OECD’s IF Pillar Two: Potential Impacts to Indonesian Income Tax Policies
Outline

1. The Progress of Pillar Two post Consensus
2. Indonesia’s International Tax Policy post the Law on the Harmonization of Tax Regulations (HPP) and the Consensus
Subject to Tax Rule (STTR)

The rule that require changes to the Tax Treaties

Rule Status, Scope & Operation
Taxation rights are limited to the difference between the minimum tax rate and the tax rate for the payment of royalties, interest, and certain other payments.

The minimum rate for the STTR will be 9%

Global Anti Base Erosion (GloBE)

Income Inclusion (IIR) & Undertaxed Payment (UTPR)

Scope
MNEs meet the 750 million euros threshold as determined under BEPS Action 13 (CBCR)

Minimum Tax Rate 15%.

Carve-outs
5% of the carrying value of tangible assets and payroll (8% of the carrying value of tangible assets and 10% of payroll for 10 years transition period).
1. The Progress of Pillar Two post Consensus (2)

Model Rules & Commentary of GloBE

• The OECD/G20 Inclusive Framework on BEPS (IF) concluded and agreed on the Model Rules of the Global Anti-Base Erosion (GloBE) in December 2021.

• Commentary to the GloBE Rules will be released in early 2022 and will guide on the interpretation of the global minimum tax rules
Model Treaty Provision & Multilateral Instrument STTR

- Model Treaty Provision & Multilateral Instrument STTR is still being discussed by the OECD/G20 Inclusive Framework on BEPS (IF).

- The finalization of the two documents is planned to be completed in mid-2022.
2. Indonesia’s International Tax Policy post the Law on the Harmonization of Tax Regulations (HPP) and the Consensus (1)

2021

- Article 32A of the Law of the Republic of Indonesia Number 7 of 2021 concerning Harmonization of Taxes for the Implementation of Pillar Two in Indonesia

2022

- Model Rules GloBE
- Model Treaty & MLI
- STTR

Government Regulations (PP) and/or Minister of Finance Regulations (PMK) related to the Implementation of GloBE (IIR & UTPR) in Indonesia

2023

- The Implementation of IIR (*)

2024

- The implementation of UTPR
- The Implementation of STTR (**)
2. Indonesia’s International Tax Policy post the Law on the Harmonization of Tax Regulations (HPP) and the Consensus(2)

The impact on Tax Revenue

DGT is still analyzing the impact of Pillar Two implementation on the tax revenue regarding:

a. top-up tax from the Ultimate Parent Entities (UPE) whose Constituent Entity is in low-taxed jurisdiction.

b. the difference between the minimum tax rate and the tax rate for STTR is related to the payment of royalties, interest, and certain other payments.
2. Indonesia’s International Tax Policy post the Law on the Harmonization of Tax Regulations (HPP) and the Consensus

The impact on Tax Facilities

a. DGT is still analyzing the impact of Pillar Two implementation on the tax facilities.
b. The impact of each tax incentive scheme is expected to vary depending on the features of the tax incentive.

1) **Tax Holiday** (PMK No.130/PMK.010/2020)
   • Pillar Two is indicated to affect the effectiveness of the Tax Holiday.

2) **Super Deduction** (PMK No. 153/PMK.010/2020)
   • Pillar Two is indicated to affect the effectiveness of the super deduction in terms of significant R&D.

3) **Tax Allowance** (PMK No. 96 /PMK.010/2020)
   • Pillar Two is expected to affect the effectiveness of the tax allowance policy if the amount of investment is significant.
2. Indonesia’s International Tax Policy post the Law on the Harmonization of Tax Regulations (HPP) and the Consensus (4)

The impact on Tax Administration

a. Government Regulations (PP) and/or Minister of Finance Regulations (PMK) related to the Implementation of GloBE (IIR & UTPR) will refer to the model rules, commentary, and the implementation framework of the GloBE.

b. Regarding filing obligations,

1) each Constituent Entity *) shall file the GloBE Information Return in a standard template no later than 15 months after the last day of the Reporting Fiscal Year.

2) GloBE Information Return shall include the following information, including:
   • information on the overall corporate structure of the MNE Group;
   • the information necessary to compute, i.e., the Effective Tax Rate for each jurisdiction and the Top-up Tax of each Constituent Entity.

*) The return may be filed by either the Constituent Entity itself or by a Designated Local Entity on its behalf.
Thank you

Directorate of International Taxation
DGT