



The Relationship Between Double Taxation Avoidance Agreement (P3B) And Digital Tax (Case Study Of Indonesia And Singapore)

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ABSTRACT

This study examines the relationship between Double Taxation Avoidance Agreements (DTAs) and digital taxation in the context of the rapidly growing digital economy in Indonesia and Singapore. With the increasing digital economic activity, companies such as Google, Amazon, Netflix operate in multiple countries without a significant physical presence, posing challenges to the traditional taxation system based on the nexus principle (OECD, 2015). DTAs, as the main instrument for avoiding double taxation, often rely on the concept of Permanent Establishment (PE), which is becoming less relevant in the context of digital transactions (Avi-Yonah, 2007). Through a qualitative approach, this study analyzes the provisions in DTAs relating to digital taxation, as well as the challenges faced by both countries in their implementation. This study also identifies obstacles that arise due to the incompatibility between DTA provisions and the characteristics of the digital economy, such as the ambiguity in the definition of royalties and technical services (Chen, 2022). In addition, this study explores the digital tax policies implemented in Indonesia, including VAT and Income Tax (PPH) on digital income, as well as the Digital Services Tax (DST) proposed by Singapore (Flegg & Sinclair, 2021). The results of the study indicate that without any revision to the clauses in the P3B, both countries will face difficulties in collecting taxes fairly and effectively on income generated from cross-border digital transactions. This study recommends the need for adaptation of the P3B to include provisions that are more relevant to the digital economy, as well as international collaboration in formulating tax policies that can address global tax challenges (Kraus & Morris, 2021). Thus, this study is expected to make a significant contribution to the international tax literature and provide insights for policymakers in dealing with tax issues in the ever-evolving digital era.

INTRODUCTION

The digital economy is defined as economic activities based on digital technology and the internet, which create value through innovation and efficiency (Don Tapscott, 1996). The digital economy enables companies to improve operational efficiency through automation and better data processing. With digital platforms, businesses can reach wider markets and create new opportunities for growth.

The development of the digital economy has significantly changed the paradigm of international taxation. In the era of globalization, digital companies such as Google, Amazon, and Facebook are able to generate large revenues in countries where they do not have a physical presence. This poses a major challenge to the traditional tax system, which relies on the principle of nexus or physical presence as the basis for taxation. One of the main impacts of this digital transformation is the challenge in terms of taxation, especially related to Companies that operate across borders without a significant physical presence in the countries where they earn their income. This creates uncertainty in determining which country is entitled to tax the income generated, potentially leading to double taxation or no taxation at all.

To overcome these challenges, many countries have begun implementing digital taxes aimed at taxing income from digital transactions. For example, France introduced the Digital Services Tax (DST), while India implemented the Equalization Levy . In the ASEAN region, Indonesia and Singapore have also developed their own digital tax policies. On the other hand, the Double Taxation Avoidance Agreement (DTA) remains the main instrument in regulating international taxation and avoiding double taxation. However, clauses in the DTA that focus on physical presence (for example, Permanent Establishment) are less relevant to the character of the digital economy. This raises new challenges in the implementation of the DTA, especially in the bilateral relationship between Indonesia and Singapore.

Indonesia and Singapore, as two countries with close economic relations, have a Double Tax Avoidance Agreement (DTA) which aims to avoid double taxation on income received by taxpayers who have cross-border relations. The Double Tax Avoidance Agreement (DTA) in Indonesia is regulated in a broader legal framework, including provisions contained in Law Number 36 of 2008 concerning Income Tax (PPh). In this law, DTA functions to regulate the imposition of tax on income earned by individuals or entities operating in more than one country. Indonesia has implemented VAT on digital transactions since 2020, while Singapore imposes a Digital Services Tax (DST) on foreign companies providing digital services to consumers in Singapore. Both countries have signed the DTA to avoid double taxation, but its effectiveness in the context of cross-border digital transactions is still questionable.

LITERATURE REVIEW

Basic Principles And Theories Of International Taxation

International taxation deals with how countries establish their right to tax income derived from cross-border economic activities. In the digital economy, these principles face new challenges due to the virtual existence of digital companies. The basic principles of international taxation cover a range of aspects that govern how taxes are levied on individuals and entities operating in more than one country. According to the OECD (2014 & 2015) and the United Nations (2015), the following are some of the widely recognized basic principles of international taxation

Principle Tax Sovereignty, Every country has right For wearing tax on income earned in its territory . This includes tax on income generated by individuals and companies operating in the country Principle Non- Discrimination, The country does not may discriminate between its residents and residents of other countries within matter tax . This means that foreign nationals must treated The same with local citizens in matter obligation tax, Principle Double Taxation

Avoidance. For prevent imposition the same tax on same income in more from one country, many countries signed agreement avoidance tax multiple (P3B). This P3B set rule about which countries have the right wearing tax on type income certain .

1. Principle Allocation Income

Income must allocated in a way fair between the countries involved . This includes determining where income is produced and how tax must shared between the country of origin and the country of destination income the produced .

2. Principle Transparency and Exchange Information

Countries are expected For share information tax For prevent avoidance taxes and embezzlement taxes . This includes the automatic exchange of information and cooperation in tax law enforcement.

3. Principle Tax Justice

Tax must be charged in a way fair and proportional , with consider ability pay individual or entity . This includes tax progressive where the rates tax increase along with increasing income .

Various theories and concepts have been developed to regulate taxes on economic activities involving more than one country. Some of the main theories relevant to this study are as follows:

- Tax Justice Theory

This theory emphasize on the need For distribute burden tax in a way fair between countries and individuals , with notice ability economy of each country. In the context of P3B and digital tax , the theory This relevant because P3B works For avoid imposition tax double and give distribution fair income between countries where residence and source country.

- Nexus Theory in Digital Taxation

In economics traditional , presence physical presence becomes base collection tax . However , in digital economy , emerging the digital nexus concept that enables countries to to pick up tax although digital company no own presence physical . This theory relevant in revise P3B clauses to cover digital transactions that are not depends on the existence physique.

- Tax Avoidance Theory

This theory explain motivation must tax For minimize obligation tax they with utilise gap law or structure agreement tax international . In the context of P3B, the theory This describe How multinational digital company often utilise gap in definition Permanent Establishment For avoid taxes in the source country.

- Transfer Pricing Theory

Transfer pricing refers to the determination price between companies that have connection international in transaction goods , services , or right riches intellectual . In digital tax , the theory This relate with imposition tax on revenue generated by digital companies that carry out transaction across countries, but No own existence clear physical presence in the source country.

- Tax Competition Theory

This theory to study how countries compete For interesting investment with offer rates more taxes low . In terms of digital tax, countries often engage in tax competition to attract digital companies. This creates challenges for countries in imposing fair taxes and avoiding tax avoidance.

Double Taxation Avoidance Agreement (P3b)

Tax Treaties are a very important tool in regulating tax relations between countries, helping to reduce the risk of double taxation, and encouraging international cooperation in taxation. By understanding Tax Treaties, tax practitioners and companies can formulate more

effective strategies in facing international tax challenges (Sadiq and DJ, 2016). Double Taxation Avoidance Agreement (DTAA) is a bilateral agreement between two countries to prevent double taxation of income received by individuals or entities that have tax obligations in both countries. The main objectives of the DTA are:

- 1) To ensure that income taxed in one country is not taxed again in another country. The P3B also aims to provide clarity regarding the division of taxation rights between the countries involved, thereby preventing tax disputes and promoting international economic relations.
- 2) With legal certainty regarding tax obligations, P3B can encourage foreign investment and international trade, because investors feel safer investing in countries that have P3B.
- 3) P3B also serves as a tool to improve cooperation between countries in taxation matters, including the exchange of information and enforcement of tax laws.
- 4) Tax treaties typically set the maximum tax rates that each country can impose on certain income, such as dividends, interest and royalties.
- 5) Provides a dispute resolution mechanism in the event of disagreement between countries regarding the application of the P3B. P3B regulates various types of income, such as income from work, business income, royalties, interest, and dividends, which involve more than one country.
- 6) Income from Employment: Provisions regarding tax on income earned from employment in another country.
- 7) Dividends: Provisions regarding taxes imposed on dividends paid by a company to shareholders.
- 8) Interest: Provisions regarding tax on interest paid by debtors to creditors.
- 9) Royalties: Provisions regarding taxes on royalties paid for the use of intellectual property.

Domicile Principle

Tax domicile refers to the place where an individual or entity is considered to be resident for tax purposes. Typically, domicile is determined based on certain criteria, such as permanent residence, center of vital interests, or duration of residence in a country. Criteria for determining tax residency, namely based on residence, duration of residence, and center of vital interests. Individuals who have permanent residence in a country are usually considered to be tax residents of that country. Many countries apply rules regarding the number of days of residence in a year to determine domicile status. For example, if someone lives more than 183 days in a year in a country, they may be considered a tax resident. The center of vital interests considers where the individual has stronger ties, such as family, employment, or assets. Tax residents are typically taxed on their global income, meaning they must report and pay taxes on income earned worldwide. Non-tax residents, on the other hand, are only taxed on income earned from sources in that country. Tax treaties often include provisions to determine tax residency in situations where an individual or entity may be deemed to be resident in more than one country where the country of residence is entitled to tax the individual's or entity's global income.

Principle Source

The source principle of taxation refers to the rule that states that tax is levied in the country where the income or profit is generated. This means that a country has the right to tax income derived from sources located in its territory, regardless of the domicile of the recipient of the income. Countries have the authority to tax income generated within their territory, including income from employment, investments, and business activities. Income taxed based on the source principle may include:

- Income from Work
Salaries and wages received by individuals working in the country.
- Dividends, Interest and Royalties

- Payments received by individuals or entities from investments in the country.
- Gains from Sale of Assets
Gains derived from the sale of property or assets located in the country.
 - Individuals or entities that are not tax residents of a country may still be taxed on income derived from sources in that country. The source principle can lead to double taxation if the same income is taxed in more than one country.

Permanent Establishment (PE)

Article 5 of the Double Taxation Avoidance Agreement (DTA) between Indonesia and Singapore regulates the concept of a "Permanent Establishment" (PE). This article is important because it determines when a company from one country is deemed to have a significant enough presence in another country to be taxed on profits generated in that country. The DTA stipulates that branches of companies operating in Indonesia will be taxed based on the principle of a Permanent Establishment (PE). If the branch meets the criteria for a PE, then the profits generated will be taxed in Indonesia . A Permanent Establishment is defined as a fixed place of business where the business of a company is carried on, either in whole or in part. This includes various physical forms in which business activities are carried on. Specific examples of what is considered a PE include :

- management place,
- branch office,
- office,
- factory,
- construction sites or projects lasting more than 183 days,
- provision of services by a company through employees or other persons lasting more than 90 days in a 12-month period.

If a company carries out supervisory activities in another country related to a construction or installation project that lasts more than 6 months, then the company is considered to have a PE in that country. If a person acts on behalf of a company in another country and has the authority to enter into contracts, then the company may be considered to have a PE in that country, unless its activities are limited to purchasing goods. An insurance company is considered to have a PE in another country if it collects premiums in that country or insures risks located in that country. If a company carries on business in another country through an independent agent, then the company is not considered to have a PE, unless the agent carries out activities almost entirely for the company.

Profit Allocation

P3B regulates how income or profits are shared between countries involved in international transactions. This includes provisions on income from royalties, technical services, or other income that may be affected by cross-border activities.

Double Taxation Avoidance

Tax Treaties provide mechanisms to avoid double taxation, such as tax credits or tax exemptions. This is important in the context of countries involved in the digital economy, where taxation can potentially overlap. The main principles of tax treaties include allocation of taxing rights , avoidance of discrimination, and enhancement of tax cooperation between countries. Tax treaty provisions generally refer to the OECD and UN models. In the context of digital taxation, tax treaties play an important role in avoiding double taxation that can arise from cross-border transactions involving digital companies. For example, country A may tax the income generated by a foreign digital company serving consumers in country B. If both countries tax the same income without any provisions to avoid double taxation, then the

company will face double taxation. This is where tax treaties come into play to resolve this issue.

Digital Tax

Digital tax is an important topic discussed in the context of international taxation. With the advancement of technology and the growth of the digital economy, countries are faced with the challenge of taxing income generated from digital activities. The following are the concepts and definitions of digital tax according to several literatures:

- Digital tax is a tax imposed on digital transactions, such as the sale of goods and services via the internet, applications, and other digital platforms (Lubis, 2020).
- Digital tax refers to taxes imposed on income generated from digital activities, such as online services, e-commerce, and other digital platforms (Avi-Yonah, 2007).

Digital taxes could be imposed on companies operating digitally, including large technology companies that generate significant revenue from local markets without paying comparable taxes. The purpose of digital tax is to increase state tax revenue, promote fairness and equality in the tax system, and reduce the gap between digital and conventional business actors (Pohan, CA, 2016). International Digital Tax aims to :

1. Addressing tax inequalities arising from international digital companies that have no physical presence but generate substantial revenues in countries where consumers are located.
2. Ensuring that the countries where the income is earned can tax these companies fairly.
3. The object of digital tax is digital transactions carried out by digital business actors, such as the sale of goods and services via the internet, applications, and other digital platforms (Akhmadi, 2017). Digital tax refers to tax policies imposed on digital-based economic activities. This includes e-commerce transactions , the provision of digital services (such as streaming media, mobile applications), and the use of internet-based data and advertising that often involve global companies without a physical presence in the country where they earn income. Some forms of digital tax applied in various countries include:

Digital Services Tax (DST)

Digital Services Tax is a tax levied on revenue generated by large technology companies from the digital services they offer in a country. This tax is typically levied on revenue from online advertising , the sale of user data, and platform-based services .

Tax on Online Sales

Online sales tax is levied on e-commerce transactions , where a seller sells goods or services online . It is often levied at the same rate as traditional sales tax.

Tax on Revenue from Digital Advertising

Some countries impose special taxes on revenue generated from digital advertising. These taxes aim to address inequities in the existing tax system, where large companies often pay lower taxes than local businesses.

Tax on Service Based on Subscriber

This tax is levied on subscription-based services, such as video and music streaming, accessed by users in a country. It is often levied at the same rate as sales tax or value-added tax (VAT).

Tax on Transaction Cryptocurrency

Several countries are starting to tax cryptocurrency transactions, including taxes on capital gains generated from cryptocurrency trading. The characteristics of digital tax are

flexibility, speed, and ease in conducting digital transactions (Rachman, A., & Alexandru, S. , 2014). The challenges of digital tax are the difficulty in identifying and collecting taxes from digital transactions, as well as the gap between digital and conventional business actors (Akhmadi, 2017). Digital tax strategy by increasing awareness and participation of digital business actors in the taxation system, as well as developing digital technology to facilitate the collection and processing of tax data (Ministry of Finance of the Republic of Indonesia, 2024). In the context of digital tax, there is debate about the application of the source and domicile tax principles. The source tax principle refers to taxes imposed based on the location where income is generated. Meanwhile, the domicile tax principle refers to taxes imposed based on the residence or domicile of an individual or entity (Avi-Yonah, 2007). Digital taxes face various challenges, including potential conflicts between countries, the risk of tax avoidance, and the impact on foreign investment (KPMG, 2020). In addition, there are also concerns that these taxes may affect innovation and growth in the digital sector. The Organisation for Economic Co-operation and Development (OECD) has introduced guidelines for taxing the digital economy through its Pillar One and Pillar Two initiatives . Pillar One aims to allocate greater taxing rights to countries of consumption, while Pillar Two introduces rules on a global minimum tax to prevent a race to the bottom in corporate tax rates.

International Economic Theory And Tax Avoidance Multiple

International Economic Theory focuses on the relationship between countries in terms of trade and taxation. In the context of taxation, this theory explains how countries can set their taxes to encourage trade and investment without increasing tax barriers that hinder cross-border activity.

Some of the main theories in international economics that are relevant to this research include:

1. Capital Export Neutrality (CEN) and Capital Import Neutrality (CIN) Theories .
These two theories underlie the P3B. CEN suggests that taxes should not influence cross-border investment decisions, while CIN suggests that the host country should not impose higher taxes than the investor's home country.
2. Theory of Tax Rights Distribution
In a tax treaty, countries agree on who has the right to tax certain types of income. This theory is important for understanding how taxes on the digital economy are allocated between countries in international tax treaties.

P3b Between Indonesia And Singapore

The Double Taxation Avoidance Agreement (DTA) between Indonesia and Singapore has an important history in the context of economic and tax relations between the two countries. Here is a summary of the Indonesia-Singapore DTA:

- 1) Initial Signing
The P3B between Indonesia and Singapore was signed on February 24, 1990. This agreement was one of the initial steps in strengthening economic and investment cooperation between the two countries.
- 2) Implementation
After signing, this P3B was ratified by both countries and came into force on January 1, 1991. With the entry into force of this agreement, individuals and companies operating in Indonesia and Singapore can avoid double taxation on the income they earn.
- 3) Revision of P3B
After more than 30 years, the P3B was revised for the first time. The revision process began in 2019 and was signed on February 15, 2020. This revision aims to adjust tax provisions to the latest economic and technological developments, as well as to address tax avoidance issues. The revised P3B came into effect on January 1, 2021. Some of the changes made in

this revision include adjustments to tax rates for dividends, interest, and royalties, as well as new provisions related to the exchange of tax information between the two countries.

Based on the information and important matters quoted from the Press Release of the Ministry of Finance of the Republic of Indonesia number SP - 5 / KLI / 2020, regarding the Provisions in the Indonesia-Singapore Double Taxation Avoidance Agreement, there are several provisions regulated in the P3B, namely: Decrease rates branch profit tax from 15% to 10%. Branch Profit Tax (BPT) is a tax imposed on profits earned by a branch of a foreign company operating in a country. In the context of the Double Taxation Avoidance Agreement (P3B) between Indonesia and Singapore, there are several important provisions related to BPT that need to be understood: BPT tax subjects are branches of foreign companies operating in Indonesia or vice versa. BPT is imposed on profits earned by branches of foreign companies, this tax is usually imposed on profits transferred from branches to head offices abroad. If the branch in Indonesia has paid BPT, the parent company in Singapore can claim a tax credit for the tax paid in Indonesia, thereby reducing the tax liability in Singapore. Decrease rates tax royalty from 15% to 10% and 8%. The tax rate on royalties was cut from 15% to 8% only for royalties on industrial, commercial or scientific equipment and experience. Meanwhile, for copyrights of literary, artistic and film works, it was set at 10%. Provisions to strengthen tax regulations on production sharing contracts and work contracts related to the oil, gas, and mining sectors. P3B emphasizes the importance of tax compliance and efficient administration to ensure that tax obligations are properly met by companies involved in production sharing contracts and work contracts (Consolidated Income Tax Law, 2023). Affirmation of the granting of tax exemption on interest earned by government institutions of both countries, including Sovereign Wealth Funds and their subsidiaries as institutions that receive tax exemption. Capital gain regulation on asset sales; taxation regulation on head office transactions of Permanent Establishments (PE) . The concept of " force of attraction principle " is applied, whereby income earned by a Permanent Establishment (PE) in Singapore will be taxed in Indonesia, providing clarity in taxation for companies operating in both countries (Tax Treaty Notification, 2024). Anti-avoidance and tax evasion arrangements Anti -avoidance and circumvention settings tax in agreement avoidance tax double tax treaty (P3B) between Indonesia and Singapore aims to For prevent practice avoidance tax that can be harm country income .

The P3B between Indonesia and Singapore covers a number of provisions designed For prevent avoidance and evasion tax :

1) Clause Economic Substance

This P3B usually covers provisions that emphasize importance substance economy in transaction . This means that transaction must own objective real and unreal economy only done For objective avoidance tax .

2) Anti- Avoidance Clause

P3B often includes clause that allows authority tax For reject benefit tax If transaction considered as avoidance taxes . This includes a situation where the benefits tax obtained without substance adequate economy .

3) Exchange Information

The P3B between Indonesia and Singapore covers provision For exchange information between both countries. This allows authority tax For share information about must taxes that operate in both countries, so that make it easier enforcement law taxes and prevent avoidance tax .

Clause Transfer Pricing

P3B can also covers provision about determination transfer prices , which regulate How transaction between affiliated companies in different countries must done with reasonable price .This aims For prevent avoidance tax through manipulation transfer price.

Tax information exchange arrangements

Arrangement exchange information taxation in the P3B between Indonesia and Singapore it was designed For increase cooperation between both countries in matter taxation , preventing avoidance taxes , and ensure that relevant information can accessed and used For interest administration tax . With existence provision this , it is expected can created system more taxation transparent and fair for both countries.

Digital Tax In Indonesia And Singapore

Digital taxation has become an important issue in many countries as the digital economy develops, involving cross-border online transactions. Countries such as Indonesia and Singapore, with their growing digital economy markets, have introduced digital tax policies to accommodate this development. However, despite the common goal, each country has a different approach and regulation in terms of taxation of the digital economy.

Digital Tax in Indonesia

Indonesia began to focus on digital tax after seeing the rapid growth of the digital economy sector, especially e-commerce, applications, and digital service platforms operating in Indonesia. Several international companies such as Google, Facebook, and Netflix that offer digital products and services in Indonesia, without having a physical office, have caused potential tax revenues to be overlooked.

Added Tax (VAT) on Digital Services

In 2019 , Indonesia started implement policy For impose Value Added Tax (VAT) on digital transactions from provider service foreigners who do not have a permanent establishment (PE) in Indonesia. The imposition of VAT in accordance with regulation Minister of Finance Regulation (PMK) No. 48/PMK.03/2020, which states that company overseas selling goods or digital services in Indonesia are mandatory collect VAT. Types of transactions subject to digital VAT include :

- Service streaming (eg , Netflix, Spotify).
- Purchase application or service cloud based .
- Digital advertising services (eg , Google Ads, Facebook Ads).
- E-commerce that sells digital goods (e.g. , apps and games).

Implementation of Digital VAT in Indonesia:

- VAT is imposed at a rate of 10% on the transaction value.
- Provider service foreigners who offer product or digital services in Indonesia must registered with the Directorate General of Taxes (DGT).
- If the provider service foreign No registered , the Indonesian government can do collection direct through method deduction by provider payments (for example , credit cards) credit or system payment on line).

With policy This , Indonesia is trying For ensure that company foreigners who sell digital services in Indonesia pay tax , which was previously difficult collected Because No existence physique existence company.

Income Tax (PPh) on Digital Income

Indonesia also imposes Income Tax (PPh) on income received by individuals or a legal entity that carries out activity digital economy in Indonesia. PPh This applicable For companies that have Permanent Establishment (PE) in Indonesia, as well as For related income with digital activities taking place within the country. However , for company foreigners who do not have PE in Indonesia, PPh on digital income becomes challenge big , and most of them from company the can avoid tax Because No own physical in Indonesia (Law of the Republic of Indonesia Number 36 of 2008 concerning Income Tax). The Indonesian government is currently consider For apply more digital taxes comprehensive , including tax on benefits gained by foreign digital companies from users in Indonesia.

Digital Tax in Singapore

Singapore is a country that is very open to the digital economy and has policies that support the growth of this sector. As a business and technology hub in Asia, Singapore must also regulate taxes on digital companies, both local and international, operating in the country. Singapore's digital tax policy pays close attention to aspects of fairness and ease of administration. Digital Services Tax (DST). In 2020 , Singapore proposed Digital Services Tax (DST) as one of the method For wearing tax on big digital company that acquires profit from users in Singapore without own existence physical in the country . This DST is one of effort For respond challenges faced by countries in to pick up tax on digital revenue (Inland Revenue Authority of Singapore , 2020).

METHODS

Data analysis was conducted using qualitative analysis techniques to evaluate and compare relevant provisions in the Indonesian and Singaporean P3Bs related to digital tax. Content analysis of the provisions in the P3B relevant to digital tax and comparative analysis to compare digital tax policies between Indonesia and Singapore. The unit of analysis in this study is the digital taxation policy implemented in Indonesia and Singapore, as well as the P3B agreement in force between the two countries. The main focus in this analysis is:

- P3B Indonesia and Singapore, which regulates tax obligations in a cross-border context.
- Digital tax, which refers to taxes imposed on income derived from cross-border digital economic transactions.
- Tax regulations and policies related to digital taxes in both countries.

RESULTS AND DISCUSSION

This study explores how the provisions and relationships of the applicable P3B affect the application of taxation to the digital economy, the challenges that arise in practice, and recommendations for adjusting P3B to be more in line with current developments in the digital economy. This study uses qualitative data through literature studies, tax regulation documentation, and official reports related to P3B between Indonesia and Singapore, as well as digital tax policies implemented by both countries.

Connection P3B provisions with Implementation of Digital Tax in Indonesia and Singapore

- The P3B between Indonesia and Singapore limits the imposition of income tax (PPh) on income earned by foreign companies, unless the company has a Permanent Establishment (PE) in the source country.

- In implementing digital tax, Indonesia wants to impose tax on cross-border digital transactions even though digital companies (e.g. Google or Netflix) do not have PE in Indonesia. This is contrary to the principles in P3B.
- Therefore, without a revision of the P3B or a global consensus such as the OECD BEPS, Indonesia cannot fully implement the concept of Significant Economic Presence (SEP) as the basis for imposing income tax on digital transactions.

Challenges Faced by Indonesia and Singapore in Implementation of Digital Tax Based on P3B Provisions

Challenges :

- Dependence on P3B: Indonesia does not can wearing Income Tax without the presence of PE, although digital transactions provide contribution significant economy .
- Coordination with Trading Partners: Singapore tends to protect the interests of its digital companies operating across borders.
- Uncertainty Global Regulation : Not yet consensus under OECD BEPS (Pillar 1 and Pillar 2).

Challenge :

- Balancing interests between protecting its digital companies and meeting global demands for digital tax reform.
- Face risk taxation multiple if countries like Indonesia implement SEP without global consensus .

Solution or Adaptation For Overcome Uncertainty Taxation on Digital Transactions

1. P3B Revision : Indonesia and Singapore can enter supporting clauses taxation on cross-border digital transactions , for example through adaptation SEP concept .
2. Coordination at OECD BEPS: Supporting implementation of Pillar 1 for allocation profit from digital companies and Pillar 2 for global minimum tax .
3. Multilateral Agreement: Agreeing on the distribution of taxation rights through a multilateral agreement that can complement the P3B.
4. Temporary Digital Tax: Adopting a unilateral digital tax such as the Digital Services Tax (DST) imposed on the gross income of digital companies, pending global consensus.

CONCLUSION

1. This study examines the Double Taxation Avoidance Agreement (DTA) between Indonesia and Singapore with the issue of digital tax that has emerged due to the progress of the development of the digital economy in the world.
2. Digital economic activities by multinational companies operating across borders without a significant physical presence (such as Google, Amazon, Netflix) present challenges to the traditional taxation system that relies on the principle of physical presence (nexus).
3. The concept of Permanent Establishment (PE) in DTA becomes less relevant for digital transactions, even though DTA is the main instrument for avoiding double taxation.
4. The incompatibility between DTA provisions (for example the definition of royalties and technical services) and the characteristics of the digital economy creates obstacles in taxation.
5. Indonesia has implemented VAT on digital transactions and income tax on digital income, while Singapore has proposed a Digital Services Tax (DST).
6. Without revising DTA, both countries will have difficulty collecting taxes fairly and effectively on income from cross-border digital transactions. The current P3B limits Indonesia's right to collect income tax on foreign digital companies without PE in Indonesia, even though they earn significant income from Indonesia.

SUGGESTION

Based on the analysis in the paper, here are some recommended suggestions:

1. Adaptation of the Double Taxation Avoidance Agreement (DTA) requires adaptation or revision of clauses in the DTA between Indonesia and Singapore to be more relevant to the digital economy business model, especially related to the concept of significant economic presence (SEP) as a replacement or complement to PE.
2. The importance of international collaboration, especially through forums such as the OECD/G20 BEPS, to achieve a global consensus on digital tax reform (Pillar 1 on the allocation of taxation rights and Pillar 2 on the global minimum tax).
3. Conducting a Multilateral Agreement by considering participation in a multilateral agreement that can complement bilateral DTAs in regulating the distribution of taxation rights for digital transactions.
4. Implementing a Short-Term Option, namely while waiting for a global consensus or revision of the DTA, countries can consider implementing temporary unilateral digital taxes, such as the Digital Services Tax (DST), although it is necessary to consider the potential risk of double taxation or conflict with partner countries.
5. Strengthening cooperation by increasing cooperation in exchanging tax information between Indonesia and Singapore to prevent tax avoidance and evasion through digital structures.

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