

Analysis of the Implementation of Income Tax Article 24 in Reducing International Tax Burdens

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Abstract

In the contemporary era of globalization, cross-border economic activities have resulted in an elevated risk of double taxation for taxpayers who generate income from abroad. In Indonesia, this issue is addressed through the provisions of Income Tax Article 24. However, its implementation still faces various administrative and technical obstacles. The objective of this study is to analyze the impact of the implementation of PPh Article 24 on the reduction of the international tax burden on domestic taxpayers. The present study employs a qualitative approach, utilizing a literature review method to examine legal sources, academic articles, and company reports from the years 2021–2025. The findings of the study suggest that Income Tax Article 24 possesses considerable potential in the reduction of double taxation. However, its effectiveness is contingent upon several factors, including the completeness of documentation, the utilization of international tax agreements, and the readiness of the reporting system. The findings also indicate that technology integration and improved taxpayer education are important factors in supporting the success of this policy. The findings of this study underscore the significance of implementing administrative reforms and the digitalization of the tax system.

Keywords: Income Tax Article 24, Double Taxation, Tax Credit, International Taxation.

INTRODUCTION

The phenomenon of economic globalization has given rise to a proliferation of increasingly intricate and dynamic cross-border economic interactions. A significant number of domestic companies are currently engaged in the process of expanding their business activities to foreign markets, employing a variety of strategies such as exports, direct investment, and the procurement of cross-border services. This phenomenon carries direct ramifications for the national taxation system, particularly with regard to the risk of double taxation. Double taxation occurs when a single taxable object is subject to taxation in multiple jurisdictions. This phenomenon not only diminishes economic efficiency but also has the potential to erode the competitiveness of domestic companies in the global market (Sari & Ardiansyah, 2022).

In order to address this issue, the government of Indonesia has established a mechanism to avoid double taxation through Article 24 of the Income Tax Law. This provision confers upon domestic taxpayers (WPDN) the prerogative to claim credit for taxes remitted overseas, thereby reducing their tax liability in Indonesia. Although these provisions normatively provide room to ease the international tax burden, at the implementation level there are still many obstacles. WPDN often face administrative difficulties in obtaining valid documents from foreign tax authorities, and do not fully understand the technical provisions related to the maximum limit of tax credits that can be recognized fiscally (Muflih & Rahmawati, 2023). The fundamental objective of this scheme is to establish a fiscal safeguard for cross-border income, with the dual aims of preventing the imposition of double taxation and fostering enhanced voluntary compliance from taxpayers (Rasji et al., 2023). Moreover, Article 24 aligns with international

practices, as outlined in the OECD Model Tax Convention, which advocates for the implementation of a foreign tax credit system to mitigate the issue of double taxation (OECD, 2022).

However, the implementation of Article 24 has resulted in various fundamental problems. A considerable number of WPDNs encounter challenges in acquiring valid documentation substantiating foreign tax payments, a predicament that is especially salient for small and medium-sized enterprises engaged in international trade or receiving services from foreign entities. Furthermore, the varying interpretations of the maximum tax credit limits, which are contingent on per-country and per-income limitations, frequently give rise to fiscal disputes (Fadhilah & Munandar, 2023). Moreover, a lack of comprehensive understanding of the technical provisions of Article 24 among tax officials in the field has resulted in inconsistencies in tax treatment between different Tax Offices (Yuliana & Prasetyo, 2021).

Preliminary research suggests that this policy continues to encounter significant structural impediments. In her 2021 study, Melatnebar explored the application of foreign tax credits as a tax planning strategy. However, the study did not provide an empirical explanation of the challenges associated with reporting and digital administration. Concurrently, Pasaribu et al. (2024) in a case study of PT Telkom Indonesia determined that the primary impediments to the utilization of Article 24 pertain to cross-jurisdictional coordination and constraints in foreign transaction documentation. Conversely, research by Qoyyim et al. (2024) underscores the potential of financial technology (fintech) in enhancing tax compliance, albeit without delving into the specific context of foreign tax credits. Unfortunately, until now, Indonesia's tax reporting system is still not fully capable of supporting automatic and real-time Article 24 filings, so many taxpayers have difficulties in the process (Wibisono, 2024).

This research is of particular importance in addressing the gap between regulatory frameworks and their practical implementation. Conventional studies have predominantly centered on normative aspects and overarching concepts of double taxation avoidance. In contrast, this research endeavors to delve into the practical nuances of this domain, encompassing the examination of administrative readiness, taxpayer literacy, and the availability of technological.

Consequently, this study aims to address this lacuna in the extant literature by meticulously examining the implementation of Article 24 income tax in the field, particularly in the context of reducing the international tax burden. This study underscores the significance of integrating policy, tax education, digital infrastructure readiness, and international harmonization as pivotal elements in achieving effective double tax avoidance.

The urgency of this research is further compounded by the dynamic shifts in the global economy and the escalating volume of cross-border transactions. Absent adaptive policies and effective implementation, Indonesia faces the prospect of diminished potential tax revenue and a decline in fiscal competitiveness. The objective of this study is twofold: first, to assess the effectiveness of the implementation of PPh Article 24 in reducing the international tax burden; and second, to identify its main obstacles and provide policy recommendations for future improvements.

RESEARCH METHODS

This study employs a descriptive qualitative approach, emphasizing document analysis and scientific literature, to examine the implementation of Income Tax Article 24 in the context of double taxation avoidance. This approach is regarded as pertinent due to the conceptual, normative, and close relation to cross-border tax policy practices, thereby negating the necessity for numerical data and emphasizing a profound comprehension of policy documents and documented empirical experiences.

The data utilized in this study is of a secondary nature, having been retrieved from an array of sources, including:

1. Legislation such as Law No. 36 of 2008 on Income Tax, Minister of Finance Regulation No. 164/KMK.03/2022 on Procedures for Foreign Tax Credits, and Indonesia's double taxation agreements with partner countries;
2. A review of relevant national and international scientific journal articles published between 2021 and 2025 reveals a number of notable works, including those by Pasaribu et al. (2024), Qoyyim et al. (2024), and others;
3. Tax reference books and company annual reports (e.g., PT Telkom Indonesia) can be used as case study materials;
4. The Directorate General of Taxes (DJP) has established a series of technical guidelines, encompassing international tax training modules that have been issued by the DJP's International Taxation Directorate.

The analysis of data was conducted through the implementation of content analysis. Researchers identified, sorted, and interpreted information in each source of literature to find patterns, themes, and relationships between variables relevant to the study. The analysis focused on the following aspects:

1. A comparison is to be made between legal provisions and practices in the field;
2. The implementation of Income Tax Article 24 has been hindered by technical and administrative obstacles;
3. The implementation of digital technology integration and the facilitation of bilateral coordination have been identified as key strategies to enhance the effectiveness of ongoing improvement efforts;
4. The Indonesian policies in question are examined in the context of international standards, specifically the OECD Model Tax Convention.

The validity of the results is ensured through source triangulation, which involves comparing information from various types of sources (journals, regulations, and case study reports) to avoid interpretive bias and ensure data consistency. This approach is expected to provide a comprehensive and objective overview of the issue under study.

RESULTS AND DISCUSSION

The findings of studies conducted by various entities demonstrate that the implementation of Income Tax Article 24 (PPh Pasal 24) in Indonesia plays a pivotal role in the reduction of double taxation arising from cross-border economic activities. Nevertheless, the efficacy of this provision in practice remains to be seen, as it is still facing various technical and administrative

challenges. Although the legislation stipulates that PPh Pasal 24 provides a mechanism that allows domestic taxpayers to claim a credit for taxes paid abroad, the level of utilization remains relatively low, especially among non-corporate taxpayers (Fadhilah & Munandar, 2023).

A salient finding of the study is that a considerable number of taxpayers appear to have an inadequate understanding of the limitations and provisions involved in calculating creditable taxes. As articulated by Hamid and Cahyani (2022), the precepts of per country limitation and per income limitation frequently engender perplexity among taxpayers, particularly those lacking the guidance of professional tax consultants. This discrepancy can lead to errors in document completion and suboptimal utilization of legitimate tax credits.

In the business context, research by Pasaribu et al. (2024) on PT Telkom Indonesia revealed that high foreign tax burdens cannot be fully offset through the facilities provided under Article 24 of the Income Tax Law. Multinational companies, such as PT Telkom, encounter a myriad of challenges. These include, but are not limited to, discrepancies in tax administration systems between countries, constrained access to cross-border fiscal information, and stringent documentation requirements in tax treaties. This study underscores that administrative constraints and limitations in international cooperation are the most significant obstacles to optimizing this policy.

Anwar and Syamsuddin's (2021) research yielded analogous results, underscoring the ongoing challenges in fully integrating Income Tax Article 24 into the digital taxation system. In the digital age, the process of submitting tax credit applications remains largely manual or partially digital, which is susceptible to errors, delays, and data duplication. The integration of a digital-based taxation system that supports real-time reporting is imperative to facilitate greater ease and accuracy in accessing these facilities by taxpayers.

Qoyyim et al. (2024) posit that financial technology has the potential to act as an agent of change in the process of tax reporting reform, including the realm of cross-border income reporting. The utilization of blockchain-based technology is proposed for the purpose of ensuring the authenticity of foreign tax payment documents, while the implementation of artificial intelligence is suggested for the identification of errors in tax credit reporting. Consequently, the modernization of the digital tax system emerges as a strategic measure to address the discrepancy between regulatory frameworks and prevailing practices.

The study by Widyaningsih and Saputra (2023) underscores the significance of ongoing fiscal education. A recent study of MSME exporters revealed a significant gap in awareness regarding the right to credit foreign taxes among the surveyed entrepreneurs. Furthermore, the study found a lack of comprehension concerning the underlying mechanisms. This underscores the necessity for collaboration among tax authorities, business associations, and educational institutions to enhance cross-border tax literacy.

From an international comparison perspective, the tax credit system adopted by Indonesia through Article 24 is consistent with the general practices of OECD countries. Nevertheless, the primary distinction is found in the quality of implementation and the adequacy of administrative support. According to Setiawan and Nugroho (2023), countries such as the Netherlands and Japan have complemented their double taxation avoidance policies with integrated digital platforms and cross-jurisdictional technical assistance units. In Indonesia, the coordination between agencies handling international taxation is suboptimal, resulting in delayed or unclaimed tax credit applications by taxpayers.

Another salient issue pertains to the regulatory gap in the implementation of Double Taxation Avoidance Agreements (DTAAs). A significant number of partner countries either do not have active agreements or have established requirements that deviate from Indonesia's system. Yuliana and Prasetyo (2021) observe that in such circumstances, the onus of substantiation is exclusively placed on taxpayers, who frequently encounter difficulties in acquiring authentic documents from foreign tax authorities.

In light of these findings, it can be concluded that improvements in the implementation of Article 24 of the Income Tax Law require a holistic approach. First, the government must adjust its regulations to be more adaptive to the needs of global taxpayers. Secondly, the tax reporting and credit application system must be automated and synchronized with international standards. Thirdly, there is a necessity for the regular implementation of measures aimed at fortifying the competencies of tax officials in the realm of foreign transaction management and the harmonization of reporting. A revision of the substance of P3B is imperative to ensure that Indonesia can optimize fiscal protection for global businesses operating within the country.

CONCLUSION

The present study posits that the implementation of Income Tax Article 24 constitutes a normative solution to address the risk of double taxation on foreign income. However, the efficacy of this policy in practice is contingent upon several factors. Firstly, taxpayers must be adequately prepared to comprehend the intricacies of technical provisions. Secondly, there must be sufficient administrative capacity to furnish supporting documentation. Thirdly, the digital taxation system must possess the capacity to facilitate the crediting process in an efficient manner. The findings also demonstrate that the inconsistent interpretation of the rules and the limited fiscal literacy of many taxpayers result in underutilization of this facility.

Consequently, it is imperative to implement concrete measures, such as enhancing taxpayer education, refining tax officer training, and establishing an integrated digital reporting platform to enable transparent and real-time foreign tax credit submissions. The government is also advised to actively review ineffective P3B agreements and strengthen bilateral tax cooperation.

Subsequent empirical research employing an interview approach with taxpayers and fiscal authorities can provide more profound insights into field practices and serve as the basis for formulating more responsive and adaptive policies.

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