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Strategic Mapping of Tax Haven Jurisdictions and the Political Economy of Global Transparency: Optimizing Indonesia's Fiscal Sovereignty in the Era of Pillar Two

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Tax revenue serves as the primary pillar of Indonesia's fiscal sustainability; however, the nation continues to struggle with a low tax-to-GDP ratio, fluctuating between 8% and 11% over the last five years. This study investigates the systemic impact of tax haven jurisdictions on Indonesia's revenue mobilization and evaluates the effectiveness of international cooperation frameworks, specifically the Automatic Exchange of Information (AEoI) and the Base Erosion and Profit Shifting (BEPS) Pillar Two. Utilizing a composite mapping methodology that integrates the Financial Secrecy Index (FSI), Corporate Tax Haven Index (CTHI), and IMF data, this research identifies top-tier risk vectors, with Singapore, the British Virgin Islands, and Hong Kong emerging as primary destinations for Indonesian capital flight. The analysis reveals that while global AEoI frameworks have reduced offshore deposits by an average of 25%, its efficacy in Indonesia is hindered by data quality issues, reported losses, and a lack of full reciprocity from major economies. Furthermore, the implementation of a 15% Global Minimum Tax (GMT) under PMK 136/2024 necessitates a radical redesign of Indonesia's fiscal incentives, shifting from traditional tax holidays to expenditure-based credits. The study concludes that optimizing revenue requires a multidimensional reform focusing on digital tax infrastructure, the judicial "Substance Over Form" doctrine, and active participation in the evolving global tax governance architecture.

Keywords: Tax Havens, Indonesia, AEoI, BEPS Pillar Two, Global Minimum Tax, Fiscal Sovereignty

Introduction

The mobilization of tax revenue is the cornerstone of fiscal sovereignty for developing nations. In an era of financial globalization, tax authorities face increasingly complex cross-border challenges that transcend traditional administrative boundaries. For Indonesia, optimizing the tax-to-GDP ratio remains a strategic national priority that is difficult to realize amidst prevalent tax avoidance practices facilitated by tax haven jurisdictions (Tax Justice Network, 2024). Over the past five years, Indonesia's tax ratio has barely reached 8% to 11%,

a figure significantly below the average for the Asia-Pacific region and OECD member states (Directorate General of Taxes, 2022; OECD, 2024).

The economic impact of these leakages is staggering. The *State of Tax Justice 2024* report reveals that the world loses approximately USD 492 billion annually due to global tax abuse. Of this amount, USD 347.6 billion is attributed to multinational corporations (MNCs) shifting profits to tax havens, while high-wealth individuals (HWIs) account for approximately USD 144.8 billion in hidden offshore wealth (Tax Justice Network, 2024). For a developing economy like Indonesia, every unit of currency lost to tax avoidance translates into a reduced capacity to fund public services, infrastructure, and poverty alleviation programs (Shujaaddeen et al., 2024). Consequently, mapping tax haven jurisdictions and strengthening international cooperation through the BEPS framework and the Automatic Exchange of Information (AEoI) have become vital instruments in Indonesia's modern fiscal architecture (Achaddiah, 2025; Tax Justice Network, 2024).

Theoretical Framework and Literature Review

2.1. Defining the Modern Tax Haven and Secrecy Jurisdictions

In traditional economic discourse, the term "tax haven" referred to small island nations offering zero tax rates. However, modern scholarship has shifted the focus toward "secrecy jurisdictions" and "harmful tax practices" (Tax Justice Network, 2024). The OECD (1987) noted that almost any country can become a tax haven to some degree by designing specific policies to attract foreign capital through non-transparent incentives. These jurisdictions typically offer low or nominal taxes, lack of effective information exchange, and a lack of requirements for substantial economic activity (Tax Justice Network, 2024).

Dharmapala and Hines (2009) argue that successful tax havens often exhibit higher-quality governance and bureaucratic efficiency compared to other small nations. This efficiency is necessary to provide the legal certainty and security required by foreign investors to protect their assets. This phenomenon is often termed the "commercialization of sovereignty," where jurisdictions use their legislative authority as a commodity to attract global capital flows (Dharmapala & Hines, 2009; Tax Justice Network, 2024).

2.2. Institutional Theory and Tax Compliance

Tax compliance in Indonesia is not merely a matter of enforcement but is deeply rooted in institutional and behavioral perceptions. According to Institutional Theory, compliance is shaped by the interaction of regulatory, normative, and cultural-cognitive pillars (Abbas et al., 2021). Furthermore, "Crowding Theory"

suggests that authoritarian approaches relying solely on rewards and punishments can "crowd out" intrinsic tax morale (Narsa et al., 2021). Conversely, a respectful approach by tax officials can "crow-in" morale and increase voluntary compliance. Trust in tax authorities—defined by ability, benevolence, and integrity—is a critical determinant of this compliance (Narsa et al., 2021). Historical corruption scandals in the tax sector have significantly eroded this trust, making institutional integrity as vital as technical regulation for revenue optimization (Narsa et al., 2021).

Methodology: Composite Mapping of Tax Havens

To accurately map the external fiscal risks faced by Indonesia, this study utilizes a composite approach that integrates indicators from multiple international mandates (Tax Justice Network, 2024).

3.1. Index Integration and Mathematical Treatment

The mapping integrates five primary indicators:

1. **Financial Secrecy Index (FSI):** Evaluates legal and financial transparency, specifically ownership registration and international standards (Tax Justice Network, 2024).
2. **Corporate Tax Haven Index (CTHI):** Measures a jurisdiction's role in facilitating corporate tax abuse. The CTHI value is determined by cubing the qualitative *Haven Score* and taking the cube root of the *Global Scale Weight* to address the high skewness of investment data (Erhart, 2020; Tax Justice Network, 2024).
3. **IMF Offshore Financial Centers (OFCs):** Identifies jurisdictions where financial activities disproportionately exceed the scale of the domestic economy (Tax Justice Network, 2024).
4. **EU List of Non-Cooperative Jurisdictions:** Monitors compliance with global tax governance criteria (Tax Justice Network, 2024).
5. **FATF Classification:** Tracks deficiencies in anti-money laundering and tax evasion frameworks (Tax Justice Network, 2024).

3.2. Weighting Strategy

Each indicator is weighted based on its direct relevance to tax haven characteristics. FSI and CTHI carry a 25% weight each, IMF and EU lists carry 20%, and FATF classification carries 10% (Tax Justice Network, 2024).

Results: Indonesia's External Fiscal Risks

4.1. Top-Tier Jurisdictions and Capital Concentration

The composite analysis identifies that top-tier risks for Indonesia are concentrated in a few key regional and global financial hubs. Singapore, the British Virgin Islands (BVI), and Hong Kong consistently rank as the top destinations for Indonesian capital flight (Tax Justice Network, 2024).

Table 1: Composite Analysis Report

Rank	Jurisdiction	FSI Status	CTHI Status	IMF OFC	Composite Score
1	British Virgin Islands	High	Very High	Yes	0.53
2	Singapore	Very High	High	Yes	0.52
3	Cayman Islands	High	Very High	Yes	0.50
4	Hong Kong	High	High	Yes	0.48
5	Bermuda	Moderate	Very High	Yes	0.43
6	Netherlands	High	High	Yes	0.43

Source: Synthesized from Erhart (2020) and Tax Justice Network (2024)

4.2. Indonesian Exposure and Behavioral Insights

Data from the 2016-2017 Tax Amnesty and the 2022 Voluntary Disclosure Program (PPS) illustrate a heavy concentration of Indonesian assets in these jurisdictions. Singapore remains the primary destination, with IDR 855.98 trillion declared during the first Tax Amnesty and IDR 56.96 trillion during the 2022 PPS (Tax Justice Network, 2024). Investigative leaks like the *Panama Papers* and *Pandora Papers* reveal that many Indonesian entities utilize shell companies in the BVI and Panama to facilitate aggressive transfer pricing and obscure beneficial ownership (Kartadjumena & Nuryaman, 2024; Tax Justice Network, 2024). MNC status and foreign ownership provide these entities with the "geographical flexibility" required to divert profits from high-tax Indonesia to low-tax havens (Oktaviani et al., 2023).

Global Cooperation: Evaluation of AEoI and BEPS Pillar Two

5.1. The Efficacy and Challenges of AEoI

Indonesia implemented AEoI under Law No. 9 of 2017 to eliminate the "veil of financial secrecy" (Marlinda & Mangkan, 2020; Tax Justice Network, 2024). Globally, AEoI has reduced foreign-owned deposits in offshore jurisdictions by an average of 25%, outperforming the traditional "on request" mechanism which only yielded an 8-12% reduction (IMF, 2019; Tax Justice Network, 2024).

However, the impact in Indonesia is hindered by several systemic factors. Palupi and Candraningrat (2024) found that AEoI has not significantly increased the performance of transfer pricing audits due to (i) high prevalence of non-taxable inbound data, (ii) taxpayers utilizing reported losses to mitigate audit impact, and (iii) a lack of full reciprocity from major powers like the United States, which implement FATCA but do not fully reciprocate under the Common Reporting Standard (CRS) (IMF, 2019; Palupi & Candraningrat, 2024).

5.2. BEPS Pillar Two: The 15% Global Minimum Tax

Indonesia has committed to the Pillar Two Global Minimum Tax (GMT), formalizing it through PMK 136/2024, effective January 1, 2025 (Ministry of Finance, 2024; Zulhanief Matsani, 2025). The regulation ensures that large MNCs (revenues > EUR 750 million) pay a minimum effective tax rate (ETR) of 15% (Achaddiah, 2025; Ministry of Finance, 2024).

Indonesia has adopted three primary charging mechanisms to protect its taxing rights:

- **Qualified Domestic Minimum Top-up Tax (QDMTT):** Collected by Indonesia if the domestic ETR is below 15% (Achaddiah, 2025; Ministry of Finance, 2024).
- **Income Inclusion Rule (IIR):** Applied to the ultimate parent entity (Ministry of Finance, 2024).
- **Undertaxed Payment Rule (UTPR):** A backstop mechanism starting in 2026 (Ministry of Finance, 2024; Zulhanief Matsani, 2025).

Policy Redesign and Judicial Scrutiny

6.1. Transitioning to Expenditure-Based Incentives

The implementation of the GMT fundamentally challenges traditional tax-based incentives. Facilities like "Tax Holidays" are becoming less effective because the taxes saved in Indonesia may be "topped up" by the parent company's home jurisdiction (Herlambang, 2025; Zulhanief Matsani, 2025). To maintain competitiveness, Indonesia is reorienting toward expenditure-based incentives,

such as *Qualified Refundable Tax Credits* (QRTC) for Research and Development (R&D) and green energy investments (Herlambang, 2025; Ministry of Finance, 2024).

6.2. Judicial Doctrine: Substance Over Form

To combat sophisticated avoidance, Indonesia has formalized the "Substance Over Form" principle in PP 55/2022 (Ministry of Finance, 2024). This doctrine mandates that economic reality must prevail over formal legal structures in tax assessments. Following SEMA 02/2024, the role of the Tax Court has shifted to scrutinizing the legality and propriety of the DGT's discretion in applying this principle (Achaddiah, 2025). Recent Supreme Court decisions (e.g., No. 4421/B/PK/Pjk/2023) emphasize that substantive justice must be supported by material evidence to ensure legal certainty and maintain public trust (Yulius, 2023).

Conclusion and Policy Recommendations

The mapping of tax havens reveals that Indonesia’s fiscal base remains vulnerable to sophisticated global networks. To optimize revenue, the following strategies are proposed:

1. **Closing the AEoI Reciprocity Gap:** Indonesia must utilize bilateral channels to push for full reciprocity with major partners to prevent capital relocation to "safe havens" (IMF, 2019; Tax Justice Network, 2024).
2. **Digitalization via Core Tax System:** Modernizing tax administration is essential for reconciling big data from AEoI with domestic filings and detecting "phantom FDI" (Narsa et al., 2021).
3. **Institutional Integrity:** Addressing corruption risks and improving the DGT’s institutional image through respectful treatment of taxpayers is critical for fostering high voluntary compliance (Narsa et al., 2021).
4. **Incentive Portfolio Redesign:** Shifting to QRTC and substance-based subsidies will safeguard the tax base while continuing to attract high-quality FDI in downstream sectors like nickel (Herlambang, 2025; Ministry of Finance, 2024).

In conclusion, Indonesia’s path toward a higher tax ratio lies in its ability to navigate the evolving global tax architecture while simultaneously reforming its domestic institutional and legal frameworks to ensure transparency and justice.

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