

Principal Purpose Test (PPT) As An Instrument To Detect Tax Treaty Abuse

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ABSTRACT

Using descriptive qualitative method, this paper collects various references and literary sources regarding tax treaty abuse and policy recommendations that can be implemented to prevent tax treaty abuse, one of which is using Principal Purpose Test (PPT). Besides, this paper also explains Indonesia's current tax regulations regarding PPT, as well as learns how other country like Australia could implement PPT into its own domestic tax regulations. From our discussion, it can be concluded that Organization for Economic Co-operation and Development (OECD) has recommended a series of policies to prevent tax treaty abuse, i.e. Multilateral Instrument in the form of General Anti-Abuse Rule (GAAR), which include PPT and other optional policies combined like Limitation on Benefit. Through Director General of Taxes Regulation Number PER-25/PJ/2018, Indonesia has actually started to implement PPT into domestic tax regulations, even though it is not as strict and complex as those of Australia, through its tax authority, Australia Tax Office (ATO). ATO, using PSLA 2019/D2, has also implemented step-by-step procedures to handle cases indicated to be related with tax treaty abuse.

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Introduction

In 2020, it is reported that Indonesia has suffered as much as US\$ 4.86 billion (IDR 68.7 trillion) of tax loss per year (Cobham et al., 2020), most of which was due to tax avoidance done by corporate taxpayers. Total losses caused by corporate taxpayers reached US\$ 4.78 billion (IDR 67.6 trillion), while the remaining came from individual taxpayers worth US\$ 78.83 million (IDR 1.1 trillion).

Tax avoidance has been a major problem in almost all countries collectively, because it is mostly carried out through cross-border business transactions by companies that are suspected to have special interests. Many of the world's multinational companies use transaction schemes aimed at minimizing tax payments by exploiting loopholes in a country's tax regulations. An example is the transfer of income from a branch office located in jurisdiction A which has a higher tax rate to a branch office in jurisdiction B which has a lower tax rate.

To overcome tax avoidance, the Minister of Finance of Indonesia has signed the Multilateral Convention to Implement Tax Treaty Related to Measures to Prevent Base Erosion and Profit Shifting (BEPS) or commonly referred to as the Multilateral Instrument (MLI). MLI is an instrument that has been developed by the Organisation for Economic Co-operation and Development (OECD) with the help of the G20 forum, which aims to close the gap in the current international tax regulations by referring to the output of the BEPS Action Plan. In the MLI, there are minimum standards that must be adopted by each signatory country, namely BEPS Action 2: Hybrid Mismatch Arrangements; BEPS Action 6: Preventing Granting of Treaty Benefit in Inappropriate Circumstances; BEPS Action 7: Preventing the Artificial Avoidance of Permanent Establishment Status, and BEPS Action 14: Making Dispute Resolution More Effective (Finnerty et al., 2007).

One of the minimum standards proposed in the MLI is the adoption of the regulations of article 7 on the prevention of treaty abuse. This regulation is related to the refusal to grant tax treaty benefits due to the utilization of unauthorized transaction schemes to minimize taxes. These regulations are commonly referred to as the Principal Purpose Test (PPT), and are recommended by the BEPS Action 6 Final Report (Kuzniacki, 2018).

PPT is a procedure to test whether a transaction or arrangement (agreement) is made to either directly or indirectly obtain benefits in a tax treaty. That said, PPT is supposed to be carried out before assessing whether the benefits of a treaty are worth giving. If it is proven that one of the main purposes of certain transactions or agreements is to obtain the benefits of applicable tax treaty, then the benefit is not granted (Apriliasari, 2019).

In this paper, we browsed through every available literature to first learn what tax treaty abuse is and how PPT is available to prevent it. Then we try to learn how Indonesia's current tax regulations may or may not be effective in preventing tax treaty abuse. Then, we learned how Australia, who we later found out to be the only tax authorities in the world who already fully implemented PPT, adopted PPT into its own domestic tax regulations.

2.1. Agency Theory

Morris (1987), citing Jensen & Meckling (1976), defines agency theory as a theory related to problems between business owners (principals) and managers (agents) arising from the separation of ownership and control of a business. Agency theory provides a framework to study the contractual relationship between business owners and managers in a form of business, as well as helping predict the economic consequences that may arise from setting a standard in financial reporting ((Godfrey et al., 2010). This contractual relationship between business owners and managers occurs when the business owner delegates the management of his wealth in the form of a business to the manager. If it is assumed that both parties are trying to maximize profits for themselves, a problem arises where the manager who receives the delegation does not act in accordance with the wishes of the business owner (Jensen & Meckling, 1976).

2.2. Tax Avoidance

The basic definition of tax avoidance, as conceptualized by (Hanlon & Heitzman, 2010) is "...the reduction of explicit taxes." or more or less means an explicit reduction of tax burden. Prior to (Hanlon & Heitzman, 2010), (Dyreg et al., 2008) specifically defined tax avoidance as "...anything that reduces the firm's cash effective tax rate over

a long time period...". The definition of (Dyreng et al., 2008) empirically defines that tax avoidance is measured based on a reduction in tax payments, in contrast to the concept of (Hanlon & Heitzman, 2010) which measures tax avoidance based on a reduction in the tax burden. This is because tax payments are only related to cash expenditures, while tax burden can also mean taxes that have been paid or taxes that are still owed and have not been paid (accrued). In this paper, we use the definition in (Hanlon & Heitzman, 2010) because it is more comprehensive (Tooma, 2008).

Tax avoidance can be created as a result of a series of tax planning activities (tax planning) carried out by companies in ways that do not violate the law (legal), for example by utilizing tax facilities provided by the government (such as tax incentives) or by taking advantage of loopholes in applicable tax regulations. The main purpose of tax planning is basically to minimize taxable profit. The lower the taxable profit, the lower the tax borne by the company. In addition to the legal way, tax planning can also be done in an illegal way, namely in a way that clearly violates the applicable tax regulations. This illegal tax planning is called tax evasion (Hanlon & Heitzman, 2010).

Tax avoidance can be exercised in several forms:

- a. substantive tax planning, which consists of:
 - 1) transferring the tax subject to a country categorized as a country that provides special treatment for a type of income;
 - 2) transfer the tax object to a country categorized as a country that provides special treatment for a type of income;
 - 3) transferring tax subjects and tax objects to countries that are categorized as giving special treatment to a type of income.
- b. formal tax planning, which is to avoid taxes by maintaining the economic substance of a transaction by choosing various forms of formal types of transactions that provide a lower tax burden.

Research methods

This research uses descriptive qualitative method. Qualitative research method is a research method based on the philosophy of postpositivism, used to examine the condition of natural objects, where the researcher is the key instrument, the data collection technique is done by triangulation (combined), the data analysis is inductive/qualitative, and the results of qualitative research emphasizes meaning rather than generalization (Sugiyono, 2010). In accordance with the focus of this paper, which is a descriptive explanation of the implementation of PPT, the researchers used qualitative research by describing the data and literary sources that the researchers obtained as a result of a study. Through this method, the researcher will get the data in its entirety and can be described clearly so that the research results are truly verified with factual conditions.

In relation to the scope of this field of study, the research method used is descriptive research method which aims to describe, explain, and validate the phenomenon that is the object of research. The type of data used in this study is secondary data, namely literary sources and materials related to the object of research. Based on the type and source of the data, this research is commonly referred to as literary research.

Results and Discussion

Tax Treaty Abuse and Policy Recommendations

In 2019, the MLI was already applicable in several countries that have ratified it in their domestic tax regulations. With the MLI, the BEPS regulations related to the Double Taxation Avoidance Agreement (or commonly called tax treaty) can be included in the existing Tax Treaty Network (which is OECD's centralized database for tax treaties of all tax jurisdictions), if and only if, the tax treaty becomes a Covered Tax Agreement ("CTA"). Covered Tax Agreement is an agreement for the avoidance of double taxation that is in force between parties to the MLI and for which both parties have made a notification that they wish to modify the agreement using the MLI. The existence of MLI will coexist with the tax treaty because MLI does not delete or completely change the existing settings in the tax treaty. Tax treaty and MLI will run together, but some regulations of tax treaty will be modified by MLI according to the policy choices (policy references) of each country. Thus, after the implementation of MLI, taxpayers and tax authorities must ensure whether a cross-border transaction still follows the tax treaty rules or has been modified by MLI.

Tax rates differences between those regulated in domestic tax regulations and those of tax treaty, between one country and another, opens a gap for multinational companies with large resources to carry out business arrangements in such a way that ultimately minimizes tax burden. Multinational companies such as Google, Starbucks, and Amazon use aggressive tax planning which causes them to pay relatively small taxes when compared to their large operating profits.

One of the important features of the tax treaty in preventing tax avoidance and tax evasion is the provision regarding beneficial ownership, where tax rate reduction will be given as long as the income recipient is the actual beneficial owner of the income (not a nominee or transferrable to other parties). In addition, there are provisions regarding General Anti Avoidance Rules (GAAR) in several Indonesia tax treaties (one of which is the Indonesia-Hong Kong Tax Treaty). One of GAAR provisions is implemented in the form of PPT. With the PPT clause, basically a country has the right to refuse to provide tax treaty benefits if it is known that the business scheme is carried out solely for tax benefits.

OECD in the Final Report BEPS Action 6 encourages the prevention of tax treaty abuse by providing to "...develop model treaty provisions and recommendations regarding the design of domestic rules to prevent the granting of treaty benefits in inappropriate circumstances." In addition, OECD is also trying to "...clarify that tax treaties are not intended to be used to generate double non-taxation and to identify the tax policy considerations that, in general, countries should consider before deciding to enter into a tax treaty with another country". That said, what prompted OECD to take action against tax treaty abuse was caused by differences in domestic rules regarding anti-tax treaty abuse from one country to another (Lang, 2014).

Two of the biggest agendas of MLI are to implement the regulations to overcome abuse of provisions related to benefits contained in the tax treaty and to close the possibility of double non-taxation conditions so that it will become a gap for taxpayers to be able to carry out tax avoidance. In the MLI Preamble, it is clearly stated that the goal is to avoid double taxation (such as the goal of tax treaty) without creating a condition of not being taxed at all (double non taxation). In addition, for the purpose of tax treaty abuse, there are provisions to tackle tax treaty abuse, the selection of which options consist of:

- a. adopting the provisions of the General Anti-Abuse Rule (GAAR) in accordance with Article 29 (9) of the OECD Model Tax Convention (which is a model for countries concluding bilateral tax conventions),
- b. adopting details of Limitation on Benefit (LoB) in accordance with Article 29 paragraphs 1 to 7 of the OECD Model Tax Convention plus a mechanism for resolving problems related to conduit arrangements that have not been agreed in the tax treaty, or
- c. adopting joint provisions between GAAR and LoB in accordance with the OECD Model Tax Convention.

A country is free to choose whether or not to adopt an optional substantive clause. For example, the provisions regarding the prevention of tax treaty abuse, where a country can choose to only adopt mandatory PPT, or adopt PPT as well as the optional Simplified Limitation on Benefits (Simplified LoB), which is LoB regulations without mechanism for conduit arrangements. Most countries choose to only use PPT, as well as Indonesia.

OECD regulates the main purpose of establishing an agreement, which is "...to promote, by eliminating international double taxation, exchanges of goods and services, and the movement of capital and persons". Thus, if a scheme or transaction in the tax treaty is made for other than the things mentioned above, then the transaction can be prevented by going through PPT. There are four important elements that must be underlined in the PPT clause, i.e.:

- a. relevant facts and circumstances,
- b. obtaining benefits (direct or indirect),
- c. arrangements or transactions,
- d. reasonable to conclude which will then be determined whether the benefits of the P3B will be rejected or will be given.

The first step in the process of applying a tax treaty is to establish the facts. It means that if the government law of the taxpayer's domicile jurisdiction allows for the arrangement of the transaction scheme, both written and unwritten, it will still be a consideration for the tax authorities of the source country to determine whether the tax treaty benefits will still be granted or rejected. In other words, at this stage of analysis, the legal substance obtained as consideration for the tax authorities is from the arrangements and transactions presented by the taxpayers. For example, if a Beneficial Owner scheme was found in a transaction, where the recipient of the income in the scheme is a conduit company formed under a contractual arrangement and solely to receive dividend income from a jurisdiction, then tax treaty benefits received by the conduit company can be waived upon the implementation of PPT. The scheme can be categorized into the form of incorporating sham/simulated arrangements or transactions.

PPT requires that the transaction must be subjected to further assessment. Tax authority at this stage musts conduct an audit based on the pre-determined fairness standards. In general, several obstacles will arise at this stage because OECD does not provide detailed criteria related to fairness standards in determining transactions that have a tax avoidance practice scheme. The OECD Model 2017 only suggests that a reasonable scheme should also take into account the types of transactions themselves. In his article, Vita14 argues that in drawing final conclusions related to PPT implementation, the following points must be taken into account, i.e.:

- a. the tax authority must take into account all facts and circumstances relevant to the transaction or scheme;
- b. motive analysis of the scheme itself, whether related to taxation or non-taxation.

Indonesia's Current Tax Regulations on Tax Treaty Abuse

On November 21, 2018, the Director General of Taxes has issued the Regulation Number PER-25/PJ/2018 concerning Procedures for Application of Double Taxation Avoidance Agreement, replacing the Regulation Number PER-10/PJ/2017. This regulation applies per January 1, 2018, and aims to simplify the administrative process for foreign taxpayers in exercising tax treaties, to provide legal certainty, and to prevent tax treaty abuse. Here are some key details of what PER-25/PJ/2018 (new Regulation) is trying to achieve, compared to PER-10/PJ/2017 (previous Regulation):

- a. The new Regulation simplified the Certificate of Domicile for Foreign Taxpayers form (“Surat Keterangan Domisili Wajib Pajak Luar Negeri” or SKD WPLN, or also known as DGT Form), which originally consisted of 2 types of forms of 3 pages and 2 pages each, was changed to only 1 type of form consisting of 2 pages. In the previous Regulation, there are two types of DGT Form, namely DGT Form-1 and DGT Form-2. DGT Form-2 is used by foreign taxpayers who receive and/or earn income through Custodians in connection with income from transfers of shares or bonds traded or reported on the capital market in Indonesia, other than interest and dividends, foreign banks, or foreign pension funds. Meanwhile DGT Form-1 is used by foreign taxpayers other than those required to use DGT Form-2. However, with this new Regulation, all foreign taxpayers use only one type of form.
- b. The new Regulation simplified the submission of the DGT Form. In the previous Regulation, DGT Form must be submitted in the monthly tax return of each Tax Withholder; now, it must only be submitted once in the period covered by the Certificate of Domicile by the Tax Withholder who is the first to submit the Certificate of Domicile. Foreign taxpayers submit the Certificate of Domicile to the Tax Withholder, then the Withholder will submit the Certificate to the DGT electronically. The Tax Withholder will receive a receipt for the Certificate of Domicile, which is then submitted by the Tax Withholder to the foreign taxpayers. Foreign taxpayers then only need to submit the receipt to the Tax Withholders for the next tax withholding period specified in the Certificate of Domicile. This receipt must be checked by the next Tax Withholder on DGT's website.
- c. The new Regulation improved overall tax services by providing a channel for submitting the DGT Form electronically (the previous Regulation only allowed manual submission using a legalized copy).
- d. The new Regulation adds Chapter IV regarding tax treaty abuse. In this section, DGT added questions regarding whether or not there is a difference between legal form and economic substance in the establishment of an entity or in conducting transactions. It is emphasized in this Chapter that if there is a difference in the transaction scheme between legal form and economic substance, then suitable tax regulations that are in accordance with economic substance will apply. The purpose of this regulation is to provide a limitation that the scheme or transaction formed does not conflict with the intent and purpose of the establishment of tax treaty.
- e. The new Regulation also adds Chapter V regarding beneficial owners. In this Chapter, DGT tries to incorporate the concept of beneficial owner by adding questions related to business entities that receive income. This Chapter is intended to identify the actual owner of the income received by a foreign taxpayer.
- f. Tax year on DGT Form is a maximum of 12 months and may cross a calendar year (e.g. August 2018 – July 2019).

Other matters that are regulated in PER-25/PJ/2018 include:

- a. In order to obtain tax treaty benefits, in addition to having to fulfill the administrative requirements, a foreign taxpayer must also be able to prove that there is no tax treaty abuse, and he/she is the actual beneficial owner of the income objected to tax withholding.
- b. Foreign taxpayers may request a refund for the excess tax withholding in regards to the implementation of tax treaty, due to situations such as the delay in fulfilling the administrative requirements to apply the tax treaty after tax withholding occurs.
- c. Certificate of Domicile or its Receipt must be available before the expiration of the obligation to submit monthly tax returns.
- d. Certificate of Domicile that has been ratified based on PER-10/PJ/2017 can still be used until December 31, 2018.
- e. Through PER-25/PJ/2018, DGT affirms four criteria for foreign taxpayers who can benefit from tax treaty, which are as follows:
 - 1) the income recipient is not a domestic tax subject;
 - 2) the income recipient is an individual or entity that is a domestic tax subject from a tax treaty partner country or jurisdiction;
 - 3) there is no tax treaty abuse;
 - 4) the income recipient is the beneficial owner, in the event that it is required in the tax treaty.

Along with economic and cross-border transactions developments, the existence of anti-avoidance tax treaty rules with more legal force is needed by Indonesia to anticipate the emergence of new tax avoidance schemes carried out by taxpayers.

PPT Implementation in Australia

Australian Tax Office (ATO) is the only tax authority in the whole world that has fully implemented PPT into domestic tax regulations. ATO has released a draft Law Administration Practice Statement, PSLA 2019/D2, dealing with “administering general anti-abuse rules, such as a principal or main purposes test, included in any of Australia’s tax treaties”. This PSLA provides guidance to ATO staffs on the administrative process of applying a principal or main purposes test included in any of Australia’s tax treaties. As a result, the PSLA is focused on internal administrative processes within the ATO rather than technical matters. However, the PSLA is a useful document for taxpayers to understand how the ATO will manage matters (including information requests) that may involve a principal or main purposes test, and there are incidental comments made that touch on some technical issues.

The PSLA notes that the purpose tests are self-executing and do not require the Commissioner to make a determination in order to give effect to the regulations. This can be contrasted with the general anti-avoidance rule in Part IVA. When a benefit or relief is denied under one of the purposes tests, the taxpayer’s position will revert to the position under Australian domestic tax law. For example, where the limitation on a withholding tax rate is denied, the withholding tax rates under Australian domestic tax law will be applicable. The PSLA assumes two different types of cases that may arise:

- a. cases involving treaty shopping which will require consideration of why an entity was established or why a taxpayer moved their residence to a particular jurisdiction, or

- b. cases involving the conversion of one type of income into another, or other changes in the circumstances in which income is derived in order to obtain a treaty benefit.

PSLA 2019/D2 stipulates that the use of the “principal purpose test” is related to the following matters:

- a. PPT clauses included in the MLI CTA;
- b. existing PPT clauses in the Australian Tax Treaty network that are not covered by the CTA, for example the PPT application contained in article 23 (2) of the Australia—Germany Tax Treaty and article 1 of the Australia—Switzerland Tax Treaty Protocol;
- c. Main Purpose Test (MPT) clauses in the Australian Tax Treaty network that have not or will not be modified through MLI, for example the MPT clause in article 10(7), article 11 (9) and article 12(7) of Australia—United Kingdom Tax Treaty.

There is no denying that ATO is known to have strong tax avoidance regulations, which are supported by the General Anti-Avoidance Rule (GAAR or Part IVA) and transfer pricing rules. The Multinational Anti-Avoidance Law (MAAL) was created in 2016, as an extension of the GAAR provisions that serve to counteract tax evasion by multinational companies. The next provision is the Diverted Profit Tax Law (DPT), which comes into effect for tax years beginning on or after 1 July 2017, which imposes a penalty of 40% prepaid for companies whose global revenues exceed AUD 1 billion. The scheme in the DPT Law is used by tax authorities against multinational companies that deliberately design complex internal corporate structures to avoid taxation in Australia.

PSLA regulates several stages in PPT implementation as precautions. Here are the stages:

a. Official notification to the International Specialist Team

ATO staff will provide formal notification to the International Specialist Team regarding the case being tested. Some important things are included in the notification, such as the presentation of facts and actual conditions of the Taxpayer in the field, the transaction scheme used, and also the benefits of P3B obtained. ATO authorizes the Treaties Consultation Unit to carry out its function as the International Specialist Team. At this stage, ATO staff can also consult with other experts in the field of international taxation. If in the discussion it is agreed that the transaction has a tax avoidance scheme, then the next step is to consult with the Tax Counsel Network (TCN) unit.

b. Consultation with the TCN unit

TCN was established in the early 1990s with the primary function of advising on tax disputes within Australian tax law. In giving consideration, TCN will report the results of internal discussions to the Deputy Chief Tax Council, which will then be forwarded to the Chief Tax Counsel as the leader of TCN. TCN members as of July 2020 consist of 32 ATO Assistance Commissioners, 1 Chief Tax Counsel, and 4 Deputy Chief Tax Counsel. If in discussions with the TCN team it is deemed necessary to conduct a PPT test on the transaction, then TCN will provide written points for consideration for further consultations at the GAAR Panel. If the discussion agrees otherwise, the problem will be returned to the International Specialist Team.

c. Consultation with the GAAR Panel

Implementing GAAR in testing a transaction means that there is a serious problem. Therefore, ATO Commissioner established a GAAR Panel to provide

consideration in determining whether a case has a tax avoidance scheme. The roles and work procedures of the GAAR Panel refer to paragraphs 18 to 41 of PS LA 2005/24.

d. Consideration of a case review clause under article 7(4) of the Australian MLI

If a taxpayer considers a case for review under article 7 (4) of the Australian MLI, only the Competent Authority (CA) has the right to decide whether the case can be reviewed or not. The Australian CA will consult with CA from related countries to follow up on the request.

Under Australian tax law, there are no specific regulations regarding required documents that must be prepared for PPT if a taxpayer is suspected of having a tax avoidance scheme for certain transactions. ATO classifies these types of documents into two groups: ATO internal documents and ATO external documents originating from taxpayers.

ATO internal documents are documents owned by ATO that come from various sources, including annual tax reports, International Dealings Schedules (IDS) for taxpayers, reportable tax position (RTP) schedules, Australian Notices of Assessment, Country-by-Country report, exchange of information, information related to taxpayer compliance level, and other information obtained from third parties. Meanwhile, external documents obtained from taxpayers include IDS working papers, taxpayer annual financial reports, documents related to transfer pricing (if any), and contracts or agreements related to transactions being tested.

Australia has also adopted the associated rule provided for under Article 7(4) of the MLI which enables treaty benefits to be granted in certain circumstances, notwithstanding the application of the MLI PPT. Where a benefit is denied under the MLI PPT “the competent authority of the Contracting Jurisdiction that would otherwise have granted this benefit shall nevertheless treat that person as being entitled to this benefit, or to different benefits with respect to a specific item of income or capital, if such competent authority, upon request from that person and after consideration of the relevant facts and circumstances, determines that such benefits would have been granted to that person in the absence of the transaction or arrangement. The competent authority of the Contracting Jurisdiction to which a request has been made under this paragraph by a resident of the other Contracting Jurisdiction shall consult with the competent authority of that other Contracting Jurisdiction before rejecting the request” (emphasis added) (Deloitte, 2019).

In other words, notwithstanding the operation of the MLI PPT, it may be possible for a taxpayer to request that the relevant tax authority (in this case, the ATO) determines that the relevant benefit or different benefits be available. The application of Article 7(4) of the MLI to a particular treaty will depend on whether the other Contracting Jurisdiction has also chosen to adopt it.

In relation to eliminating the opportunity for tax treaty abuse, it is very crucial for a jurisdiction to implement a PPT or LoB into its tax treaties. As the minimum standards that must be met to prevent the practice of treaty abuse, both are important to be included in the tax treaty network, to be effective in preventing the practice of treaty abuse.

The identification of the relevant facts and circumstances, the gathering and retention of relevant evidence and ultimately a weighing of various purposes will become a key issue in respect of the application of treaty benefits. The PSLA provides useful indicators of the document requests and the framing questions that could be expected in respect of the various purpose tests.

Conclusion

From the discussions above, four conclusions can be drawn. First, tax treaty abuse is a form of tax avoidance exercised by taxpayers (usually multinational corporations or entities) through a business scheme or an economic transaction that makes benefits of applicable tax treaty, so that taxes initially burdened towards such taxpayers will be diminished or even fully erased. Double non-taxation is a form of tax treaty abuse where an economic cross-border transaction is not taxed or taxable in either country.

Second, OECD has recommended several policies for tax authorities around the world to prevent tax treaty abuse, one of which is Principal Purpose Test (PPT). PPT is a procedure to test whether a transaction or arrangement (agreement) is made to either directly or indirectly obtain benefits in a tax treaty. OECD has recommended several adoption options for countries to implement PPT with or without other optional policies, i.e. Limitation on Benefit (LoB).

From the discussion above, we can also conclude that with the enactment of Director General of Taxes Regulation Number PER-25/PJ/2018, Indonesia has actually made a progress in implementing PPT, by acknowledging steps taken to prevent tax treaty abuse and encouraging beneficial owner concept.

Lastly, Australia Tax Office (ATO), as the only tax authority in the whole world that has fully implemented PPT into domestic tax regulations, has a very strict procedures and scopes where certain cases can be put under PPT. ATO has also provided a group of supporting units to assist and consult to when certain tax treaty cases arise.

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