

IMPOSITION OF GLOBAL MINIMUM TAX

April 16, 2025

Tax evasion practices have always been a major issue in international taxation, so an appropriate strategy is needed by the government to combat it. One of the measures taken by countries is by setting a global minimum tax and ensuring that multinational companies ("MNCs") pay taxes fairly through international treaties. For this purpose, the government has issued Regulation of the Minister of Finance No. 136 of 2024 regarding Imposition of Global Minimum Tax Based on International Agreements ("**MOF Regulation 136/2024**") on December 31, 2024 as a basis for Indonesia to implement a global minimum tax as part of its commitment to global tax cooperation to address Base Erosion and Profit Shifting ("**BEPS**"). This MOF Regulation is an implementing regulation of Article 54 of Government Regulation No. 55 of 2022 regarding Regulation Adjustments in the Field of Income Tax. We set out below selected highlights of MOF Regulation 136/2024, which took into effect as of January 1, 2025.

Tax Subject

Article 2 paragraph (1) of MOF Regulation 136/2024 stipulates that the imposition of the global minimum tax (Global Anti-Base Erosion Rules/"**GloBE**") applies to MNCs with a global consolidated turnover of at least €750 million based on the consolidated financial statements of the ultimate parent entity. GloBE applies if the gross turnover value is met in at least 2 (two) of the 4 (four) preceding fiscal years prior to the tax year for which GloBE is imposed. Pursuant to Article 4 paragraph (1) of MOF Regulation 136/2024, the GloBE is imposed on each of the domestic tax subjects and permanent establishments which are constituent entities of the groups of MNCs.

Tax Rates

MNCs that meet the criteria will be subject to a minimum tax of 15% in Indonesia. This rate is imposed to ensure that every company pays tax at a fair effective rate and to reduce incentives to shift profits to low-tax or zero-tax jurisdictions. Additional tax (top-up tax) is imposed if the company has an effective tax rate ("**ETR**") below 15%. Additional tax will be imposed through three mechanisms, namely through:

- a. Income Inclusion Rules ("**IIR**"), which is an additional tax (top-up tax) on domestic tax subjects which are parent entities in the case of other constituent entities of a multinational corporate group that are directly or indirectly owned are taxed at an ETR less than the minimum rate in the country or jurisdiction where the other constituent entity carries out its business activities;

- b. Undertaxed Payment Rules ("UTPR"), which is an additional tax (top-up tax) in the event that IIR is not applied and/or additional tax has not been fully imposed on a domestic tax subject which is a constituent entity of a multinational corporate group in the event that another constituent entity of the multinational corporate group is taxed at an ETR less than the minimum rate in the country or jurisdiction where the other constituent entity carries out its business activities; and
- c. Domestic Minimum Top-up Tax ("DMTT"), which is an additional tax (top-up tax) on domestic tax subjects which are constituent entities of a multinational corporate group that has an ETR less than the minimum rate.

IIR and DMTT will be effective from January 1, 2025 while UTPR will only be effective from January 1, 2026.

Tax Collection and Reporting Methods

Indonesia implements the IIR and UTPR mechanisms to ensure that multinational companies with subsidiaries in Indonesia continue to fulfil their tax obligations. Companies are required to report to the Directorate General of Tax in accordance with applicable provisions.

Sanctions

To ensure compliance, MOF Regulation 136/2024 regulates administrative sanctions and fines for companies that do not fulfill the global minimum tax obligations by making reference to the Law on General Provisions and Tax Procedures. This aims to prevent tax avoidance and to increase transparency in international taxation.

Safe Harbour

In order for certain MNCs to be able to implement these provisions, Chapter XII of MOF Regulation 136/2024 applies a safe harbour mechanism, namely a policy that simplifies certain obligations for MNC groups to provide certainty and to ease the burden of compliance and administration for eligible constituent entities.

This client alert is provided to our clients, business relations and friends for informational purposes only. Accordingly, this should be not regarded as legal advice. Legal advice should be based on your specific situation and provided by a qualified attorney.

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