

INDONESIA OFFICIALLY ADOPTS THE GLOBAL MINIMUM TAX: WHAT YOU NEED TO KNOW ABOUT PMK-136/2024

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1 Indonesia Implements Pillar Two GloBE Rules, Effective 1 January 2025

As of 1 January 2025, Indonesia officially implements the Global Minimum Tax (GMT) under Minister of Finance Regulation No. 136 of 2024 on the Imposition of a Global Minimum Tax Based on the International Consensus (PMK-136/2024), which is made publicly available in mid-January 2025.

2 What is the Global Minimum Tax?

A. Background and Basic Concept

The Global Minimum Tax (GMT) is an international initiative stemming from the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS), which began in 2015. The effort began with the **Final Report on BEPS Action 1**, which addressed the challenges of taxing the **digital economy**. This work evolved into a broader approach, ultimately leading to the **Two-Pillar Solution: Pillar One and Pillar Two** to tackle the **tax challenges of digitalization**.

In **October 2021**, **137 jurisdictions** under the **OECD/G20 Inclusive Framework on BEPS** agreed to this framework, which was later **endorsed by the G20 Finance Ministers and Leaders**. Pillar One aims to reallocate taxing rights to market jurisdictions where goods and services are consumed, especially targeting digital businesses that generate revenue from users in a country without needing a physical presence. On the other hand, **Pillar Two** introduces the **Global Anti-Base Erosion (GloBE) Rules**, ensuring that **multinational enterprise (MNE) groups** pay a **minimum Effective Tax Rate (ETR) of 15%** in each jurisdiction where they operate.

The main goal of this initiative is to **combat tax avoidance strategies**, particularly those enabled by **low-tax jurisdictions** or **aggressive tax policies**. If an MNE's **ETR in a jurisdiction falls below 15%**, an additional tax—**Top-up Tax**—is applied to **bring the tax liability up to the required level**.

Conceptually, this initiative aims to counteract tax avoidance practices facilitated by low-tax jurisdictions or aggressive fiscal policies. If an MNE's ETR in a given jurisdiction is below this threshold, an additional tax known as **Top-up Tax** is imposed to bring the tax liability up to the required level.



The imposition of the **Top-up Tax** follows a **rule of order**, which determines the priority of jurisdictions entitled to collect the additional tax. The mechanism ensures that taxing rights are allocated in the following sequence:

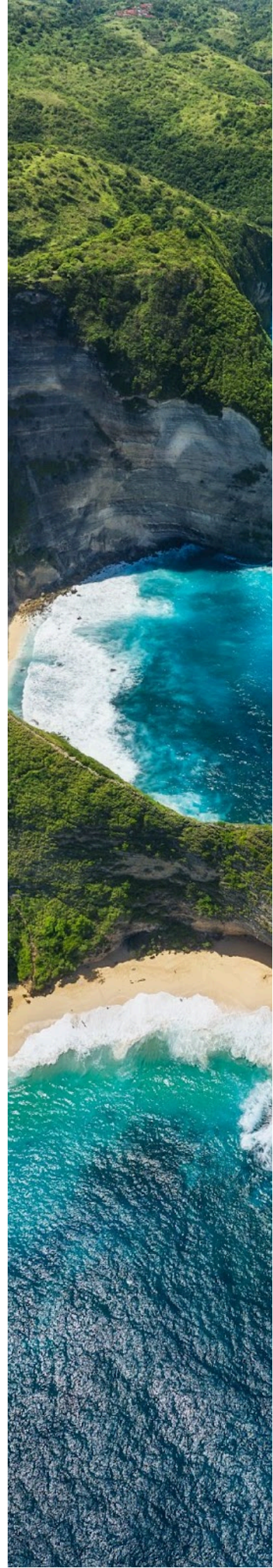
1. **The jurisdiction where the entity operates:** This jurisdiction has the first right to impose the **top-up tax** through the **Qualified Domestic Minimum Top-Up Tax (QDMTT)**.
2. **The jurisdiction of the Parent Entity:** If the QDMTT is not applied or is applied at a lower rate, the **Income Inclusion Rule (IIR)** allows the Parent Entity's jurisdiction to impose the top-up tax.
3. **Other relevant jurisdictions:** If neither the QDMTT nor the IIR fully imposes the required tax, the **Undertaxed Profits Rule (UTPR)** allows other relevant jurisdictions to collect the remaining top-up tax.

This **rule of order** ensures that the minimum effective tax rate of 15% is met while respecting the taxing rights of the jurisdictions most relevant to the economic activities.

B. Taxpayers Impacted by the GMT

The Constituent Entities of a Multinational Enterprise (MNE) Group will be subject to the Global Minimum Tax (GMT) if the group's consolidated revenue exceeds EUR 750 million in at least two of the four fiscal years preceding the tested fiscal year.

For example, to determine whether **2025 is the first year of Global Minimum Tax (GMT) implementation** for a taxpayer that is a **Constituent Entity of an MNE Group with a January-December Fiscal Year**, it is necessary to check whether the **MNE Group's consolidated revenue exceeded EUR 750 million in at least two of the four Fiscal Years preceding 2025, namely 2021, 2022, 2023, and 2024.**



If the revenue surpasses this threshold in at least two of these years, for instance, in 2021 and 2023 the MNE Group becomes subject to GMT starting in 2025.

However, certain entities are exempt, including government bodies, international organizations, non-profit organizations, pension funds, and investment entities.

Additionally, taxpayers such as individuals, purely domestic companies, and small and medium-sized enterprises (SMEs) that do not meet the EUR 750 million revenue threshold are not subject to GMT.

3 Indonesia's Implementation of GMT: PMK-136/2024 in a Nutshell

A. Indonesia's Commitment to GMT as Common Approach

As publicly recorded, the Indonesian government has repeatedly expressed its plan to implement the **Global Minimum Tax (GMT)** through various statements by the **Minister of Finance and other officials** on multiple occasions. The issuance of **PMK-136/2024** has reaffirmed Indonesia's commitment to adopting GMT, which will take effect on **1 January 2025**.

The introduction of this regulation has garnered significant attention due to its **high level of complexity** and its **potentially far-reaching implications** for businesses and tax policies in Indonesia. One of the most notable features of **PMK-136/2024** is its **clear statement on Indonesia's full commitment to the common approach**. This is explicitly reflected in **Article 72**, which states that GMT, as implemented under this regulation, should be interpreted **in alignment with the GloBE Rules** as set out and explained in various documents issued by the **OECD Inclusive Framework**. That is why PMK-136/2024, beyond this explicit statement, stands as a testament to Indonesia's commitment, as almost every aspect of the regulation mirrors the principles and provisions of the GloBE Rules by the OECD Inclusive Framework.



B. ETR and Top-Up Tax Calculation Under PMK-136/2024: Step-by-Step Breakdown

Consistent with the **GloBE Rules**, in applying the **Global Minimum Tax (GMT)**, MNE Groups are required to calculate the **Effective Tax Rate (ETR)** and, if any, the **top-up tax**. The **ETR** is determined by **dividing the adjusted covered taxes by the GloBE income/loss**. The resulting percentage represents the **ETR for the jurisdiction**, which is then compared against the **global minimum tax rate of 15%** to assess whether any **top-up tax** is required.

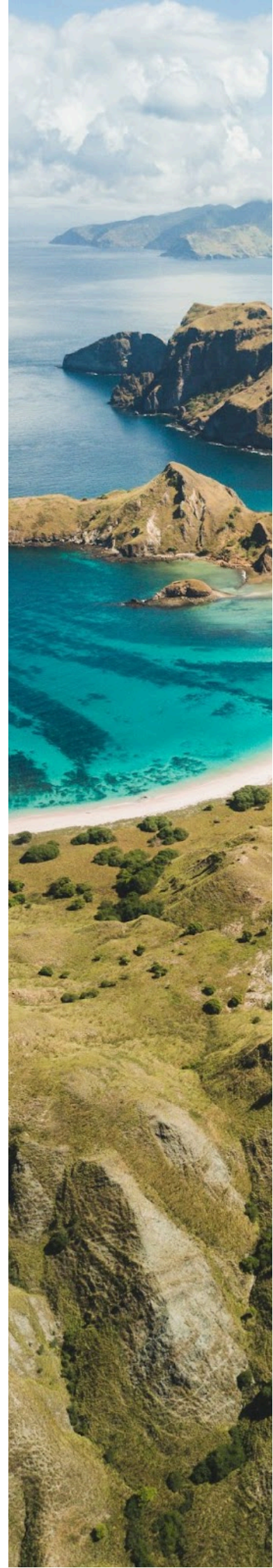
The basic calculation of ETR and Top-up Tax is detailed below:

Step 1:

Calculation of GloBE Income or Loss (Article 19, 20)

The calculation begins with the **financial accounting net income/loss (after tax)** at the **bottom of the unconsolidated financial report** of each entity. The **ETR** is based on **financial accounting income** rather than **tax returns** to ensure **consistency across jurisdictions** with different tax rules, deductions, and exemptions. **Financial reports follow international accounting standards**, providing a **neutral starting point** for uniform calculations. Adjustments then align the figures with **GloBE Rules**, ensuring fair comparisons and preventing distortions caused by local tax treatments.

This figure is then **adjusted** based on three categories:



1. General Adjustments (Article 21)

These adjustments apply broadly and ensure consistency with **GloBE Rules**. Examples include:

- **Dividends:** Except for portfolio dividends, dividends are excluded from the **GloBE income or loss calculation** because certain jurisdictions, including **Indonesia**, already treat specific dividends as tax-exempt.
- **Transfer Pricing Adjustments:** If transactions between **Constituent Entities** within an **MNE Group** do not comply with the arm's length principle, adjustments must be made to reflect **fair market value**.
- **Non-Deductible Expenses:** Expenses related to **illegal activities**, such as **bribery**, or certain fines/penalties must be excluded from the **GloBE income or loss calculation** the financial statements.

2. Elective Adjustments (Article 22)

Elective adjustments provide **flexibility** for **Constituent Entities** to choose specific accounting treatments. For instance:

- **Fair Value vs. Realization Principle:** Under financial accounting standards, assets and liabilities can be reported based on **fair value**. However, **PMK-136/2024 (Article 22)** allows entities to opt for the **realization principle**, where values are adjusted only upon realization.

3. Specific Adjustments (Article 23, 24, 25)

These adjustments apply to **Constituent Entities with special characteristics**, such as:

- **Insurance**
- **Banking**
- **International shipping income**
- **Permanent establishment**
- **Flow-through entity**



Once all necessary adjustments are made, the **GloBE income/loss** could be finalized for each Constituent Entity within Indonesia.

Step 2: Determining the Adjusted Covered Tax (Article 30, 31, 32)

The next step is calculating the **adjusted covered tax**, starting from the **current tax expense** recognized in the financial statements. However, due to **jurisdictional differences** in tax rules, further adjustments are necessary. Examples of adjustments to Covered Tax:

1. **Inclusion of Uncertainty in Tax Disputes:** If a company faces **significant tax risks**, such as **recurring transfer pricing disputes**, an **additional tax expense** must be recognized.
2. **Exclusion of Tax-Exempt Income:** Certain **income types**, such as **dividends and international shipping income**, may be excluded from **covered taxes** to align with global tax principles.

Step 3: Calculating the Effective Tax Rate (ETR)

Once the **adjusted covered tax** and **GloBE income or loss** per **Constituent Entity** are determined, the **ETR** is calculated using the following formula:

$$\text{ETR} = \text{Adjusted Covered Taxes} / \text{GloBe Income or Loss}$$

To calculate the **ETR for Indonesia**, the **GloBE income/loss** of **all Constituent Entities** within the country must be **combined** to determine the **total jurisdictional GloBE income/loss**.

- If the **combined GloBE income** is **positive**, the **ETR can be calculated** and compared against the **GMT rate of 15%**.



- If the **combined result is negative**, it indicates a **GloBE loss** for the jurisdiction. In this case, the **ETR cannot be determined**, and **no top-up tax is applied for that particular year**.

Similarly, the **adjusted covered taxes** of all **Constituent Entities** must also be **aggregated** at the jurisdictional level.

Step 4: Identifying the Top-Up Tax

If the **ETR is below 15%**, the shortfall represents the **top-up tax rate**.

Step 5: Determining the Top-Up Tax

To determine the top-up tax amount, the **top-up tax rate** is **multiplied by the excess profit** to determine the **additional tax payable**.

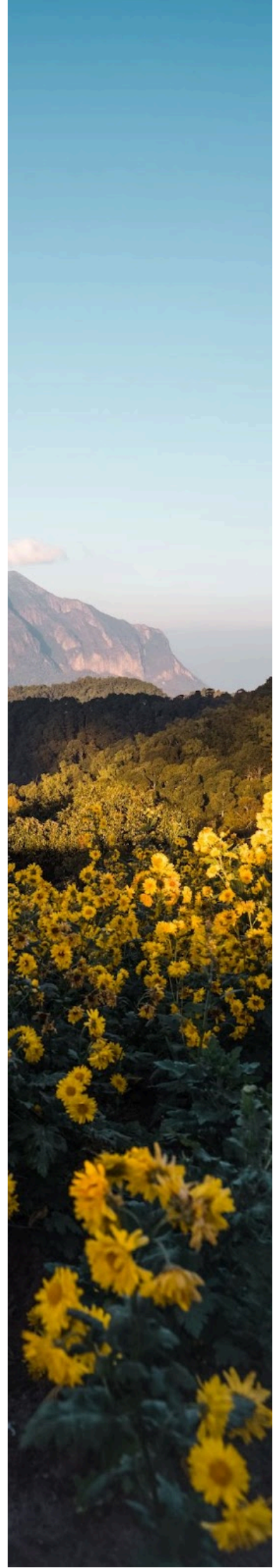
Excess profit refers to **GloBE income** after deducting a portion of income attributed to the **size and quality of a company's workforce** and its **ownership of tangible assets**, based on **predefined exclusion rates**. This concept is known as the **Substance-Based Income Exclusion (SBIE)**.

Step 6: Allocating the Top-Up Tax

Finally, the **calculated top-up tax** is allocated to the **relevant constituent entities** through the **QDMTT, IIR, and UTPR** proportionally according to facts and circumstances.

C. Transitional Safe Harbour Provision (Article 56)

PMK-136/2024 provides **flexibility** for **Constituent Entities** within a **Multinational Enterprise (MNE) Group**, particularly during the **transitional period**, which covers the **first three years of implementation** (specifically for **Fiscal Years starting on or before 31 December 2026**, but excluding **Fiscal Years ending after 30 June 2028**).



During this period, if a Constituent Entity meets one of the PMK-136/2024 provides flexibility for Constituent Entities within a Multinational Enterprise (MNE) Group,

particularly during the transitional period, which covers the first three years of implementation (specifically for Fiscal Years starting on or before 31 December 2026, but excluding Fiscal Years ending after 30 June 2028). Three specified tests, it can be exempt from Top-Up Tax obligations in the respective jurisdiction.

- **De Minimis Test:** When a jurisdiction qualifies under the **De Minimis Test**, it means that the entities operating in that jurisdiction **do not need to pay any additional tax under the Global Anti-Base Erosion (GloBE) rules** for that Fiscal Year. This happens when both of the following conditions are met:
 1. **Total revenue** in the jurisdiction is **EUR 10 million or less**
 2. **Pre-tax income or loss** in the jurisdiction is **EUR 1 million or less**

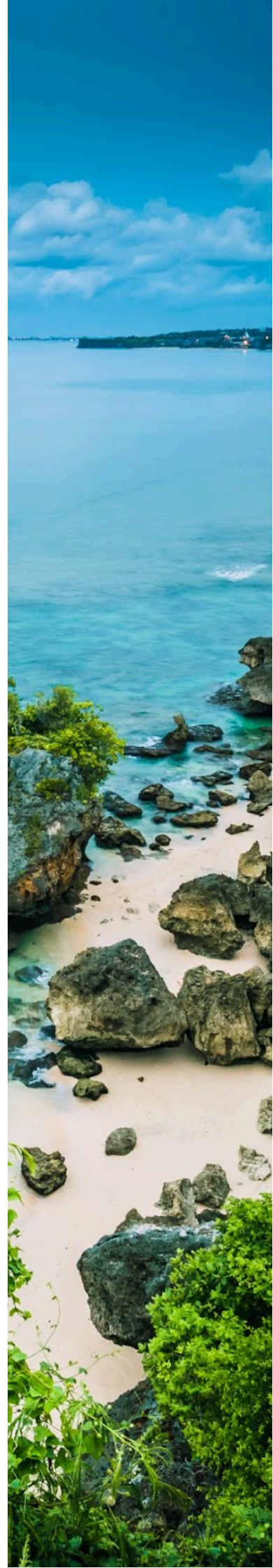
If a jurisdiction meets these conditions, it is considered **low-risk** for tax avoidance, so companies operating there are **exempt from detailed GloBE tax calculations and top-up taxes**. This helps simplify compliance by removing the need for complex tax computations.

- **Routine Profit Test:** If a jurisdiction's profit or loss is equal to or less than the SBIE, it means there is no excess profit, so no additional tax is due.
- **ETR Test:** If the ETR in a jurisdiction is at least 15% (2025), 16% (2026), 17% (2027), no additional tax is required.

Note: For transitional period, CbCR data is used for all three tests, simplifying compliance.

D. Reporting and Payment Obligations

The administrative obligations under GMT implementation include **the GloBE Tax Return (SPT GloBE), the GloBE Information Return (GIR), and required notifications.**



The **GloBE Tax Return** includes:

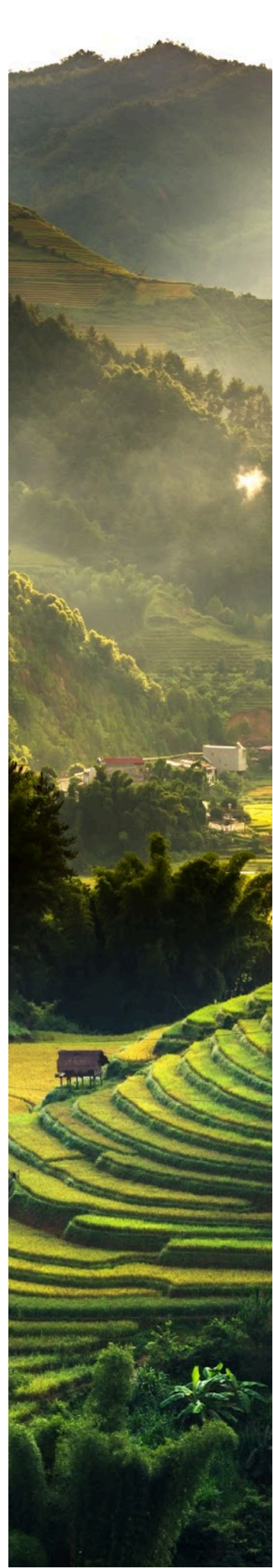
- **GloBE Corporate Income Tax Return (SPT PPh GloBE)**, which must be filed by the Ultimate Parent Entity (UPE) that is a domestic taxpayer.
- **DMTT Corporate Income Tax Return (SPT PPh DMTT)**, which must be filed by Constituent Entities in Indonesia that are not the UPE.
- **UTPR Corporate Income Tax Return (SPT PPh UTPR)**, which applies to jurisdictions receiving a Top-up Tax allocation due to the absence of DMTT and IIR.

Beyond local reporting, since the **Global Minimum Tax (GMT)** is a globally coordinated policy, **additional reporting is required to ensure consistency across jurisdictions**. This includes notifying tax authorities of **taxes paid in other jurisdictions** to maintain global tax transparency.

The **GloBE Information Return (GIR)** serves as a **comprehensive report detailing the implementation of GMT within a multinational enterprise (MNE) group**. Similar to **Country-by-Country Reporting (CbCR)**, the GIR is initially reported by **one Constituent Entity, Ultimate Parent Entity (UPE) or a Designated Filing Entity**, and is then **exchanged through Exchange of Information (EoI) networks**.

In addition, another crucial requirement is the **Notification Obligation**, which, while not identical to CbCR notification requirements, remains **broadly consistent** with them. This obligation applies to **all Constituent Entities in Indonesia**, requiring them to identify the domestic taxpayer **UPE**, identity of **Constituent Entity that is not the UPE**, and the **entity responsible for filing the GIR**.

Regarding tax payment obligations, the principle is straightforward: taxes should always be paid in the following fiscal year. If GMT takes effect in 2025, the payments of top-up tax must be made on 31 December 2026, and so forth.





Administrative Obligation	Subject (located in Indonesia)	Reporting or Payment Deadline	Example of Administrative Obligation Deadline (Assumption: A Constituent Entity in Indonesia is impacted by the Global Minimum Tax (GMT) for 2025, with a January-December financial year for bookkeeping)
SPT PPh GloBE SPT PPh DMTT SPT PPh UTPR	UPE CE	(Reporting) 4 months after the end of the following Fiscal Year	30 April 2027
GIR	UPE, CE	(Reporting) <ul style="list-style-type: none"> 18 months after the end of the Fiscal Year for the first year 15 months after the end of the Fiscal Year for subsequent years 	<ul style="list-style-type: none"> First year: 30 June 2027 Second year: 31 March 2028
Notification	UPE, CE	(Reporting) 15 months after the end of the Fiscal Year	31 March 2027 (Annex KK of the regulation explains that this can also be extended to 30 June 2027 for the first year)
Additional Tax Payment	UPE, CE	(Payment) No later than the end of the following Fiscal Year	31 December 2026

E. Reporting and Compliance Monitoring (Article 64)

The **Director General of Taxes (DGT)** is authorized to **assess compliance with Safe Harbour rules, review the imposition of Top-up Tax, and conduct compliance testing on the fulfillment of tax obligations under GloBE.**

This includes cases where **Indonesia receives an additional tax allocation from a Safe Harbour jurisdiction with an Effective Tax Rate (ETR) below the Minimum Rate.**

While **administrative sanctions related to the submission of the GloBE Tax Return (SPT GloBE), DMTT Tax Return (SPT DMTT), UTPR Tax Return (SPT UTPR), and payment of additional tax obligations will follow the general tax regulations in effect, the Reporting Constituent Entity is exempt from administrative sanctions for fiscal years beginning on or after 31 December 2026 or before that date, up to 30 June 2028.** This exemption provides **flexibility during the transitional period.**

4 Preparing for GMT Compliance: What Taxpayers Need to Do?

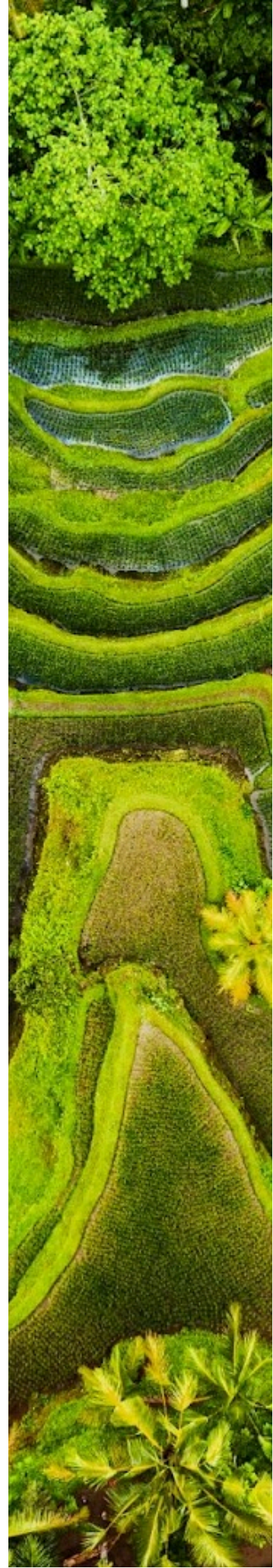
With the implementation of the **GMT** under the **GloBE framework** and **PMK-136/2024**, in-scope MNE Group must take proactive steps to ensure compliance and avoid unexpected tax liabilities. Here's how your business can stay ahead:

- **Understand the Rules:** GMT regulations are complex, requiring a clear grasp of both international and domestic provisions. Staying informed is crucial for seamless compliance.
- **Build a Compliance Team:** Assign a dedicated team or responsible person to oversee GMT reporting, risk assessment, and regulatory updates.



- **Organize Data & Documentation:** A well-structured database ensures **accurate Effective Tax Rate (ETR) calculations, smooth tax return filings, and audit readiness.**
- **Raise Awareness Across Entities:** All impacted **Constituent Entities** and relevant departments must be prepared for **data collection and additional reporting obligations.**
- **Enhance Group Coordination:** Strengthen **communication between the Ultimate Parent Entity (UPE) and business units across different jurisdictions** to ensure consistent reporting.
- **Simulate ETR Calculations:** Running ETR simulations helps **assess potential top-up tax liabilities** and prepare for future obligations under the increasing minimum tax thresholds.
- **Conduct Regular Compliance Reviews:** Internal checks and **expert consultations** can help identify and mitigate risks before official filings.

Additionally, due to its mechanism, which may neutralize certain tax incentives, it is important to recognize the impact on incentive utilization. While optimizing tax incentives is a strategic way to ease the burden on businesses and enhance efficiency in a legal and justifiable manner to support business sustainability, **companies that are out of scope or not impacted by GMT still have the opportunity to maximize available incentives.** On the other hand, for **in-scope taxpayers, it is crucial to identify which incentives they have already obtained and assess their continued viability under the GMT regime.** Businesses should proactively pursue available incentives that can be utilized with minimal or no disruption to GMT compliance, ensuring that any tax planning aligns with both regulatory requirements and business objectives.



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