under tax treaties. These two channels operate through different mechanisms and demand different regulatory responses. Without parallel tax treaty reform, MNEs may increasingly move away from tax holidays constrained by the GMT and toward treaty based avoidance structures that are harder to detect and measure. In the context of accession to the Organisation for Economic Co-operation and Development (OECD), this reform also fulfils the Committee on Fiscal Affairs (CFA) commitment to eliminating double taxation without creating opportunities for non-taxation.

## **2. Strengthening Controlled Foreign Corporation Rules and Transfer-Pricing Audits for Outbound Operations**

Strengthen controlled foreign corporation (CFC) rules and transfer-pricing audit capacity for the foreign operations of Indonesian MNEs. The lead actor is the DGT as technical implementer, with support from DJSEF to update the regulatory framework under BEPS Action 3. The most important finding from the CbCR analysis is the paradox that Indonesia is in fact more successful at taxing foreign MNEs operating domestically than at preventing its own domestic MNEs from shifting profits abroad. This pattern overturns the common assumption that developing countries are always the party harmed by foreign MNEs. In Indonesia's case, the data show that the outbound channel of Indonesia-headquartered MNEs is in fact a larger source of base

erosion. The diagnostic consequence is clear: supervisory resources need to be reallocated so that they are not focused solely on enforcement against foreign entities.

Strengthening CFC rules should include broadening the definition of controlled entities, tightening the low-tax criterion that triggers domestic taxation of passive income, and integration with the global minimum tax framework. In parallel, the DGT needs to increase the number of certified transfer-pricing auditors, particularly in the extractive sector that is a primary route for profit shifting, and to accelerate dispute resolution through the Mutual Agreement Procedure (MAP). Without adequate enforcement capacity, the transfer-pricing framework refined through PMK 172/2023 risks granting legal certainty to MNEs without closing substantive avoidance loopholes. In the context of OECD accession, this recommendation also fulfils the CFA commitment to guarantee the primacy of the arm's length principle in the Transfer Pricing Guidelines.

### **3. Formulating Indonesia's Strategic Position in the Inclusive Framework to Push for a Higher GMT Threshold**

This recommendation is diplomatic and multilateral: Indonesia needs to formulate a more assertive position in the Inclusive Framework on BEPS to push for revising the GMT threshold from 15% to a range closer to the global corporate income tax rate. The lead actor is the OECD Accession Team / Ministry of Finance as the strategic position-taker, with technical support from DJSEF and political coordination through the Ministry of Foreign Affairs. This position should be formulated in coordination with a coalition of other developing countries that share similar structural vulnerabilities, particularly ASEAN countries and G77 members active in multilateral tax forums. The diagnostic argument rests on evidence that the current 15% GMT threshold sits well below Indonesia's 22% domestic rate and the global average corporate income tax rate, so the economic incentive for MNEs to shift profits from Indonesia to jurisdictions offering effective rates between 15% and 21% remains intact.

This position should be conveyed consistently in two mutually reinforcing forums: the OECD Inclusive Framework and the UN Tax Committee, including in the negotiation of the UN Framework Convention on International Tax

Cooperation. Indonesia's involvement in the UN forum does not conflict with its OECD accession commitments; rather, it serves as a negotiating instrument that strengthens Indonesia's bargaining position in both forums. OECD accession is not an endpoint but an entry point into the global tax-governance architecture. Without an assertive position from the outset, Indonesia risks becoming a passive standard taker that accepts the framework without the ability to influence over its design. This would reinforce an institutional arrangement that tends to benefit developed countries hosting large MNEs, as emphasized in the critical literature on Pillar Two asymmetries.

#### 4. Expanding Public Access to Country-by-Country Reporting Data

The fourth recommendation is to expand public access to country-by-country reporting (CbCR) data as an instrument of fiscal transparency. The lead actors are DJSEF as the transparency-policy formulator, the DGT as data owner, and the Coordinating Ministry for Economic Affairs for cross-sectoral coordination. At present CbCR data can be accessed only by tax authorities through inter-country information-exchange mechanisms, while civil society and researchers obtain only aggregate data. This limitation hampers independent verification, evidence-based analysis, and public accountability for MNE tax practices. Yet, as the analysis in this document shows, aggregate CbCR data are already sufficient to identify profit-distribution patterns disproportionate to real economic activity. If access to company-level were opened, the capacity for public oversight would increase substantially.



**The urgency of this recommendation relates to two interconnected points.**

First, public CbCR has become a global trend, driven by the European Union through Directive 2021/2101 and advocated consistently by international civil-society organisations. Indonesia's position as a large market with a significant MNE base makes it a key stakeholder in this discussion.

Second, CbCR data transparency serves as a complement to the DGT's still-limited administrative capacity, as verification by researchers, journalists, and civil society can fill gaps in the government's capacity to identify tax-avoidance patterns.

In the context of OECD accession, this recommendation also fulfils the CFA commitment to provide data for periodic tax statistics and to contribute actively to tax-policy analysis with an impact on inclusive growth and welfare. Ultimately, meaningful OECD accession for Indonesia is not about adopting standards. It is about transforming accession into leverage for fiscal justice.

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# Appendix

## Appendix 1

MNEs Based in Indonesia					
Partner Country	Number of Employees	Tangible Assets (USD)	Profit / Employee (USD)	Tax Paid (USD)	Effective Tax Rate
Mauritius	4	295.424.500	8.016.359	187.930	0,6%
American Samoa	15	1.521.577	1.688.247	5.400.656	21,3%
Macau (China)	539	1.636.193.000	1.555.572	9.921.166	1,2%
Saudi Arabia	8	0	1.220.200	871.880	8,9%
Hong Kong (China)	1.492	30.372.780.000	1.095.538	10.330.509	0,6%
Namibia	1	0	879.395	0	0,0%
Niger	1	425.698	424.637	0	0,0%
Philippines	5.870	465.669.800	390.934	1.861.864	0,1%
Singapore	1.020	710.529.400	339.133	24.952.490	7,2%
Switzerland	1.679	479.720.500	239.902	38.825.177	9,6%
South Africa	4	507.884	193.150	0	0,0%
Chinese Taipei	101.830	60.083.545.694	124.211	972.723.559	7,7%
Oman	186	3.780.616	109.615	1.588.782	7,8%
United Kingdom	725	199.054.500	106.866	5.761.984	7,4%
Australia	241	282.632.600	80.346	5.280.274	27,3%
Netherlands	187	39.595.420	75.557	896.592	6,3%
Timor-Leste	119	30.485.290	62.818	1.105.604	14,8%

United States	4.534	806.901.100	59.333	41.150.124	15,3%
Korea	143	7.375.990	52.367	42.946	0,6%
Brazil	103	2.334.878	51.627	2.156.652	40,6%
Belgium	61	2.256.391	49.137	819.681	27,3%
Norway	73	2.618.905	41.222	171.936	5,7%
Japan	1.679	180.996.900	41.000	18.496.570	26,8%
Russia	175	5.646.182	39.615	1.255.426	18,1%
New Zealand	11	1753559	(3.010)	60.683	-
Rest of world	598.010	186.000.000.000	38.898	1.732.255.000	7,4%
Hungary	38	298.017	38.500	34.377	2,3%
Canada	769	178.877.800	34.953	2.785.180	10,4%
Ecuador	1	56.675	33.870	0	0,0%
Germany	1.064	64.536.788	33.363	8.672.751	24,4%
Sri Lanka	4	67.648	31.164	16.606	13,3%
Indonesia	1.251.017	111.000.000.000	27.318	4.190.001.621	12,3%
Austria	72	2.464.988	23.895	743.239	43,2%
Nigeria	33	4.221.263	22.576	0	0,0%
France	523	10.512.360	20.967	2.513.442	22,9%
Slovak Republic	17	109.267	19.020	136.161	42,1%
Italy	162	1.489.036	13.499	164.869	7,5%
Malaysia	292	5.094.369	13.086	796.779	20,9%
Slovenia	16	144.772	11.665	55.185	29,6%
Czechia	60	469.698	10.420	199.213	31,9%
Türkiye	105	1.689.438	9.285	514.861	52,8%
Croatia	20	179.308	9.252	17.661	9,5%
Denmark	39	0	8.868	361.544	104,5%
Mexico	259	2.386.311	8.320	614.722	28,5%
Israel	84	2.418.893	8.183	675.801	98,3%

India	1.568	51.836.460	7.492	3.684.992	31,4%
China	393.859	21.507.140.000	6.025	471.514.600	19,9%
Sweden	120	1.717.954	5.457	308.817	47,1%
Poland	639	1.699.510	5.108	719.711	22,0%
Cambodia	2.286	66.593.460	4.420	1.635.025	16,2%
Vietnam	18.306	1.053.091.000	4.253	29.980.870	38,5%
Laos	196	14.599.610	3.324	55.113	8,5%
Thailand	45.851	1.545.651.000	3.320	50.860.390	33,4%
Papua New Guinea	950	28.725.500	1.754	0	0,0%
Spain	239	9.081.394	1.574	70.299	18,7%
Bangladesh	26.124	381.473.200	839	2.363.600	10,8%

## Appendix 2

Foreign MNEs in Indonesia					
Parent Country	Number of Employees	Tangible Assets (USD)	Profit / Employee (USD)	Tax Paid (USD)	Effective Tax Rate
Saudi Arabia	8	15.382	334.170	-	0,0%
United States	112.053	26.003.668.854	54.920	1.930.114.124	31,4%
Norway	610	154.278.000	47.872	7.759.000	26,6%
China (People's Republic of China)	106.346	29.834.460.370	46.390	923.384.043	18,7%
United Arab Emirates	970	124.235.687	46.336	38.060.142	84,7%
Spain	6.668	821.894.007	41.290	223.091.260	81,0%
Netherlands *	13.081	961.511.794	25.684	43.792.820	13,0%
Bermuda	136.132	14.140.372.954	24.680	370.151.696	11,0%
Switzerland	15.250	1.550.405.517	23.532	135.137.842	37,7%

Romania	1.175	226.336.416	23.436	43.289.610	157,2%
Germany	24.322	2.724.990.000	23.089	181.193.000	32,3%
Singapore	104.233	9.917.486.150	22.008	306.026.269	13,3%
Italy	6.085	971.815.680	20.218	43.927.688	35,7%
Australia	16.882	835.573.404	17.089	76.763.515	26,6%
France	36.716	2.558.079.035	16.209	152.518.342	25,6%
Malaysia	124.759	10.630.267.938	13.440	393.162.694	23,4%
India	6.654	520.040.708	11.860	15.213.111	19,3%
Hong Kong (China)	104.509	8.608.456.679	7.250	268.666.023	35,5%
Japan	423.737	33.658.116.897	4.943	1.187.831.253	56,7%
Luxembourg	8.759	466.178.135	4.036	13.562.353	38,4%
Denmark	57.764	215.730.421	135	(3.905.652)	-49,9%
Cayman Islands	62.343	3.020.334.618	(14.265)	80.919.753	n/m
Panama	267	11.368.829	(14.480)	511.685	n/m
Mexico	297	7.682.386	(15.097)	82.986	n/m
<b>GRAND TOTAL</b>	<b>1.505</b>	<b>5.777</b>	<b>10.628.108.056</b>	<b>12.319.364.856</b>	<b>18,85%</b>



## PRAKARSA

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The PRAKARSA is a research and policy advocacy institution, a “think and do tank”, based on civil society organizations. PRAKARSA established to create a democratic, just, and prosperous society through ideas development, policy and institutional reforms, and evidence-based problem-solving innovations. The PRAKARSA focuses on fiscal policy, social policy, and sustainable development issues.

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We believe that this multi-stakeholder approach will strengthen our works and initiatives in the knowledge production and dissemination as well as the evidence-based policymaking process. We also believe that networking will facilitate and reinforce one another. Therefore, we have received support from various donors and participated in multifarious initiatives with The PRAKARSA partners.

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