Global Minimum Tax (BEPS Pillar 2) and Its Impact on International Business in Indonesia

SwedCham Indonesia hosted a briefing on BEPS Pillar 2 and recent tax developments in Indonesia, presented by Ihsan Muttaqien, Tax Service Partner at EY Indonesia. The discussion focused on how the new global minimum tax regime affects multinational companies operating in Indonesia, particularly those benefiting from tax holidays, tax allowances, or other preferential tax arrangements.

The key message was that BEPS Pillar 2 introduces a 15% global minimum effective tax rate for multinational enterprise groups with consolidated annual revenues of at least EUR 750 million. Even though Indonesia's standard corporate income tax rate is 22%, companies may still be affected if their effective tax rate falls below 15% due to incentives, tax losses, preferential tax regimes, or group structures.

The session also highlighted that Indonesia has implemented Pillar 2 from 1 January 2025, with registration and reporting obligations for affected entities. Companies should assess whether they fall within scope, coordinate with headquarters, evaluate safe harbour options, review group structures, and prepare for increased compliance and possible tax authority scrutiny.

1. Background: BEPS and the Global Minimum Tax

BEPS, or Base Erosion and Profit Shifting, is an OECD-led initiative aimed at reducing tax avoidance by multinational companies. The first BEPS framework focused on areas such as treaty abuse and transfer pricing. BEPS 2.0 introduced two pillars.

Pillar 1 concerns taxation of digital and cross-border business models where companies may have customers in a jurisdiction without a physical presence. Its implementation has been delayed due to political resistance, including from the United States.

Pillar 2 introduces a global minimum tax. Its purpose is to reduce tax avoidance and limit harmful tax competition between jurisdictions. Under this framework, large multinational groups must pay a minimum effective tax rate of 15% in each jurisdiction where they operate.

The rules apply to multinational enterprise groups with consolidated annual revenues of at least EUR 750 million in at least two of the four preceding fiscal years, and with operations in more than one jurisdiction.

2. Application in Asia-Pacific and Indonesia

Several Asia-Pacific jurisdictions have already implemented Pillar 2. Korea, Japan, Vietnam, and Australia began implementation in 2024. Indonesia, Malaysia, Singapore, Thailand, Hong Kong, and New Zealand have moved to implementation from 2025.

Indonesia has introduced Pillar 2 from 1 January 2025 for the Income Inclusion Rule and Qualified Domestic Minimum Top-up Tax. The Undertaxed Profits Rule is expected to apply from 1 January 2026, although further clarification may be needed.

Indonesia’s rules are largely aligned with the OECD GloBE Model Rules. However, one important local variation is that Indonesia requires the effective tax rate calculation to be performed first for each constituent entity before aggregation at jurisdictional level. This is relevant because any top-up tax in Indonesia may be allocated specifically to entities with an effective tax rate below 15%.

3. How Pillar 2 Works

The Pillar 2 calculation begins with the consolidated financial statements of the ultimate parent entity. The rules then identify the constituent entities in each jurisdiction and determine whether the group’s effective tax rate in that jurisdiction is below 15%.

The calculation involves two main components: GloBE income or loss, and adjusted covered taxes. GloBE income starts from accounting profit before tax and is adjusted for specific items, such as excluded dividends, penalties, bribes, certain currency differences, and international shipping income. Adjusted covered taxes are based on current and deferred tax expenses, with further adjustments required under the GloBE rules.

The effective tax rate is calculated by dividing adjusted covered taxes by GloBE income. If the effective tax rate in a jurisdiction is below 15%, a top-up tax may arise.

4. Impact on Companies in Indonesia

For ordinary Indonesian subsidiaries subject to the standard 22% corporate income tax rate, the effective tax rate will often be above the 15% minimum. However, this does not remove the compliance burden. Companies may still need to perform calculations, prepare documentation, and report their position.

The impact is more significant for companies benefiting from tax holidays, tax allowances, final tax regimes, or accumulated tax losses. A company with a tax holiday may pay little or no corporate income tax, but still face a Pillar 2 top-up tax.

This is particularly relevant for large foreign investors in sectors such as smelters, downstream minerals, manufacturing, and other capital-intensive industries where tax holidays have been used as investment incentives.

5. Indonesia’s Policy Motivation

Indonesia’s motivation for implementing Pillar 2 is to preserve its taxing rights. If Indonesia does not collect domestic top-up tax, the tax may instead be collected by another jurisdiction, such as the country where the parent company is located.

This means that while tax holidays may still reduce Indonesian corporate income tax, they may no longer eliminate the overall tax burden for large multinational groups. The government is therefore exploring new forms of incentives, potentially including cash grants, subsidies, or qualified refundable tax credits.

Other ASEAN countries, including Vietnam and Thailand, are already moving in this direction by designing incentive structures that remain attractive while complying with Pillar 2.

6. Safe Harbour Rules

The transitional safe harbour rules are important because they can reduce the administrative burden for affected companies. If a company qualifies for safe harbour, its top-up tax may be deemed to be zero for the relevant jurisdiction, avoiding the need for a full detailed GloBE calculation.

There are three main safe harbour tests:

1. The de minimis test, based on low revenue and profit thresholds.
2. The routine profits test, based on payroll costs and tangible assets.
3. The simplified effective tax rate test.

For Indonesia, many companies may be able to rely on the simplified effective tax rate test, especially if they are subject to the normal 22% corporate income tax rate and do not have significant tax incentives or tax losses.

However, companies must assess safe harbour from the first year. If safe harbour is not applied in the first year, it may not be available in later years under the “once out, always out” principle.

7. Compliance Obligations and Deadlines

Entities in Indonesia that are part of an in-scope multinational group will have new obligations. For fiscal year 2025, affected entities must register as Pillar 2 taxpayers in Indonesia by 30 September 2026.

Indonesian constituent entities will also need to submit domestic top-up tax returns, even if no top-up tax is payable. A nil return may still be required. Payment of any top-up tax for fiscal year 2025 is expected by 31 December 2026, with further notification and reporting deadlines in 2027.

This creates additional administrative obligations for Indonesian subsidiaries, even where the ultimate calculation and coordination are handled by headquarters.

8. Centralized, Decentralized, or Hybrid Approach

The discussion highlighted different approaches used by multinational groups. Some Japanese groups appear to use a more decentralized model, assigning responsibility to local subsidiaries to perform the analysis and report back to headquarters.

Many European and Singapore-based groups appear to use a more centralized approach, where headquarters collects information from subsidiaries and performs the calculation centrally.

A hybrid model may be the most practical. Centralized tools and coordination can improve consistency and reduce cost, but local entities must retain sufficient knowledge and documentation. This is especially important in Indonesia, where tax audits and information requests may require local substantiation.

9. Enforcement and Tax Authority Scrutiny

The Indonesian tax authority is expected to supervise Pillar 2 compliance and may audit calculations in the future. The speakers compared this to the evolution of transfer pricing enforcement: initially focused on documentation, but later becoming more detailed and substantive.

Potential disputes may arise over entity classification, calculation methodology, data sources, and interpretation of the rules. Companies should therefore maintain clear documentation and ensure that local teams understand the numbers reported to headquarters.

The tax authority is also increasingly data-driven. With the introduction of Coretax and the use of data analytics, companies should expect more integrated and technology-supported scrutiny from the authorities.

10. Other Recent Tax Developments

The session also covered several broader Indonesian tax developments.

Indonesia has adopted the Multilateral Instrument, meaning tax treaties must now be read together with MLI provisions. This may affect treaty interpretation, including anti-abuse rules and capital gains provisions.

The tax holiday regulation has expired, and the government is exploring replacement incentives, potentially including subsidies, cash grants, or refundable tax credits.

Coretax is becoming central to tax administration, including reporting, correspondence, and access management. Companies need to ensure that directors and staff have appropriate access and that internal processes are aligned with the system.

Transfer pricing obligations are also increasing, including additional preliminary-stage analysis. Companies should expect closer review of related-party transactions.

The tax authority is issuing more SP2DK letters requesting information and clarification. These should be handled carefully, as they may lead to further tax assessments.

11. Tax Treaty Benefits and Anti-Abuse Rules

The meeting also discussed new requirements for accessing tax treaty benefits. The updated Form DGT requires non-resident recipients to demonstrate substance and confirm that they are not merely shell, conduit, nominee, or agent entities.

Relevant factors include whether the non-resident has management authority, personnel, business activity beyond receiving Indonesian income, discretion over income, and a genuine purpose beyond obtaining treaty benefits.

The discussion emphasized that beneficial ownership requirements are becoming more important and may be applied more broadly than before. This could affect holding company structures, dividend flows, capital gains, and future restructuring.

12. Key Takeaways for Swedish and Other Foreign Companies

Swedish and other foreign companies with Indonesian subsidiaries should assess whether their group falls within the Pillar 2 scope. Even if no top-up tax is expected, administrative obligations may still apply.

Companies should engage early with headquarters to clarify whether the approach will be centralized, decentralized, or hybrid. Indonesian subsidiaries should also review tax incentives, tax losses, final tax exposure, group structures, and data readiness.

For companies relying on tax holidays or preferential tax treatment, the commercial value of those incentives may need to be reassessed. Future investment models should include the possible impact of Pillar 2 top-up tax.

Companies should also review treaty structures and ensure that holding companies have adequate substance where treaty benefits are claimed.

Conclusion

BEPS Pillar 2 represents a major shift in international taxation. For Indonesia, it is not only a compliance matter but also a way to preserve taxing rights in a global system where tax incentives are becoming less effective for large multinational groups.

For companies, the key challenge is not only the potential tax cost but also the administrative burden, data requirements, reporting obligations, and risk of future disputes. Early preparation, strong coordination with headquarters, and robust local documentation will be essential.

For Swedish companies operating in Indonesia, the most urgent issue is not necessarily the potential top-up tax itself, but ensuring that headquarters and local subsidiaries are aligned on data collection, reporting responsibilities, and compliance procedures well before the September 2026 registration deadline.

Key Dates and Compliance Timeline

Based on the presentation, the following deadlines are currently relevant for multinational groups affected by BEPS Pillar 2 in Indonesia:

The Checklist – Immediate Actions During 2026

Companies that may be within scope should not wait until the filing deadlines approach. During 2026 they should:

1. Confirm whether the group exceeds the EUR 750 million revenue threshold.
2. Determine whether the group is multinational under Pillar 2 rules.
3. Identify the Ultimate Parent Entity (UPE).
4. Establish whether the group will use a centralized, decentralized, or hybrid compliance model.
5. Assess eligibility for Transitional Safe Harbour relief.
6. Review tax holidays, tax allowances, final tax regimes, and tax loss carryforwards.
7. Ensure local finance and tax teams can provide required data to headquarters.
8. Prepare for registration before September 2026.
9. Review disclosures required in FY2025 financial statements.
10. Evaluate whether existing holding company structures and treaty arrangements remain appropriate under the new anti-abuse rules and MLI framework.

The Timeline

Date	Requirements	Comments
1 January 2025	Indonesia's BEPS Pillar 2 regime becomes effective	Applies to the Income Inclusion Rule (IIR) and Qualified Domestic Minimum Top-up Tax (QDMTT).
1 January 2026	Expected implementation of UTPR in Indonesia	The Undertaxed Profits Rule is scheduled to take effect, although participants noted that clarification may still be required.

30 September 2026	Registration deadline as a Pillar 2 taxpayer in Indonesia	Constituent entities of in-scope multinational groups must register with the Indonesian tax authority. This obligation was introduced through a recent Directorate General of Taxes regulation.
31 December 2026	Payment deadline for any Indonesian top-up tax relating to FY2025	Applies where a top-up tax liability exists under QDMTT.
30 March 2027	Notification filing deadline	Required notifications must be submitted through the Coretax system.
30 April 2027	Domestic Top-up Tax Return filing deadline	Indonesian constituent entities must submit returns, including nil returns where no top-up tax is payable.

Other Regulatory Developments to Monitor

Participants also highlighted several ongoing developments where further guidance is expected:

- Replacement of Indonesia's tax holiday regime with alternative incentives such as:
  - Qualified Refundable Tax Credits (QRTC)
  - Non-Qualified Refundable Tax Credits (NQRTC)
  - Cash grants
  - Subsidies for strategic investments
- Further implementation and stabilization of the **Coretax** system.
- Increasing use of:
  - SP2DK information requests
  - Tax audits
  - Data analytics and AI by the Directorate General of Taxes.
- Greater scrutiny of:
  - Beneficial ownership claims
  - Treaty shopping structures
  - Intermediate holding companies
  - Cross-border restructurings.

About Ihsan Muttaqien, Tax Service Partner, EY Indonesia

Ihsan is a Tax Partner with close to 20 years of experience, specializing in transaction tax services, including M&A, due diligence, tax structuring, and cross-border transactions. Prior to his current role, he served in the EY New York office as part of the Indonesia Tax Desk, supporting international engagements.

He holds a bachelor's degree in Taxation from Universitas Indonesia, providing a strong technical foundation that supports his expertise in the field.

Ihsan advises private equity firms and strategic investors on complex M&A transactions, with a focus on tax due diligence, structuring and international tax matters. He brings a strong understanding of the evolving global tax landscape to help clients navigate risks and unlock value. He works closely with multidisciplinary teams to deliver integrated, end-to-end solutions, enabling clients to make confident decisions and pursue sustainable growth across borders.

About SwedCham Indonesia

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As a bridge between Swedish and Indonesian stakeholders, we connect companies, professionals, institutions, and entrepreneurs through networking, knowledge-sharing, advocacy, and business dialogue. Our members include Swedish companies operating in Indonesia, organizations exploring market opportunities, Indonesian companies with ties to Sweden, and professional service providers supporting international business.

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