Updates to the Rules on Benefiting from Tax Treaties Under *PMK* 112/2025

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The Ministry of Finance has issued Minister of Finance Regulation (PMK) *Number 112 of 2025 concerning Procedures for Implementing Double Taxation Avoidance Agreements* (P3B) *which came into effect on 31 December 2025. This regulation supersedes the previous provisions in* PER-25/PJ/2018 *and brings significant changes to the implementation of* P3B *between Indonesia and partner countries.*

P3B is a bilateral agreement that aims at eliminating the imposition of double taxation on the same income from cross-border transactions, it is not intended to create opportunities for complete non-taxation or tax reduction through avoidance or evasion.

The benefits of *P3B* may be in the form of:

1. The withholding/collection rate for income tax is lower than the general rate in the Income Tax Law.
2. Exclusive taxation in the country of domicile.
3. Exemption from the imposition of income tax in Indonesia.
4. The time period for determining a permanent establishment (PE) is different from the provisions in the Income Tax Law.

These benefits can be enjoyed by:

1. Resident Taxpayers (*WPDN*) who earn income from outside Indonesia.
2. Non-Resident Taxpayers (*WPLN*) who are residents of *P3B* partner countries and earn income from Indonesia.

A. Form DGT for Obtaining the Benefits of *P3B* by Non-Resident Taxpayers

The benefits of *P3B* for *WPLN* are not granted automatically. *WPLN* must meet three main requirements and provide proof that it is:

1. not a domestic Indonesian tax subject.
2. a resident of a *P3B* partner country for tax purposes.
3. not misusing the *P3B*.

To prove the fulfillment of the requirements to obtain *P3B* benefits, *WPLN*s must have fulfilled the provisions stated in Form DGT for the use of *P3B*. The functions of Form DGT are as follows:

1. Proof that the *WPLN* is a resident of a *P3B* partner country
2. Statement that the *WPLN* meets the requirements and is entitled to receive *P3B* benefits.
3. Supporting documents for tax withholding/collecting parties in Indonesia to apply *P3B* rates.

1. Obligations of Tax Withholding/Collecting Parties in Indonesia

Regarding the application of *P3B* to *WPLN* who are entitled to the benefits, the administrative responsibilities of tax withholding/collecting parties in Indonesia are also emphasized for transactions with *WPLN*, namely as follows:

a. It is mandatory to verify the validity and fulfillment of the provisions in Form DGT before applying the *P3B* rate and uploading it to the DGT.
b. It is mandatory to deduct income tax at the correct rate according to the verification results and deposit it, issue the proof of withholding/collection and report it, in accordance with the provisions.
c. Even though the income tax is 0%

or exempted based on the *P3B*, the creation of withholding/collection proof and reporting in the Periodic Tax Return are still required, in order to ensure that transaction administration is documented.

d. Tax withholders/collectors who fail to fulfill these obligations will be subject to sanctions in accordance with the laws and regulations.

e. If there is an excess withholding (because the *P3B* rate should have been used), a request for a refund (restitution) can be submitted for the excess tax that should have not been payable in accordance with the applicable procedures.

f. Tax withholders/collectors are required to keep the Form DGT, or *SKD WPLN*, and the receipts from DGT, as well as the supporting transaction documents that serve as basis for tax withholding/collection.

2. Changes in the Format of Form DGT

PMK 112/2025 simplifies the format of Form DGT, including:

a. Changes in terminology to align with international standards, such as:

1. "Double Taxation Convention" becomes "Double Taxation Agreement".
2. "Country" becomes "Country/Jurisdiction" to accommodate specific jurisdictions.

b. The number of sections to be completed is reduced from 7 sections (under *PER*-25/2018) to 6 sections.

c. Merging the substance and beneficial owner test questions (formerly Part VI) into Part V.

PART V TO BE COMPLETED IF THE INCOME RECIPIENT IS A NON-INDIVIDUAL

1.	Country/jurisdiction of registration or incorporation: ____			(28)
2.	Country/jurisdiction where the place of management or control resides: ____			(29)
3.	Address of the head office: ____			(30)
4.	Address of the branch, office, or other place of business in Indonesia (if any): ____			(31)
5.	The non-individual has relevant economic substance either in the non-individual's establishment or the transaction itself.	☐ Yes	☐ No	(32)
6.	The non-individual has the same legal form and economic substance either in the non-individual's establishment or the transaction itself.	☐ Yes	☐ No	(33)
7.	The non-individual has its own management to carry on the business and such management has an independent discretion.	☐ Yes	☐ No	(34)
8.	The non-individual has sufficient assets to carry on the business other than assets that generate the income from Indonesia.	☐ Yes	☐ No	(35)
9.	The non-individual has sufficient and qualified personnels to carry on the business.	☐ Yes	☐ No	(36)
10.	The non-individual has business activity other than receiving dividend, interest, and/or royalty sourced from Indonesia.	☐ Yes	☐ No	(37)
11.	The purpose of the transaction is to obtain the benefit directly or indirectly under the DTA that is contrary to the object and purposes of the DTA.	☐ Yes	☐ No	(38)
12.	The non-individual is acting as an agent, nominee, or conduit.	☐ Yes	☐ No	(39)
13.	The non-individual has a controlling right or disposal right on the income or the assets or the rights that generate the income.	☐ Yes	☐ No	(40)
14.	No more than 50 percent of the non-individual's income is used to satisfy any claim by another person.	☐ Yes	☐ No	(41)
15.	The non-individual assumes risk on its own assets, liabilities, or capital.	☐ Yes	☐ No	(42)
16.	The non-individual has an obligation to transfer the income received to a resident of third country/jurisdiction.	☐ Yes	☐ No	(43)

B. Compliance related to Prevention of Misuse of *P3B*

In order to ensure that *P3B* facilities are not misused for tax avoidance or evasion (treaty shopping), the Directorate General of Taxes (DGT) has the authority to test the material truth behind taxpayer transactions.

1. Statement of Non-Misuse of *P3B* in Form DGT

As part of prevention, Non-Resident Taxpayers must declare in Form DGT that they are not misusing the *P3B*, which includes 8 (eight) indicators of existence, namely as follows:

a. Having economic substance in establishing an entity or carrying out transactions.
b. Legal form that is in accordance with the economic substance.
c. Having business activities managed by its own management with the authority to carry out transactions.
d. Have sufficient assets (fixed and non-fixed) to conduct business in the *P3B* partner country, in addition to assets that generate income from Indonesia.
e. Have an adequate number of employees with expertise according to the business field.
f. Have active business activities, apart from receiving passive income (dividends, interest, royalties) from Indonesia.
g. The main purpose of the transactions carried out is not to obtain *P3B* benefits.
h. Is the beneficial owner (actual recipient of benefits) of the income.

2. Provisions for the Prevention of Misuse of *P3B*

In preventing the practice of misusing *P3B*, the DGT is strengthened by this regulation with the implementation of the following 6 (six) instruments:

a. Beneficial Owner (Article 19):
The Non-Resident Taxpayer must be the party that actually receives the economic benefits from the income, has control over, and bears the risk of the funds/assets they own. They must not be an agent, nominee, or conduit company.

b. Percentage and Minimum Period of Shareholding (Article 20):
A certain percentage ownership requirement for a minimum period of 365 calendar days (including the dividend payment day) may apply to obtain a lower tax rate on dividends.

c. Minimum Period and Percentage of Immovable Assets (Article 21):
The requirement of a minimum percentage of the value of immovable assets from the total value of the assets of the entity whose shares or rights are transferred, within a period of 365 calendar days before the transfer, is applied to determine the taxation rights for profits located in Indonesia or in a *P3B* partner country.

d. Prevention of Avoidance of Determination of Permanent Establishment (Articles 22 to 26):
To prevent structures that avoid Permanent Establishment (PE) status, the DGT can add up the duration of construction, installation, or assembly projects by the Non-Resident Taxpayer or related parties (contract splitting) to determine the period for establishment of a PE.

e. Limitation on Benefits of P3B (Article 27):
Certain clauses in the *P3B* require criteria for income recipients to be entitled to *P3B* benefits, such as *WPLN* whose shares are majority owned by individual residents of the relevant *P3B* partner country.

f. Principal Purpose Test (Article 28):
The provisions in the *P3B* regulate that the benefits of the *P3B* will not be granted if (one of) the main objectives of the transaction is to obtain *P3B* benefits both directly and indirectly.

C. *P3B* Implementation Path for Taxpayers

1. Procedures for Non-Resident Taxpayers to Obtain *P3B* Benefits in Indonesia

For Non-Resident Taxpayers (*WPLN*) who will receive income from Indonesia and want to utilize the *P3B* rate, the flow is as follows:

a. The *WPLN* completes and signs the DGT Form stating that they have fulfilled the terms and conditions for using *P3B*, and have received approval from the tax authority officials of the *P3B* partner country.
b. The validation can be replaced with a *WPLN* Domicile Certificate (*SKD*) in English, which is valid for the stated period; which contains the *WPLN*'s name, date of issue, and is signed by an authorized official.
c. Form DGT is used for the stated validity period, namely a maximum of 12 months.
d. The *WPLN* submits its valid DGT Form to the tax withholding/collecting party in Indonesia (income provider).
e. The tax withholding/collecting party checks the fulfillment of the provisions in the Form DGT, then carries out the Income Tax (*PPh*) withholding:

1. If the conditions are met: Income Tax is withheld according to the *P3B* rate.
2. If the conditions are not met: Income Tax is withheld according to the general rate of Income Tax Article 26 (20%).

f. The tax withholder/collector submits the Form DGT information and upload it via the Taxpayer Portal.
g. The *DJP* Coretax system issues a Form DGT Receipt, the Tax Withholder forwards the receipt to the *WPLN*.
h. The receipt can be used for subsequent transactions during the validity period of the Form DGT, without having to re-submit the physical Form DGT.

2. Procedures for Resident Taxpayers to Obtain Tax Treaty Benefits Overseas

For Resident Taxpayers (*WPDN*) who will receive income from *P3B* partner countries and want to utilize the *P3B* rates, the flow is as follows:
a. The *WPDN* submits a *WPDN SKD* application electronically via the Taxpayer Portal or the DGT contact center.
b. The requirements for applying for an *SKD* shall include the *WPDN* having the status of a resident taxpayer, having a Tax ID No. (*NPWP*), and has submitted the Income Tax Return for the last tax year or part of the tax year or for which the application is submitted.
c. The Coretax system will automatically issue an electronic *SKD WPDN* if the requirements are met. The *SKD WPDN* is valid until December 31st of the year of issuance.
d. If the *P3B* partner country requires a Special Form, the *WPDN* can submit their application for approval to the Tax Office (*KPP*) where they are registered. Requirements for submitting the Special Form include: it must be in English; it must contain the taxpayer's name, *NPWP* (Taxpayer Identification Number), and status; the name of the *P3B* partner and the source of income; and the tax year/part of the tax year for which approval is requested. Within 10 calendar days, the *KPP* will review and decide whether to approve or reject the application (may be resubmitted).

With these more comprehensive P3B *regulations, the government aims at creating legal certainty by ensuring that* P3B *facilities are truly enjoyed by international transactions with real economic substance. Prepare a strong justification for your business to legitimately qualify for* P3B *facilities, in accordance with the provisions stipulated in this* PMK.

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