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

Indonesia Sweden Chamber of Commerce

June 2026

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Today's Speakers

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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.

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Background of BEPS 2.0 Pillar Two

BEPS 2.0 Pillar Two: Global minimum tax

Source: https://www.oecd.org/

- Part of OECD/G20 project to **curb tax avoidance and unhealthy tax rate competition**.
- A framework for a coordinated tax system intended to ensure large MNEs (with consolidated revenue of €750m) pay a minimum level of tax in **each jurisdiction** where they operate.
- Top-up tax liability may arise whenever the jurisdictional effective tax rate (ETR) falls below **agreed minimum rate of 15%**.
- While not mandatory, a jurisdiction adopting the global minimum tax rule must do so consistently with the intended outcome - **common approach** endorsed by more than 130 jurisdictions.

Pillar Two is live*

59 jurisdictions have final domestic legislation implementing Pillar Two.

5 jurisdictions have draft domestic legislation advancing.

1 jurisdictions have announced the intention to implement.

- A Global Anti-Base Erosion (GloBE) regime designed to help ensure all large internationally operating businesses pay at least a **minimum level of tax**.
  - Minimum tax rate of **at least 15%**.
  - Implemented via an Income Inclusion Rule (IIR), the primary rule, and an Undertaxed Profits Rule (UTPR), the backstop rule.
- A treaty-based Subject To Tax Rule (STTR) with **9% minimum tax rate –** first applicable rule with a withholding tax at source on certain types of intragroup payments (interest, royalties, etc.).

Follow all the latest legislative updates with the EY BEPS 2.0 – Pillar Two Developments Tracker.

*as of 27 May 2026

Asia-Pacific – Pillar Two implementation status

Legislation enacted for 2024	Implemented in 2024	Implemented in 2025	No announcements but expected to implement	No announcements and not clear whether will implement
Korea Legislation implemented Income Inclusion Rule (IIR) effective 1 January 2024 and Under-Taxed Profits Rule (UTPR) effective 1 January 2025 (subject to enforcement decree	**Australia** Implemented IIR, UTPR and QDMTT from 1 January 2024	**Malaysia** Legislation implemented IIR and QDMTT effective from 1 January 2025	**China Mainland**	**Philippines**
Japan Legislation implemented IIR effective 1 April 2024		**Hong Kong SAR** Announced implementation for 1 January 2025, however has not been finally legislated up to date*		**Laos**
Vietnam Legislation implemented IIR and Qualified Domestic Minimum Top-up Tax (QDMTT) effective from 1 January 2024		**Thailand** Implemented on 1 January 2025		**Cambodia**
		Singapore Implemented on 1 January 2025		**Myanmar**
		Indonesia Implemented on 1 January 2025		
		New Zealand Implemented on 1 January 2025		

Pillar Two – key concepts

Key concepts

- Starting point of MNE Group definition is the accounting consolidation group membership.
- Jurisdictional blending – combine all operations within MNE Group for each country.
- Special definitions of income and tax are needed for ETR calculation – detailed workings. For example, ETR does not simply use the CIT paid for the year.
- Transitional safe harbour rules – Low risk countries do not need to provide full calculation. Data from CbCR to determine whether these criteria are met.
- Complex rules to determine who has to pay top-up tax (local, parent, intermediate parent, etc.) – but the low tax jurisdiction has the first priority by imposing a local top-up tax (QDMTT).
- Substance based carve out. High assets and high payroll costs can reduce top-up tax to below 15%.

Indonesian Taxpayers most likely to be affected

- Indonesia headquartered company of a large group (turnover c. IDR 12T p.a.)
  - New filing requirements, high administrative burden.
  - Potential additional tax for group.
- Any operations in Indonesia that benefit from Tax Holiday and Tax Allowance
  - Need to understand impact of jurisdictional blending, substance based carve-out to model additional tax costs.
- Indonesian sub-groups of Offshore MNCs
  - Will the offshore parent need you to provide data?
  - Are you a Partially Owned Parent Entity, JV or other entity that may have to pay the top-up tax in Indonesia?

02

Overview of Pillar 2 Rules

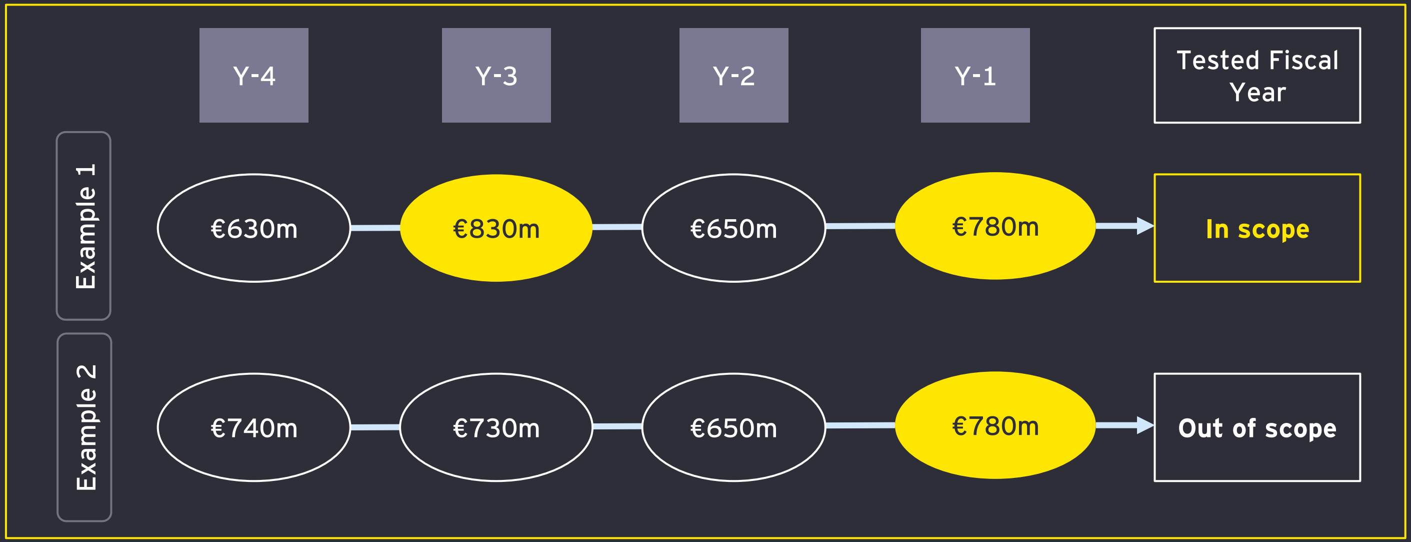
Building blocks of the GloBE rules

01 Defining in-scope MNE Groups	02 Charging Provisions: The IIR and UTPR	03 Computation of GloBE Income (or Loss)	04 Computation of Adjusted Covered Taxes	05 Computation of ETR and Top-up Tax
06 Corporate Restructurings and Holding Structures	07 Dealing with special regimes including distribution regimes	08 Administrative aspects including GloBE Information Return	09 Transitional rules	10 Definitions

Scope of GloBE Rules

- The GloBE Rules apply to **Constituent Entities** that are members of an **MNE Group** that has annual revenue of €750 million or more in the **Consolidated Financial Statements** of the **Ultimate Parent Entity (UPE)** in at least two of the four **Fiscal Years** immediately preceding the tested Fiscal Year. Article 6.1 of the Model Rules (Group Mergers and Demergers) modifies the application of the consolidated revenue threshold in certain cases.

- **Excluded Entities** are not subject to the operative provisions of the GloBE Rules but their revenue is still taken into account for purposes of the consolidated revenue test.



GloBE model rules: steps taken to compute **GloBE Income or Loss**

Step 1 — Determine Financial Accounting Net Income or Loss (FANIL) from UPE's CFS prior to elimination of intra-group items

Step 2 — Adjust FANIL to arrive at GloBE Income or Loss

Step 3 — Allocate GloBE Income or Loss to PE or to owners of flow-through entities, where necessary

Examples:

- Exclusion of net tax expenses.
- Alignment with participation exemption (e.g., excluded dividends, excluded equity gain or loss).
- Denial of policy disallowed expenses (e.g., bribes, penalties).
- Adjustments to avoid distortions from arising where functional currencies used for accounting and tax are different.
- Substitution of stock-based compensation for amount allowed as a tax deduction (optional).
- Adjustments for consistency with arm's length principle.
- Adjustments to treat certain refundable tax credits as income.
- Adjustments to allow taxation on realized basis in respect of fair value gains and losses (optional).
- Anti-abuse provision to prevent base erosion of low-tax entity's GloBE income without corresponding income inclusion.
- Exclusion of international shipping income.

Steps taken to compute **Adjusted Covered Taxes**

Examples:

- Taxes paid in the fiscal year relating to a prior year's uncertain tax position.
- Current tax expense relating to an uncertain tax position.
- Qualified Refundable Tax Credit that is recorded as a reduction to the current tax expense.
- Non-Qualified Refundable Tax Credit that is not recorded as a reduction to the current tax expense.
- Current tax expenses with respect to income excluded from computation of GloBE Income or Loss.
- Current tax expense that is not expected to be paid within three years of the last day of the fiscal year.

Step 1 — Adjust current tax expense

Step 2 — Adjust Covered Taxes for temporary differences and losses

Step 3 — Allocate Covered Taxes to other Constituent Entities as necessary (e.g., dividend withholding tax, CFC taxes)

Step 4 — Take post-filing adjustments into account

Examples:

- Deferred tax expense relating to items excluded from the computation of GloBE Income or Loss.
- Deferred tax expenses relating to an uncertain tax position and distributions from a CE.
- Increase in a deferred tax liability that is not expected to be paid within five years (subject to exceptions).
- Recasting of deferred tax using 15% under certain circumstances.
- Recognition of deferred tax asset for a current year tax loss.
- Adjustments to deferred tax for assets transferred between CEs during the transition period.

How to compute jurisdictional ETR and top-up tax liability?

The compliance burden is equivalent to having to prepare at least two tax computations in respect of each group entity based on completely different tax laws (domestic tax and BEPS 2.0 Pillar Two)

Net GloBE Income
calculated on jurisdictional basis

Adjusted Covered Taxes
calculated on jurisdictional basis

Jurisdictional ETR

$$\frac{\text{Adjusted Covered Taxes}}{\text{Net GloBE Income}}$$

Top-up Tax Percentage
15 % −Jurisdictional ETR

X

Excess Profit
Net GloBE Income − Substance-based Income Exclusion

−

Domestic Minimum Top-up Tax

Jurisdictional Top-up Tax Amount

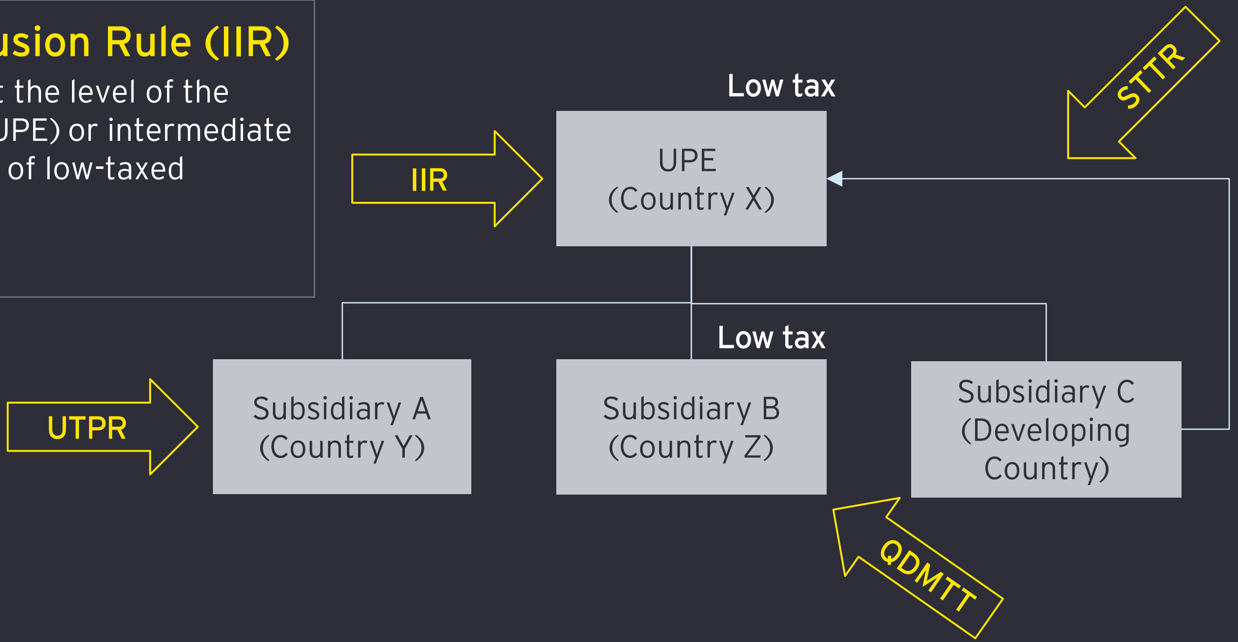
Constituent Entity Top-up Tax Amount

$$\text{Jurisdictional top-up Tax x } \frac{\text{Net GloBE Income}}{\text{Aggregate GloBE Income of CEs}}$$

How will Pillar Two top-up taxes be collected?

GloBE: Income Inclusion Rule (IIR)

- Top-up tax is imposed at the level of the ultimate parent entity (UPE) or intermediate parent entity on income of low-taxed constituent entities.
- **Minimum ETR: 15%**



Subject to Tax Rule (STTR)

- **Applies before GloBE Rules**
- A treaty-based rule that allows countries to impose limited source taxation on covered related-party payments that are subject to tax below agreed minimum nominal rate.
- Applies to interest, royalties and a defined set of other payments.
- Minimum nominal tax rate: 9%

GloBE: Undertaxed Profits Rule (UTPR)

- **Backstop – applies if no QDMTT or IIR is imposed.**
- Right to impose Top-Up Tax is allocated among countries with constituent entities based on relative amounts of tangible assets and employees.
- Imposed by limiting or denying deductions or requiring an equivalent adjustment.
- **Minimum ETR: 15%**

GloBE: Qualified Domestic Minimum Top-up Tax (QDMTT)

- **Applies before IIR and UTPR**
- Top-up tax is assessed by the low-tax jurisdiction itself under a computation similar to the IIR computation.
- **Minimum ETR: 15%**

How tax incentives may have an influence on ETR?

Nature of relief	Type of instrument	Impact on Covered Tax	Impact on GloBE Income	Pressure on ETR
Income-based incentive 1	Full/partial exemption	Decrease	Unaffected	Downward
Income-based incentive 2	Preferential tax rate	Decrease	Unaffected	Downward
Expenditure-based incentive 1	Super deduction beyond actual cost incurred	Decrease	Unaffected	Downward
Expenditure-based incentive 2	Tax depreciation without accompanying accounting depreciation	Decrease	Unaffected	Downward
Expenditure-based incentive 3	Tax depreciation with accompanying accounting depreciation	Unaffected unless recapture applies	Unaffected	Less likely
Tax credit 1	Qualifying refundable tax credit	Unaffected	Increase	Less likely
Tax credit 2	Non-qualifying refundable tax credit	Decrease	Unaffected	Downward

- No good or bad, but dependent on facts:
  - Downward ETR pressure is good when existing ETR is significantly higher than 15%.
  - Downward ETR pressure is bad when existing ETR is 15% or below.
- The key is to blend high and low taxes to achieve optimal jurisdictional ETR.
- Make good use of withholding taxes.

MNEs can "buy time" by availing themselves of the transitional country-by-country report (CbCR) safe harbour

During the transition period, the **top-up tax is deemed to be zero** for a jurisdiction for the fiscal year **where at least one** of the following tests is met:

De Minimis Test

- Total Revenue of less than €10m.
- Profit (Loss) before Income Tax (PBT) of less than €1m.

Simplified ETR Test

- MNE Group's Simplified ETR (Simplified covered tax ÷ PBT) must be ≥ Transition Rate:
  - 15% (2023-2024)
  - 16% (2025)
  - 17% (2026)

Routine Profits Test

- **PBT** is ≤ Substance Based Income Exclusion amount (i.e., percentage of payroll costs and carrying value of tangible assets).
- No excess profits

- Only applicable to fiscal years beginning on or before 31 December 2026, but not fiscal year that ends after 30 June 2028.
- "Once out, always out"
- Tests largely make use of simplified jurisdictional revenue and income information contained in an MNE's **Qualified CbCR**, and jurisdictional tax information contained in an MNE's Qualified Financial Statements.

03

Implementing Guidelines in Indonesia

Key development updates on Pillar 2 in Indonesia

Enactment status	▪ Legal framework: Article 32A of Income Tax Law and Article 54 Government Regulation Year 2022. ▪ Enacted on 31 December 2024 through the issuance of Ministry of Finance Regulation No. 136 Year 2024.
Type of rule	▪ Income Inclusion Rule (IIR) ▪ Undertaxed Payment Rules (UTPR) ▪ Qualified Domestic Minimum Top-up Tax (QDMTT)
Effective date	▪ 1 January **2025** (Financial Years beginning on or after 1 January 2025) for both IIR and QDMTT. ▪ 1 January **2026** (Financial Years beginning on or after 1 January 2026) for UTPR.
Scope	▪ Follows GloBE Model Rules – MNE Groups with annual consolidated revenue of EUR 750 million or more in at least two of the four immediately preceding fiscal years. ▪ Does not include wholly domestic groups. ▪ QDMTT rules in Indonesia are not limited to wholly owned Constituent Entities ("CEs") and applies to all CEs within a Pillar Two MNE Group. ▪ All CEs in Indonesia will be liable for the allocated top-up tax under the UTPR if the top-up tax in low-taxed foreign jurisdictions has not been fully paid, either under a QDMTT or IIR in those jurisdictions.

Deadline for tax compliance reporting in Indonesia

- All CEs in Indonesia are required to submit the following to the Directorate General of Tax (DGT):
  - Registration as GloBE Taxpayer
  - Top-up Tax return
  - GloBE Information Return (GIR)
  - Notification of the in-scope MNE
- Filing and payment deadline
  - Registration: 9 months after the end of the Tax Year.
  - Top-up Tax Payment: at the end of the GloBE Year.
  - GIR: 15 months after the end of the Tax Year.
  - Top-up Tax Returns: 4 months after the end of the GloBE Year.
  - Notifications: 15 months after the end of the Tax Year.

Tax Year	GloBE Year		GloBE returns obligation	
31 Dec 2025 ▪ End of Tax Year 2025, assuming the tax year is 1 January 2025 - 31 December 2025.	**30 Sep 2026** ▪ Registration of Indonesian CE's as GloBE Taxpayer.	**31 Dec 2026** ▪ Due date of Top-up Tax Payment.	**30 Mar 2027** ▪ GIR and Notification due date for Tax Year 2025/GloBE Year 2026. ▪ Can be extended to 30 June 2027 for this first year application.	**30 Apr 2027** ▪ Top up Tax returns submission for Tax Year 2025/GloBE Year 2026. ▪ Can be extended to 30 June 2027 for this first year application.

What you should be doing?

Actions for in-scope MNEs to consider include:

- Evaluate the impact on their groups, including DMTT and/or IIR for Indonesian-based in-scope MNEs, and DMTT for foreign-based in-scope MNEs with an Indonesian subsidiary, especially where the Indonesian subsidiary has been granted a Tax Holiday.
- Consider an assessment of qualification for safe harbors, as it could help significantly reduce the complexity of ETR calculation and release top-up tax burdens.
- Estimate the top-up tax provisioning in the Financial Statements (if any) and comply with the relevant financial reporting obligation (e.g., disclosure requirements).
- MNEs considering group restructuring, mergers or acquisitions should account for the potential impact of these transactions on their Pillar Two profiles.
- Include new tax compliance reporting such as Registration and Notification filings into compliance systems and monitoring.

04

Recent Tax Developments in Indonesia

Indonesia - recent tax developments

Treaty developments	▪ Circular Letter of Directorate General of Taxes on the application of MLI instrument to the Tax Treaty have been issued and become effective for 32 tax treaties. ▪ The application of tax treaty benefits must consider the MLI between both parties as the MLI provision overruled the provision under tax treaty benefits.
Stimulatory tax policies and incentives	▪ The current tax holiday regulation in Indonesia is set to expire in 31 December 2025. At this point, it remains uncertain whether the regulations will undergo changes or remain unchanged. ▪ The Government is considering to have a new tax incentives such as Qualified Refundable Tax Credits, Transferable Tax Credits, Cash Subsidies/Grants, or Capital Participation Exemptions to facilitate the application of BEPS Pillar 2.
Anti-avoidance, controversy and tax enforcement	▪ The Government has implemented a CoreTax System to automate and digitalize tax administration services. The objective of this system is to streamline business processes, including the processing of notification letters, tax documents, tax payments, and providing support for inspections and collections to taxpayers. ▪ New Indonesian Transfer Pricing Regulations marks a significant shift in the approach to support the arm's length nature of related party transactions, including the procedures for "Preliminary Stages" analysis. ▪ Recently, the ITA has been actively in issuing Requests for Explanation of Data and/or Information (SP2DK) letters. These letters typically reflect the ITA's preliminary analysis and high-level review of the company's available financial data, highlighting potential tax underpayment risks. ▪ Tax Disputes in Indonesia is expectedly to increase over the years due to the increase of Tax Audit trends.

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