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RSM Indonesia Webinar | 4 December 2024

THE 2025 INDONESIAN TAXATION OUTLOOK

Ichwan Sukardi - Tax Managing Partner



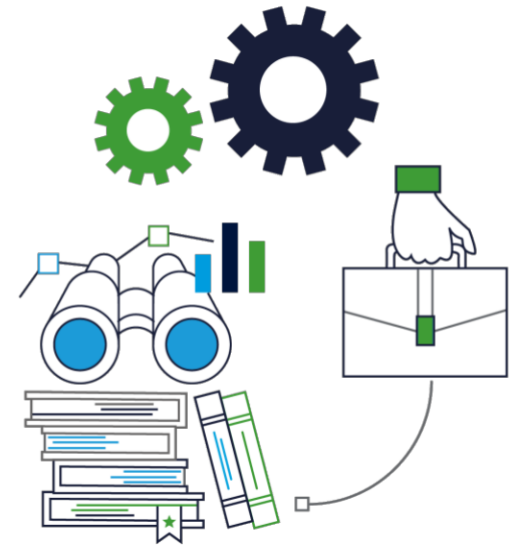
TOPIK WEBINAR

2024 Key tax events

International tax developments

2025 Indonesian taxation outlook

Key takeaways



2024 KEY TAX EVENTS

2024 Tax Policies

1. Expanding tax base as the implementation of HPP Law regarding the implementation of NIK as official Tax ID (NPWP)
2. Strengthening tax extensification activities as well a targeted supervision based regional basis through the implementation of the preparation of a Security Priority Target List Tax Revenue (DSP4) and supervision of High Wealth Individual (HWI) taxpayers includes taxpayers of Group, transaction of affiliation and digital economy
3. Optimizing the implementation of core tax system through improving tax services, risk-based data management and follow-up activities of data interoperability of third party
4. Establish the activity of fair law enforcement through optimizing disclosure incorrect actions and use digital forensic activities
5. Provide targeted and measurable fiscal incentives to support economics transformation aimed to encourage the growth of certain sectors and provide the ease of investment

Source: Framework of Macro Economy regarding Main Points of Fiscal Policy 2024

Major Tax Regulations Issued in 2024

Issued in	Key Tax Regulations	Objective and purpose
February 2024	Minister of Finance Regulation No 7 Year 2024 (“PMK-7”)	VAT on the delivery of landed house and apartment unit borne by the government (DTP) that is prove by minutes of handover since 1 January 2024 to 31 December 2024
February 2024	Minister of Finance Regulation No 12 February 2024 (“PMK-8”)	VAT on the delivery of certain four-wheeled battery electric vehicles and certain bus battery electric vehicles borne by the government (DTP) fiscal year 2024 – VAT DTP rate at 10% of sale price and VAT rate at 11% of sale price. VAT DTP shall be provided between January 2024 and December 2024
February 2024	Minister of Finance Regulation No 9 Year 2024 (“PMK-9”)	Sales tax on luxury goods on the import and/or delivery of taxable goods classified as luxurious in the form of certain four-wheeled battery electric vehicles borne by the government (DTP) for fiscal year 2024 - VAT DTP rate at 100% of the amount of sales tax on luxury goods on the import and/or delivery of taxable goods – provided between January 2024 and December 2024
April 2024	Minister of Finance Regulation No 28 Year 2024 (“PMK-28”)	Facility of Taxation and Customs provided in Ibu Kota Nusantara (IKN) covers as income tax, VAT and sales tax and/or luxurious goods and/or customs
July 2024	Minister of Finance Regulation No 47 Year 2024 (“PMK-47”)	To introduce anti-avoidance provisions for certain parties to carry out obligations to exchange financial information automatically. These measures align with the common reporting standard (CRS) and aim to prevent tax evasion
August 2024	Minister of Finance Regulation No 58 Year 2024 (“PMK-58”)	To provide exemption of PBB-P2 (objects owned, controlled, and/or utilized by international agencies) and BPHTB (objects acquired by international agencies or institution representatives that do not run a business or carry out other activities outside their functions and duties at the time) to international agencies or institution representatives not subject to PBB and BPHTB

Major Tax Regulations Issued in 2024 (cont'd)

Issued in	Key Tax Regulations	Objective and purpose
September 2024	Minister of Finance Regulation No 61 Year 2024 (“PMK-61”)	To provide VAT incentive applies to new, ready-to-occupy houses and residential apartment units with a selling price of up to IDR 5 billion. The government will cover 100% of the VAT due on the portion of the property's taxable base up to IDR 2 billion. The VAT DTP is provided between September 1, 2024, to December 31, 2024, and the actual transfer of rights to use or control a ready-to-occupy landed house or apartment unit is carried out, as evidenced by the handover report from September 1, 2024, to December 31, 2024
October 2024	Minister of Finance Regulation No 69 Year 2024 (“PMK-69”) – amendment of PMK 130/2020	To amend PMK 130/2020 regarding Amendment of MoF Regulation No. 130/PMK.010/2020 concerning Provision of Facility for Reduction of Corporate Income Tax. PMK-69’s main purpose is to extend the opportunity for investors to apply for a facility for reduction of CIT (“tax holiday”) until 31 December 2025 and to incorporate potential revisions to the tax holiday benefit if an investor is subject to Global Minimum Tax under Pillar Two of the international tax rules developed by the OECD. PMK-69 also updates the Tax Holiday Regulations to reflect recent laws and regulations, and to reflect changes to the tax administration system following the implementation of Coretax
October 2024	Minister of Finance Regulation No 74 Year 2024 (“PMK-74”)	To update previous regulations regarding the rules on deductible bad debt provision for certain financial institutions, which is applicable starting Fiscal Year (“FY”) 2024. The scope of the changes covers only the rules for banks and other financing companies, finance lease companies with option rights, consumer financing companies and factoring companies, as listed in the PMK-74. The rules for insurance companies, Deposit Insurance Agency, mining companies, forestry companies, and industrial waste provisions still follow the previous regulations.

Major Tax Regulations Issued in 2024 (cont'd)

Issued in	Key Tax Regulations	Objective and purpose
October 2024	Minister of Finance Regulation No 78 Year 2024 ("PMK-78")	To determine dateline of deposit and report no longer than 15 days after the following month after the end of tax period. This arrangement is applied to align with CORETAX system
October 2024	Minister of Finance Regulation No 79 Year 2024 ("PMK-81")	To provide legal certainty, ease of administration and simplicity in implementing rights and fulfil obligations for VAT, VAT and sales tax on luxury goods (PPnBM) or income tax (PPh) on Joint Operation (KSO)
October 2024	Minister of Finance Regulation No 80 Year 2024 ("PMK-80")	To provide legal certainty, convenience, and simplicity in providing tax facilities for the implementation of government projects financed by grants and/or foreign loan funds
October 2024	Minister of Finance Regulation No 81 Year 2024 ("PMK-58")	To implement CORETAX system that applicable on 1 January 2025

INTERNATIONAL TAX DEVELOPMENTS

15 Actions around 3 Main Pillars

COHERENCE

Hybrid Mismatch Arrangements (2)

CFC Rules (3)

Interest Deductions (4)

Harmful Tax Practices (5)

SUBSTANCE

Preventing Tax Treaty Abuse (6)

Avoidance of PE Status (7)

TP / Aspects of Intangibles (8)

TP / Risk and Capital (9)

TP/ High Risk Transactions (10)

TRANSPARENCY AND CERTAINTY

Measuring BEPS (11)

Disclosure Rules (12)

TP Documentation (13)

Dispute Resolution (14)

Digital Economy (1)

Multilateral Instrument (15)

BEPS in Indonesia

Action			Implementation	Timing
1	Address the tax challenges of the digital economy	VAT on business to customers digital services	ITL and GR 55/2022	2025?
2	Neutralize the effects of hybrid mismatch arrangements	Hybrids mismatch	GR – 55 /2022	Not yet known
3	Strengthen CFC rules	CFCs	Indonesia has CFC rules which has been implemented through a Minister of Finance Regulation Num 107/2017 and GR – 55/2022	27 July 2017
4	Limit base erosion via interest deductions and other financial payments	Interest deduction	Thin cap regulation 4:1 Minister of Finance Regulation Num. 169/2015. New approach using Interest/EBITDA is introduced in GR-55/2022	1 January 2016
5	Counter harmful tax practices more effectively, taking into account transparency and substance	Harmful tax practices	Indonesia has been reviewed by OECD and met all aspects of the terms of reference and no recommendations are made.	Peer-reviewed regularly
6	Prevent Treaty abuse	Prevent Treaty abuse	Indonesia has implemented treaty abuse prevention through PER-25/2018, and updated in GR-55/2022. The Principal Purpose Test (PPT) and Limitation on Benefits (LOB) in Indonesia are also implemented through the signatories of Multilateral Instrument (MLI) on 2017	1 January 2019 and June 2017
7	Prevent the artificial avoidance of PE status	PE Status	Indonesia has addressed artificial PE avoidance under BEPS Action 7 with Minister of Finance Regulation Num 35/PMK.03/2019	1 April 2019
8-10	Aligning transfer pricing outcomes with value creation	Transfer Pricing	Indonesia follows OECD TP Guidelines – specific TP regulations have also been published on Local, Master file and CbCR. Currently updated in Minister of Finance Regulation Num-172 of 2023.	Fiscal year 2016, updated in January 2024
11	Measuring and monitoring BEPS	N/A	Not yet known	Not yet known
12	Require taxpayers to disclose their aggressive tax planning arrangements	Disclosure of aggressive tax planning	Not yet known	Not yet known
13	Re-examine transfer pricing documentation	Transfer pricing documentation	Three-tiered level of TP documentations was introduced in 30 December 2016. Currently updated in Minister of Finance Regulation Num-172 of 2023.	Fiscal year 2016, updated in January 2024
		CBC reporting	The CBC report must be available within 12 months from end of the fiscal year and must be filed with the annual tax return for the subsequent fiscal year. Currently updated in Minister of Finance Regulation Num-172 of 2023.	Fiscal year 2017, updated in January 2024
14	Make dispute resolution mechanisms more effective	Dispute resolution	Ministry of Finance Regulation No 49/2019. Currently updated in Minister of Finance Regulation Num-172 of 2023.	26 April 2019, updated in January 2024
15	Develop a multilateral instrument	Multilateral instrument	Indonesian signed the Multilateral Instrument on 7 June 2017	28 April 2020 deposited instrument to implement MLC

Pillar 1 – New Taxing Right

The Unified Approach: Pillar One is a set of proposals to revisit tax allocation rules in a changed economy → a portion of multinationals' **residual profit** should be **taxed in the jurisdiction where revenue is sourced**. The concept applies to **Automated Digital Services (ADS)** businesses and, **Consumer-Facing Businesses(CFB)**.

Market engagement allocation:

- **“Amount A”:** New taxing right allocates high value profits based on a formula
- It covers profits earned from activities with an **automated digital** character or **goods / services commonly sold to consumers**
- **“Amount B”:** Standard arm's length remuneration for “baseline” **routine marketing and distribution** activities

Main features:

- **Key elements:** Taxing rights over 25% the residual profit of the largest and most profitable MNEs
- **Scope:** MNEs with global turnover exceeding EUR 20 billion and PBT 10%
- **In country revenue:** World Bank: Indonesia GDP USD 1.058.423,84 millions; thus, in-scope revenue would be EUR 1 million
- **In scope MNEs:** a. Filtered MNEs with global turnover over EUR 20 billion, b. Using the list of VAT Withholding agents published by DGT (DJP)

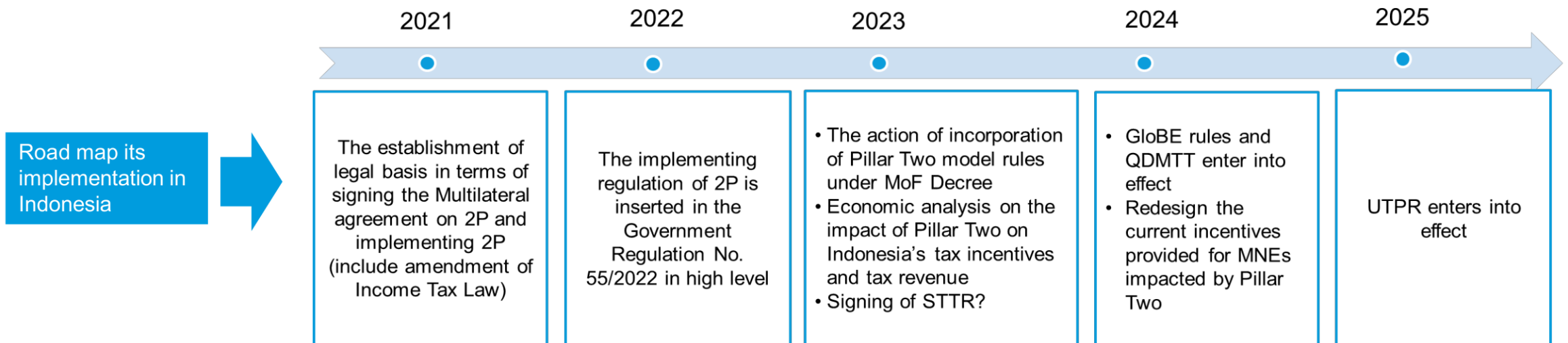
Indonesia position:

- Indonesia supports implementation of 2 Pillars as a package
 - The complete design of Pillar 1 should take into account of fairness, certainty, simplicity, and developing countries' interest
 - The signing of the Multilateral Convention (MLC) on Pillar 1 on October 2024 (initially at the end of 2023)
 - Legal basis to sign MLC has been incorporated in ITL 2021
 - Impact to market jurisdiction would be approximately USD 200 billion
-

Pillar 2 – Global Minimum Tax

Leveling the playing field:

- Pillar 2 Model Rules are planned to ensure large multinational enterprises (MNEs) pay a minimum level of tax on the income arising in each jurisdiction where they operate.
- **New rules granting jurisdictions additional taxing rights**, including:
 - Two interlocking domestic rules (the Global Anti-Base Erosion (GloBE) rules) (i) an **Income Inclusion Rule (IIR)** imposes top-up tax that is taxed at less than a **15 percent**, and (ii) a supporting **Undertaxed Payment Rule (UTPR)**, which denies deductions to the extent the low-tax income of a constituent entity is not subject to tax under an IIR
 - A **Subject to Tax Rule (STTR)**, which overrides treaty benefits for certain related-party payments



Pillar 2 – Global Minimum Tax (cont'd)

Exclusions and simplifications

The rules will apply to MNE groups with a total consolidated group revenue above €750 million.

There will be a carve-out from the IIR and UTPR for an amount equal to 5 percent of the carrying value of tangible assets and payroll costs, subject to a ten-year transition period.

International shipping income and de-minimis profits are also excluded.

Coexistence with the U.S. global intangible low-taxed income (GILTI) regime is under consideration.

Safe harbors and/or other mechanisms for avoiding disproportionate compliance costs will be introduced.



Impact for Indonesia

- Pillar Two will lessen the effectiveness of tax incentives. However, Pillar Two will only impact entities part of MNE
- group in scope of Pillar Two. Therefore, tax incentives provided to out-scope MNEs will not be affected by Pillar Two.
- Pillar Two tends to shift the corporate tax competition from tax holiday or tax allowance to refundable tax credit.
- Not all entities part of MNE group in scope of Pillar Two have an ETR below 15% and have to pay top-up tax.
- The tax revenue potential from the implementation of IIR, UTPR, STTR, and QDMTT might not be significant in Indonesia.

2025 INDONESIAN TAXATION OUTLOOK

Overview of State Fiscal Budget, Plan and Tax Revenue Portion



President Joko Widodo conveyed 6 focus policies for the use of the 2025 State Budget (APBN)
2025 Fiscal policy is designed to encourage the acceleration of inclusive and sustainable economic growth and maintain the stability, inclusiveness, and sustainability of the Indonesian economy to face complex global challenges.

- 1 **Strengthening human resources** by improving sector of education, health, social security, and food security
 - 2 **Implementation of infrastructure building** especially infrastructure of education and health, connectivity, food and energy, as well as the sustainability of Ibu Kota Nusantara
 - 3 Supporting **the acceleration of regional economic growth** through synergy and harmonization of central and regional spending, development of new economic sources in the regions, and the involvement in the global supply chain
 - 4 Encouraging **industrial revitalization** that focuses on mineral mining and food-based industries and increasing downstream **competitiveness**
 - 5 **Strengthening investment sector** which is directed at the increase of investment competitiveness by improving system and bureaucracy and strengthening economic cooperation.
 - 6 Encouraging **the development of gender equality**
-

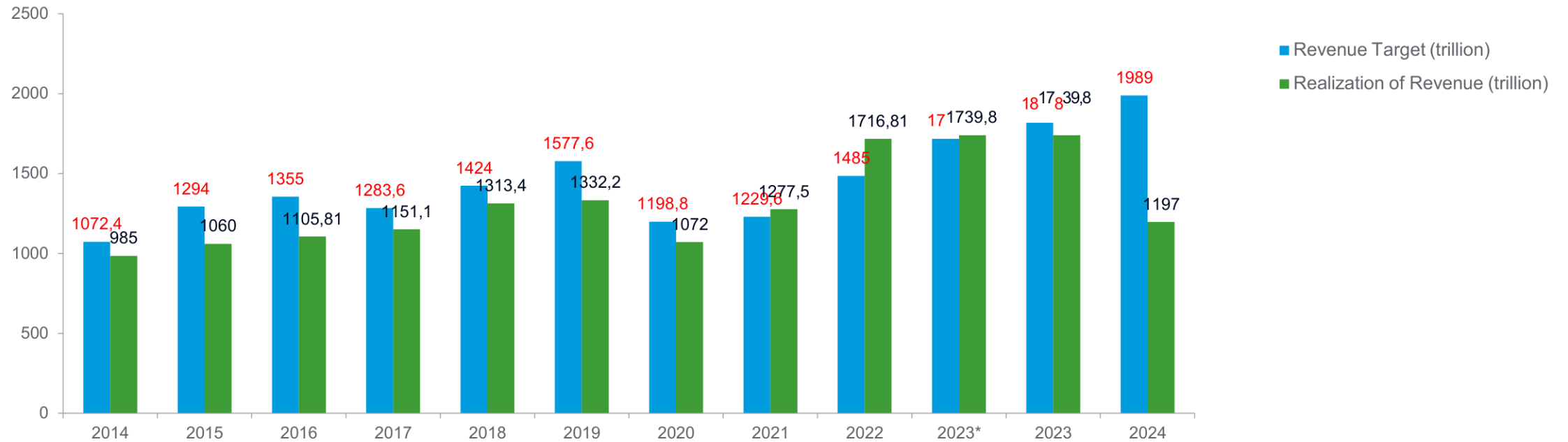
Overview of State Fiscal Budget, Plan and Tax Revenue Portion (cont'd)



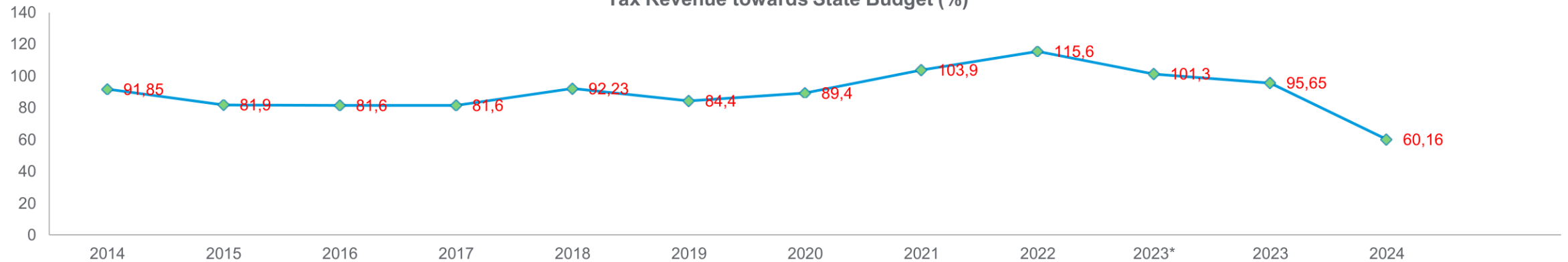
- the 2025 state revenue is planned to amount to **Rp 2.996,87 quadrillion** – out of which **Rp 2.490,92 quadrillion tax revenue** and Rp 505,38 trillion non-tax state revenue. → **increased by 12,28 % from 2024 (the amount of outlook tax revenue is Rp 2.218,4 quadrillion)**
- target of tax ratio in 2025 is about **10,09% - 10,29%** of PDB (*based on KEM-PPKF*)
- tax revenue component represents more than **80% of the total budget**
- tax revenue for year 2024 is **IDR 1.195,54 trillion (per 31 August 2024)**, which is **60,16%** of the target of APBN 2024 set to amount of Rp 1.988,9 trillion (State Budget of 2024 based on Law No 19 Year 2023); and if compared to August 2023, percentage tax revenue reached 72,58% of APBN 2023
- the government will maintain the growth of economic in the quarter of 3rd and the 4th of 2024 at level 5,1% even if it is possible, it can reach 5,2% by noticing global economic tends to experience weakness and fragmentation
- the projected economic growth in 2025 is estimated by Minister of Finance is going to reach 5,2% in Q4

“For this reason, the theme of 2025 State Budget (APBN) is designed to “Accelerate the growth of economic which is inclusive and sustainable”

History of Tax Revenue

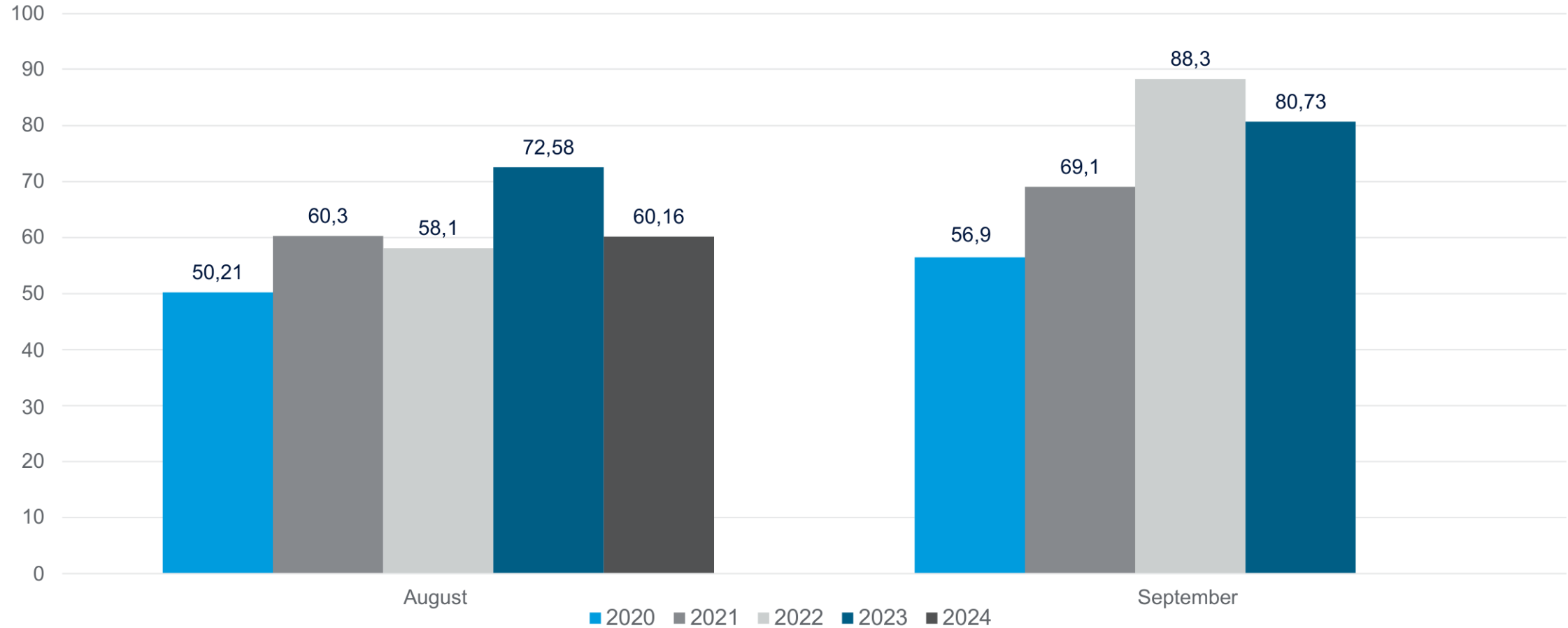


Tax Revenue towards State Budget (%)



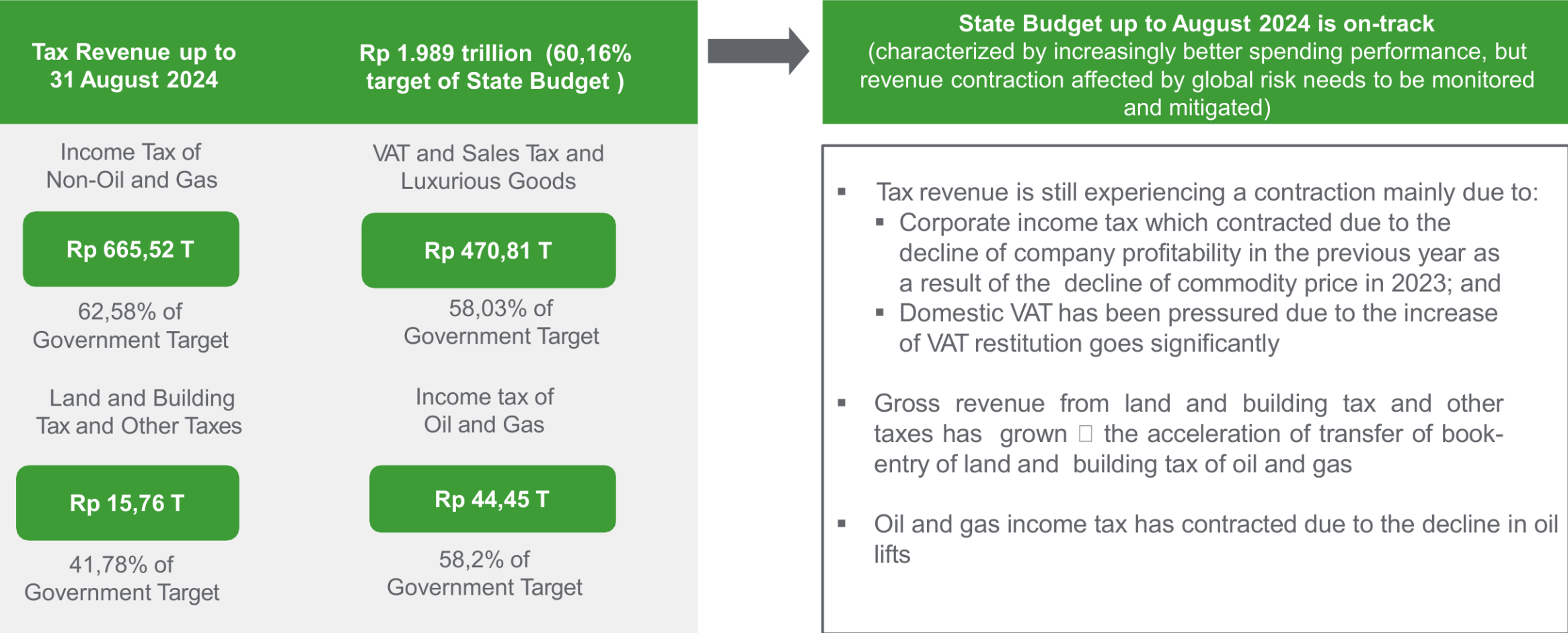
Realization of Tax Revenue Fiscal Year 2024 (per August & September 2024)

Tax Revenue (% , yoy in August and September towards State Budget 2020 – 2024)



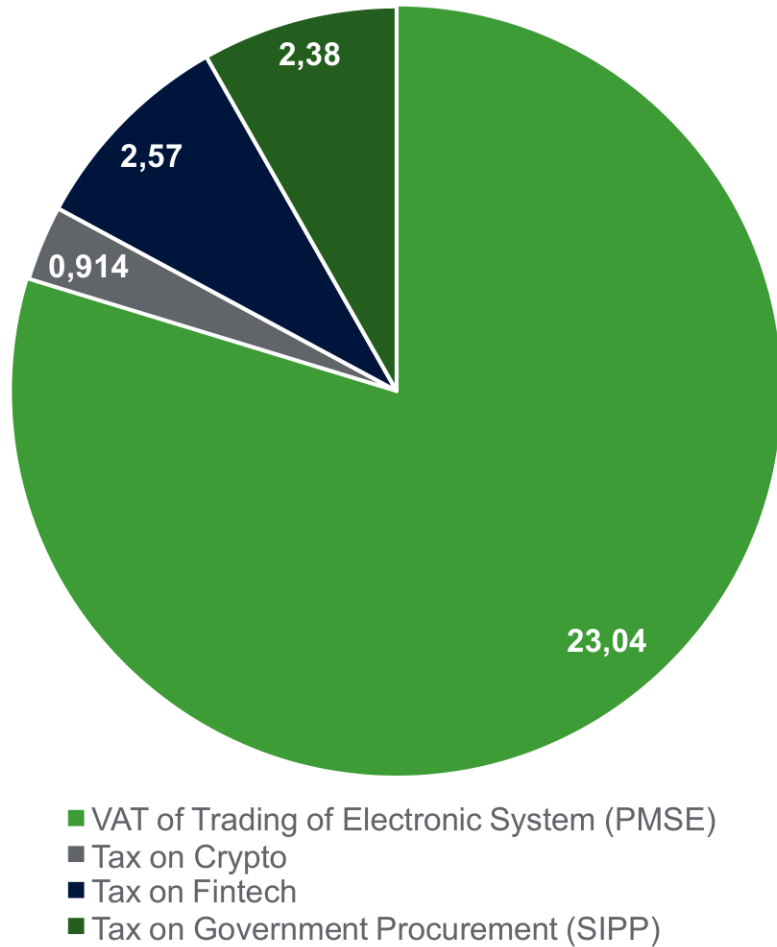
Realization of Tax Revenue Fiscal Year 2024 (per 31 August 2024)

Data collected from DGT website (27 September 2024)

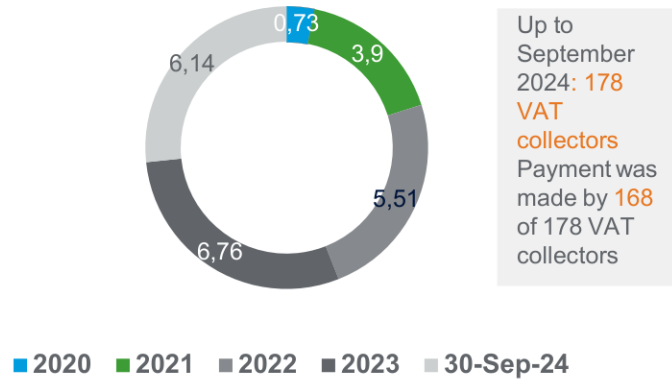


Realization of Digital Tax - Fiscal Year 2024 (per 30 September 2024)

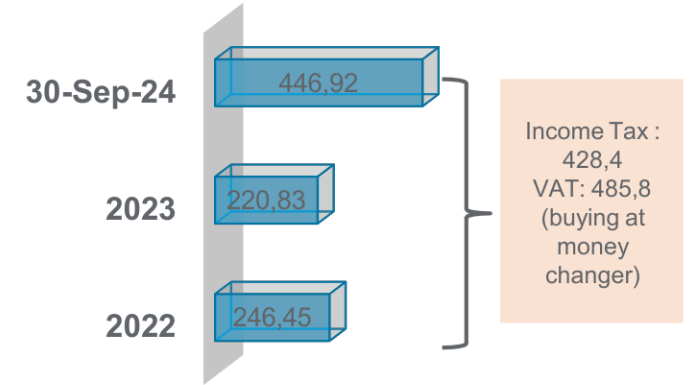
Total amount of Tax Digital (trillion)



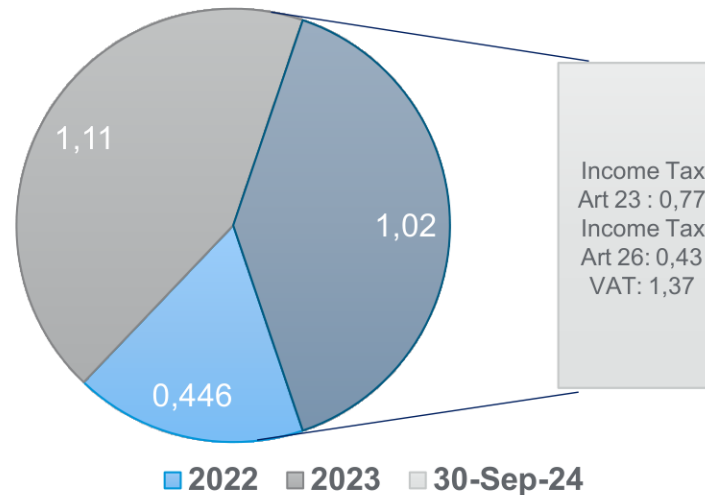
VAT of Trading of Electronic System (PMSE) (trillion)



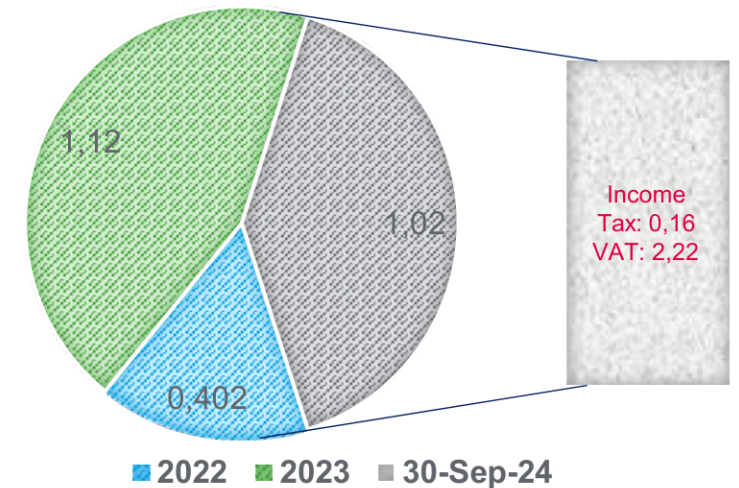
Tax on Crypto (billion)



Tax on Fintech (trillion)



Tax on SIPP (trillion)



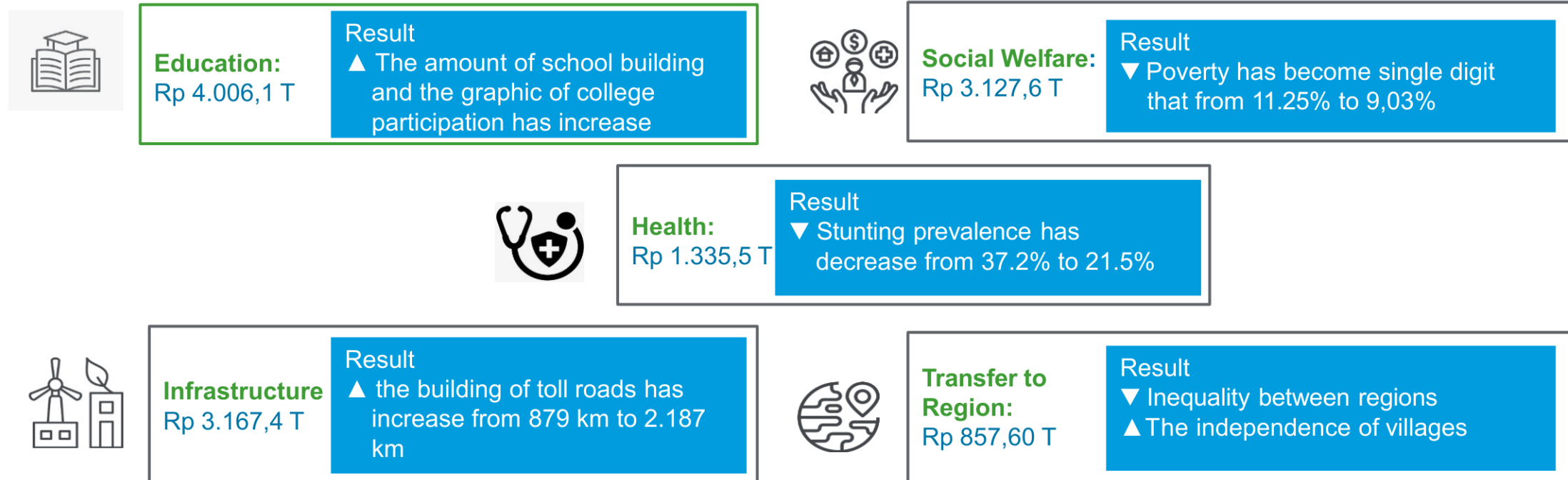
History of State Expenditure 2014 - 2024

An average of the growth of State Expenditure

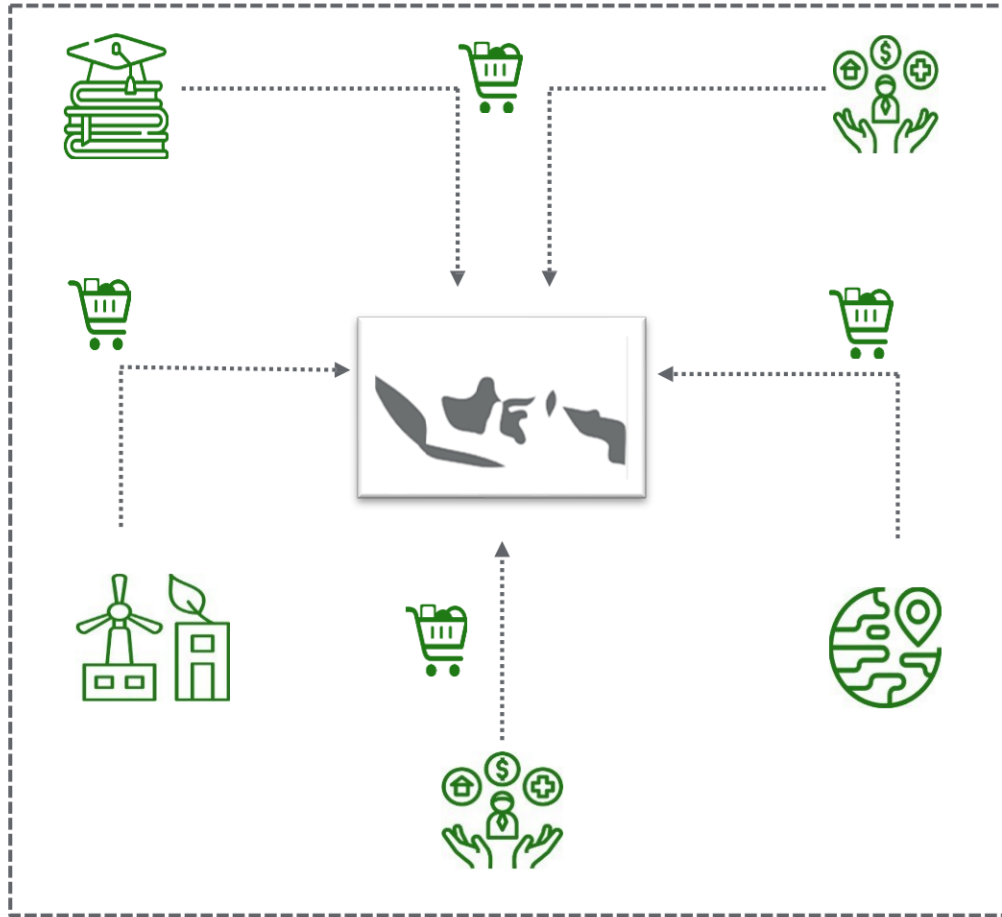


Government

The amount of spending per sector between Years 2015 – 2023



Support of State Expenditure Toward Indonesia Economy (2014 – 2023)



The economy grew relatively stable at around 5% → higher than global economic growth



Inflation rate was maintained at moderate level of 2,5% plus minus 1% → optimal condition to encourage people's purchasing power



Ministry of Finance Press Release as of 31 August 2024



The realization of State Budget has achieved Rp 1.930,7 T (58,1% of allocation of State Budget), this number has grown of 15,3% (yoy)



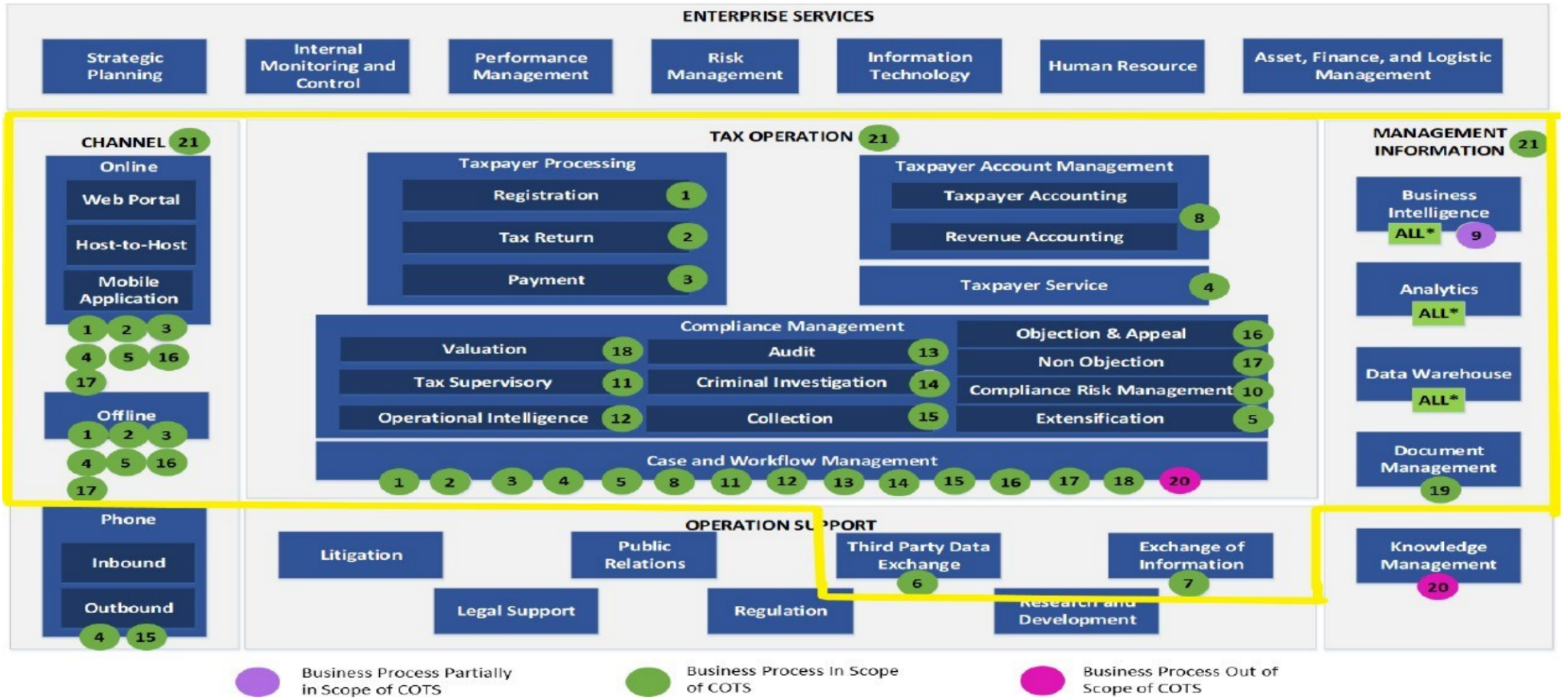
Component of Central Government Expenditure (BPP) → realization has achieved Rp 1.368,5 T (55,5% of allocation of State Budget), this number has grown of 16,9% (yoy)



75,3% of BPP component has been distributed and has provided direct benefits to society, covers the building of sector of education, health, infrastructure, social protection, energy, farming and SMEs

Source: <https://www.kemenkeu.go.id/informasi-publik/publikasi/siaran-pers/Keterangan-Pers-APBN-KiTa-Kuartal-III-2024>

The Initial Design Plan of Implementation of Administration System (CTAS)



News Update: Implementation of Administration System (CTAS)

DJP: Coretax System Diperkirakan Tambah Penerimaan 1,5% dari PDB dalam 5 Tahun

Kamis, 26 September 2024 / 12:32 WIB



The Impact of the Implementation of CTAS



Increase state revenue by 1,5% of GDP in 5 years (World Bank study)



Tax ratio is expected to reach 12% of GDP from 10.2% (2023) within 5 years



The launch is estimated around December 2024 → an early of 2025 the implementation of CTAS shall be rolled out (starting to be implemented)

Source: <https://nasional.kontan.co.id/news/djp-coretax-system-diperkirakan-tambah-penerimaan-15-dari-pdb-dalam-5-tahun>

Tax Policy Focus in 2025



Indonesia tax authorities are expanding tax base as the implementation of HPP Law regarding the implementation of NIK as NPWP

2024

MoF Reg- 81

Legal basis for
CORETAX system

Circular Letter No
05 Year 2022

Policy of Supervision and
Examination of taxpayers

Up to 99%

The matching of NIK -
NPWP

2025

- ✓ For other parties affected by NIK as NPWP or 16-digit NPWP, DJP has given the system adjustment time until December 31, 2024.
- ✓ There are 37 administrative services that can be accessed using NIK, 16-digit NPWP, and *Nomor Identitas Tempat Kegiatan usaha (NITKU)* starting from July 1 2024
- ✓ Taxpayers can check their conformity of NIK as NPWP in DJP Online, further, if their data are not yet similar, they can make conformity of NIK as NPWP in DJP Online

Tax Policy Focus in 2025 (cont'd)



Provide targeted and measurable fiscal incentives to support economics transformation aimed to encourage the growth of certain sectors and provide the ease of investment

2024

MoF Reg- 7

VAT DTP on landed house and apartment unit

MoF Reg- 8

VAT DTP on certain vehicle (four-wheeled battery electric)

MoF Reg- 9

Sales tax on luxury goods DTP on the import and/or delivery of taxable luxurious goods

MoF Reg-28

Facility of taxation and customs provided in Ibu Kota Nusantara

2025

- ✓ Initiative in Presidential period of President Prabowo, the elimination property tax for temporary (1-3 years) □ VAT and duty of transfer rights of land and/or building (the amount of build of residence is 3 million/ year)
- ✓ Tax incentive on electric vehicle and landed houses shall be continued in 2025 particular VAT DTP – to boost economic growth
- ✓ Super big tax incentives for SMEs located in Ibu Kota Nusantara □ threshold of gross income shall be exempted from Final Income Tax of 0% is expected IDR 500 billion (100x higher than gross income earned by SMEs located outside in Ibu Kota Nusantara)

Tax Trend in 2025

Tax Administration



- Electronic system in the form of CTAS (targeted to be official launched in December 2024)
- Financial institutions are subject to the Common Reporting Standards mechanism
- Preparation of DSP4*) – taxpayers' non-compliance will be categorized based on risk level includes taxpayers' HWI

Tax Policy



- Business process improvement → priority monitoring of Strategic Taxpayers
- Provide measurable and targeted fiscal incentives
- Ministry of Finance Regulation Re: the implementation of the global minimum tax → contain provision of STTR, QDMTT, and IIR
- Collection of data on government agencies, institutions, associations, and other parties and DGT activities as well as data assurance

Tax Audit & Dispute



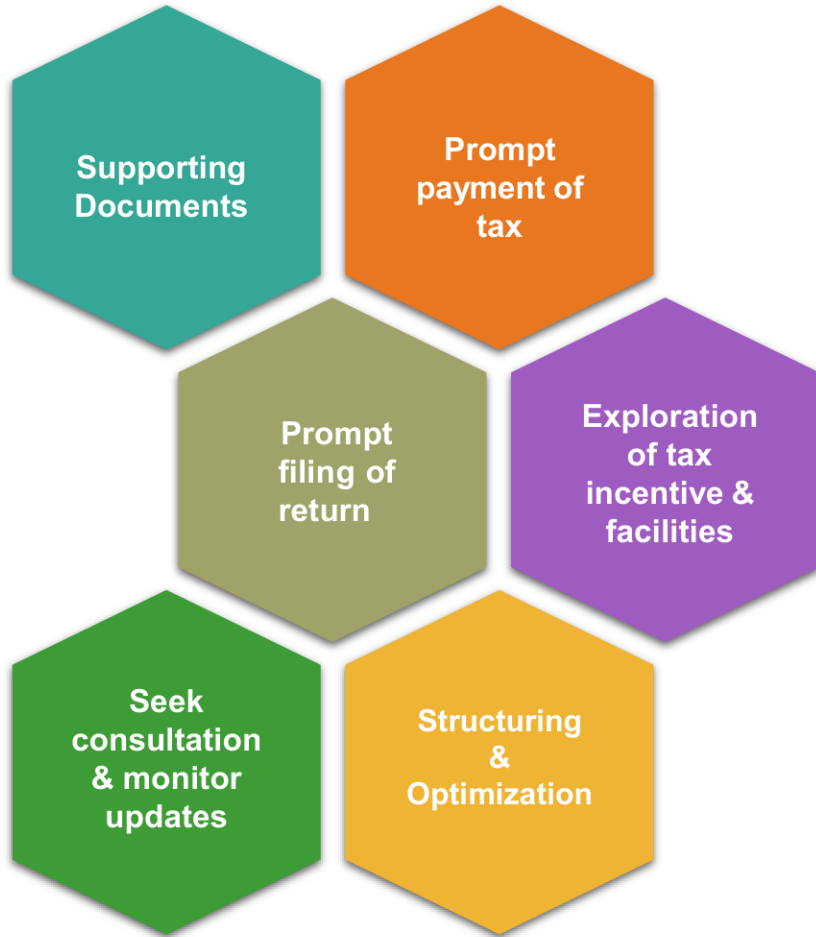
- Optimization of Joint Audit, Joint Analysis, Joint Investigation, Joint Collection and Joint Intelligence activities
- Strengthening tax supervision and law enforcement activities
- The increase of international tax cooperation
- Utilization of digital forensics to create justice amongst taxpayers

Source: Macroeconomic Framework and Principles of Fiscal Policy in 2025 (Fiscal Policy Agency)

*) Daftar Sasaran Prioritas Pengamanan Penerimaan Pajak

KEY TAKEAWAYS

Key Takeaways for Taxpayers and Investors



Key to tax risk management and fiscal success in the context of 2025 tax trend





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THANK YOU

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saran profesional.

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