

## The Effect of *Tax Treaties* on Foreign Investment Receipts in Indonesia

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### ***Abstract***

**Keywords :** *Tax Treaty, Foreign Investment, BPT Rates*

*The purpose of this study is to assess how the Tax Treaty (X) affects Indonesia's (Y) foreign investment receipts. All countries that have a Tax Treaty or double tax avoidance agreement with Indonesia constitute the population of this study, and 26 countries were selected as examples using purposive sampling inclusion criteria. The direct linear analysis method was used for this study. Secondary data is used in the data collection approach of this study, namely the documentation method. Official publications from government agencies provide data, which are then entered into the data panel covering the years 2020–2024 and analyzed using IBM SPSS software. According to the findings of this study, the Tax Treaty has little impact on foreign investment in Indonesia. The regression findings, which resulted in a significance value of 0.102, which is higher than 0.05, support this conclusion. As a result, this study shows that the Tax Treaty has little influence on the movement of foreign investment into Indonesia during the study. Based on these findings, foreign investors choose to invest in Indonesia for a variety of reasons, not just because of the Tax Treaty law.*

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### **INTRODUCTION**

Investment plays an important role in strengthening the economic structure of a country. As noted by Kasmir (2022), the term investment encompasses a wide range of meanings, mainly referring to capital inputs in activities that span a significant period of time and diverse sectors. Foreign Direct Investment (FDI) is one of the important categories that has a global impact. Such investments offer various benefits to a country, such as boosting economic progress by providing essential capital, thereby resulting in an increase in the Gross Domestic Product (GDP). In addition, foreign investment creates job opportunities, ensuring people have access to jobs. Furthermore, foreign investment facilitates the introduction of advanced technologies through knowledge transfer, which increases the skills and awareness of the local population. Foreign investment also diversifies the economy by reducing dependence on certain sectors and encouraging the growth of new areas.

Indonesia is very open to investment, especially in the form of FDI. The country has established more than seventy P3Bs with various countries. FDI is a key initiative that requires continuous improvement. The growth of foreign trade and foreign investment is crucial in realizing the vision of Golden Indonesia 2045, which aims for sustainable economic development (Nurkhin et al., 2024).

Taxes significantly affect investors' choices regarding where to invest. To attract foreign investment, countries are working hard to foster a favorable investment climate through various fiscal and economic strategies. One of the approaches is the formation of *Tax Treaty*. *Tax Treaty* is an agreement between countries designed to prevent the imposition of double

taxation while ensuring legal protection for foreign investors (OECD, 2017). Agreements that aim to avoid double taxation are beneficial for reducing excessive tax imposition and encouraging external investment in the country. This agreement helps to preserve and increase foreign investment in Indonesia and directly affects government revenues from dividends. Based on Article 32A of Law No. 7 of 1983 concerning Income Tax, which has been revised several times, most recently by Law No. 7 of 2021 concerning the Harmonization of Tax Regulations, the government has the authority to negotiate agreements with other countries or jurisdictions that are specifically (*lex specialis*) discussing double taxation and tax evasion. The advantages of a P3B can include a reduction in tax rates compared to those set out in the Income Tax Act or tax exemptions in the home country.

Taxation and *Tax Treaties* between countries make a country more attractive to investors because it can lower the taxes that people must pay and provide greater legal protection for those who invest. However, the imposition of double taxation can create problems by increasing the amount of taxes that individuals must pay. Individuals cannot avoid double taxation on their own unless there is a clear legal framework to help them. When double taxation occurs, it creates a barrier to investment because individuals generally prefer countries with lower tax rates. In the end, double taxation harms the government by reducing the taxes it collects (T. H. Simanjuntak, 2019).

One of the advantages of *Tax Treaty* can reduce the tax rate on income that crosses national borders, including the Branch Profit Tax (OECD, 2017). As stated by the DGT (2023), BPT is a fee charged on the remaining profit from the BUT which is considered income sent back to the head office in another country. BPT is part of Income Tax, especially the levy on after-tax profits from a BUT that will be transferred to the head office abroad. According to the provisions, the BPT rate is usually 20%. However, these tariffs can be lowered through intergovernmental agreements. This tariff reduction increases profits for foreign investors, making investment prospects more attractive. In the realm of international tax, BPT on residual profits from BUT can be reduced due to the existence of *Tax Treaty* between the country of origin of the income and the country where the investor resides, although the impact must still be in accordance with local laws (Tambunan, 2024).

A study by Cahyono (2022) found that *Tax Treaty* can help increase FDI to Indonesia. This shows that *Tax Treaty* offers legal guarantees and reduces the possibility of double taxation, thus making a country more attractive to foreign investors. However, the study also showed that the impact of *Tax Treaty* can differ based on the type of investment and the economic condition of the country.

Research by Lee & Kim (2021) analyze the influence of FDI double tax avoidance agreements using United States foreign investment data to various countries. The results of the study show that *Tax Treaty* can increase foreign investment flows, especially in developing countries because it is able to reduce tax risks and increase tax certainty for investors. However, this influence is not always significant in developed countries because the tax system is relatively more stable. The study also found that the effectiveness of *Tax Treaty* in attracting foreign investment is influenced by tax policies, regulations *transfer pricing*, as well as the economic condition of the investment destination country.

Many studies have examined the relationship between *Tax Treaty* and FDI. Various studies show that *Tax Treaty* can positively affect the increase in foreign investment flows, as

it helps reduce financial barriers to international investment. On the contrary, it has also been noted that the significance of *Tax Treaty* Against foreign investment is not always clear, as investment choices are shaped by various other factors. In addition, research on the impact of *Tax Treaty* FDI still shows limitations both in empirical evidence and the scope of studies. Several investigations have revealed that empirical findings regarding the influence of *Tax Treaty* on FDI is still unclear and inconsistent, depending on the variables, analytical methodology, research timeframe, and characteristics of the country being studied (Satrio, & Lestari, 2018).

Research that specifically examines the influence of *Tax Treaty* foreign investment flows are still relatively small in Indonesia, and some studies show that *Tax Treaty* does not always have a major impact on FDI inflows as investors prioritize non-tax considerations more (Cahyono, 2022). As a result, additional studies are needed to re-analyze the relationship between *Tax Treaty* and the acceptance of foreign investment, particularly by using newer data and alternative empirical methodologies, to get a clearer picture of how well these measures are working to bring foreign investment into Indonesia. For this reason, the title of this article is "Influence *Tax Treaty* on Foreign Investment Receipts in Indonesia".

## METHODS

The methodology used in this study adopts a quantitative strategy by utilizing basic linear regression. The focus of this research includes all countries that make foreign direct investment in Indonesia from 2020 to 2024. The selection of research samples was carried out using *purposive sampling* techniques based on the availability of data within the specified research period. The sample includes countries that have signed a *Tax Treaty* with Indonesia and were identified as sources of foreign investment during the observation period by BPS, with a total of 130 samples, with each time period consisting of 26 countries: the United States, Canada, other Americas, Belgium, Denmark, France, Italy, the Netherlands, Norway, Germany, the United Kingdom, Switzerland, other Europe, Japan, China, South Korea, Hong Kong, Taiwan, Singapore, India, other Asia, Australia, New Zealand, other Australia, Nigeria, and other Africa.

The data collection approach in this study relies on documentation, especially by utilizing secondary data. The data is collected from materials officially released by government agencies, including central agency of statistics (BPS) and Directorate General of Taxes (DJP). In this study, data collection involves downloading information from legitimate institutional sources and organizing it into panel data for the period 2020 to 2024. IBM SPSS software is used for this purpose. With SPSS, researchers can perform a variety of statistical evaluations, including descriptive statistics, regression analysis, correlation studies, and t-tests, to achieve reliable research results.

Table 1. Research Sample Data

No	Country	BPT Rate	Investment Realization (Million US\$)				
			2020	2021	2022	2023	2024
1	USA	15%	749,70	2.537,20	3.026,20	3.283,10	3.696,80
2	Canada	15%	175,30	182,10	250,40	357,80	492,70

3	Other Americans	15%	641,10	1.160,80	1.533,90	1.018,70	1.337,00
4	Belgium	15%	27,00	55,50	73,20	98,90	166,50
5	Denmark	15%	2,50	14,20	12,70	30,60	43,60
6	Perancis	10%	25,10	145,80	252,90	302,80	328,10
7	Italy	12%	12,70	37,60	26,90	37,50	70,50
8	The Netherlands	9%	1.422,40	1.761,60	1.220,20	1.258,30	1.977,10
9	Norway	15%	7,00	20,30	4,70	18,50	81,30
10	Jerman	10%	143,60	182,30	195,50	157,80	343,30
11	English	10%	192,80	322,90	628,30	386,70	745,40
12	Swiss	10%	130,90	599,80	133,80	150,10	244,90
13	Other Europe	20%	268,50	312,90	353,70	588,30	594,00
14	Japan	10%	2.588,00	2.263,20	3.562,80	4.639,50	3.463,90
15	R.R. China	10%	4.842,40	2.263,20	8.226,00	7.438,40	8.106,90
16	South Korea	10%	1.841,90	1.640,20	2.297,80	2.543,60	2.987,70
17	Hong Kong	5%	3.535,90	4.609,30	5.514,20	6.504,80	8.216,50
18	Taiwan	5%	454,30	316,90	236,70	190,10	344,80
19	Singapore	15%	9.779,10	9.390,10	13.281,10	15.355,20	20.075,20
20	India	10%	57,60	49,60	127,60	275,40	173,10
21	Other Asians	20%	1.198,10	1.929,10	3.613,60	4.416,40	5.194,90
22	Australia	15%	348,60	195,20	524,40	545,20	739,10
23	New Zealand	20%	13,40	8,20	3,70	11,90	26,00
24	Other Australians	20%	28,20	32,90	145,50	117,40	285,20
25	Nigeria	20%	0,10	0,70	0,40	0,40	0,10
26	Other Africans	20%	180,10	164,30	358,70	540,20	279,40
<b>Quantity</b>			<b>28.666,30</b>	<b>31.195,90</b>	<b>45.605,00</b>	<b>50.267,50</b>	<b>60.014,00</b>

Source: BPS Data (2025)

## RESULTS AND DISCUSSION

### Descriptive Statistical Test

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Hours of deviation
<i>Tax Treaty</i>	130	,05	,20	,1365	,04608
Foreign Investment	130	,10	20075,20	1633,99	3115,45383
Valid N (listwise)	130				

Source: SPSS processed data, (2026)

The *Tax Treaty* variable has a minimum value of 0.05 and a maximum value of 0.20. The mean value of this variable is 0.1365 with a standard deviation of 0.04608. A smaller standard deviation value compared to the average value indicates that the data is less spread out and

tends to be stable, so the fluctuations that occur are not too extreme or relatively controlled. Meanwhile, the size of Foreign Investment starts at 0.10 and goes up to 20,075.20. The common amount of foreign investment is 1633.99, and the range of variation is 3115.45383. Since the size of the variation is much higher than the common amount, it suggests that the number of foreign investment varies greatly.

### Classic Assumption Test

#### Uji Normalistas

To ascertain whether the remaining data in the distributed regression model is normal, a normality test is performed. A good regression model has a normally distributed residual. The Kolmogorov-Smirnov (K-S) test, along with normal P-P plot analysis, was used in this study to determine normality.

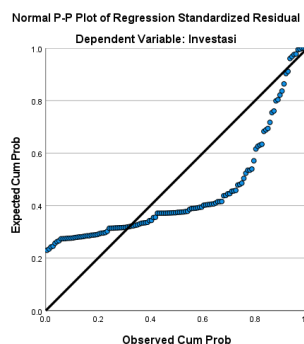
The results of the Kolmogorov-Smirnov test are based on the following:

Normal distributed data if the Sig > 0.05.

The data is not distributed normally if the sig is less than 0.05.

The test findings show the value of Asymp. A sig of 0.000, which is less than 0.05. This figure indicates that the remaining data is not distributed normally. Nevertheless, the research was still carried out because the sample size was quite large, namely 130 samples.

Figure 1. P-Plot Normal Chart



Based on the Normal P-P Plot, the data points are not fully aligned with the diagonal line and show some variation. Taking this into account, it can be concluded that the residual distribution is abnormal. However, the regression model can still be applied because the sample size is 130.

#### Linearity Test

A linearity test was performed to see if the relationship between independent and dependent variables in the research model was linear. The linearity test uses the following principles to make decisions:

The relationship between independent and dependent variables is linear if the significance value of the deviation from Linearity is greater than 0.05.

The relationship between independent and dependent variables is non-linear if the significance value of the Deviation from Linearity is less than 0.05.

The test results resulted in a significance value of deviation from linearity of 0.239, which is higher than 0.05. Therefore, the findings show a linear correlation between *the Tax Treaty* variable as an independent variable and Foreign Investment as a dependent variable, without deviation from the linearity. However, the value of the significance of linearity is 0.100, which indicates that such linear relationships are not statistically significant.

#### Heterokedasticity Test

The heteroscedasticity test was performed to find out whether in the regression model there was an unequal variance from residual in one observation to another. The basis for decision-making in the Glejser test is as follows:

If the significance value (Sig.) > 0.05, then heteroscedasticity does not occur.

If the significance value (Sig.) < 0.05, then heteroscedasticity occurs.

Based on the test results, a significance value of 0.199 was obtained, which exceeded 0.05. This suggests that the regression model shows no signs of heteroscedasticity. Therefore, the regression model used in this study meets the requirements of homogeneity, and is suitable for further analysis.

### Autocorrelation Test

The residues of the regression model were tested by an autocorrelation test to see if there was a relationship between the residue of one observation and the residue of the other. A good regression model is one that does not have autocorrelation. The output of the Model Summary in the Durbin-Watson (DW) SPSS Test was used to perform the autocorrelation test in this study.

< 1.5: autocorrelation occurs

1.5-2.5: no autocorrelation

> 2.5. : autocorrelation occurs

The score obtained was 2.244, as determined by the test findings. Since this value is between 1.5 and 2.5, we can conclude that there is no autocorrelation in the regression model. As a result, the regression model used in this study met the traditional requirements for autocorrelation.

### Simple Linear Regression Analysis

Basic linear regression analysis is used to assess how independent variables affect dependent variables. In this study, a basic linear regression analysis was used to evaluate the impact of *the Tax Treaty* on Foreign Direct Investment in Indonesia.

### Model summary

This table is used to find out how well independent variables can explain dependent variables and to evaluate how practical and accurate the regression model is.

**Tabel 3. Tabel Uji Koefisiensi Determinasi (R2)**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,144 <sup>a</sup>	,021	,013	3094,98573

Sumber: data diolah, 2026

An R value of 0.144 indicates that the relationship between *the Tax Treaty* and Foreign Investment is quite weak. The R Squared value of 0.021 indicates that *the Tax Treaty factor* only accounts for 2.1% of the difference in foreign investment in Indonesia. The other 97.9% is influenced by additional factors that are not included in the model. The adjusted Squared R-value of 0.013 indicates that even after accounting for the number of variables in the model, the ability of independent variables to explain dependent variables remains minimal.

### Annova

The ANOVA table is used to ascertain whether the regression model used is appropriate for the study. The impact of independent variables on dependent variables was evaluated simultaneously using ANOVA.

Tabel 4. Uji Anova

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	25976882,43	1	25976882,43	2,712	,102 <sup>b</sup>
Residual	1226103897	128	9578936,693		
Total	1252080779	129			

Sumber: Data Diolah SPSS (2026)

The decision-making policy is:

If the Sig < 0.05, then the regression model is significant.

If the Sig > 0.05, then the regression model is not significant.

Based on the results of the ANOVA test, the determined F value is 2.712, and the significance value is 0.102. Given that this significance value exceeds 0.05, it can be concluded that the regression model is not significant. As a result, this shows that the *Tax Treaty variable* does not play a significant role in influencing foreign investment in Indonesia.

### Coefficients

The coefficient table helps to find out how strongly independent variables affect the dependent variables and is used to create regression equations.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
(Constant)	2963,584	851,801	Beta	3,479	,003
Tax Treaty	-9737,870	5913,289	-,144	-1,647	,102

Tabel 5. Uji t

Based on the results of regression analysis, the following regression equations are obtained:

$$Y = 2,963,584 - 9,737,879X$$

Description:

Foreign investment is predicted to be worth 2,963,584, or that amount, when the *variable Tax Treaty* is worth zero or unchanged, as indicated by the constant 2,963,584. According to the regression coefficient of -9,737,879, an increase of one unit in the *Tax Treaty variable* will result in a decrease in foreign investment of 9,737,879. Nevertheless, the t-test showed a significant value of 0.102, which is greater than 0.05.

According to these findings, the *Tax Treaty variable* has no real impact on foreign investment in Indonesia. The value of the coefficient is -9,737,870, which indicates that a 1% increase in taxes could result in a decrease in foreign investment of 9,737,870 (US\$ Million). Nonetheless, the value of 0.102 for the interest level is higher than 0.05, which indicates insignificance, and this supports the conclusion that the *Tax Treaty* does not have a major impact on the receipt of foreign investment in Indonesia.

## DISCUSSION

*Tax Treaty* can increase income from foreign investment by lowering the BPT tax rate. In the realm of international taxation, this rate may be lower than the local rate when the taxpayer

takes advantage of the provisions *Tax Treaty* (Tambunan, 2024). This tax reduction is expected to make a country more attractive to foreign investors. However, the impact is not always significant, as foreign investors' choices are influenced not only by lower BPT tax liabilities; They are also affected by additional tax factors such as dividends, interest, and royalties (Rohali & Utomo, 2022)

The results of this study are supported by research Lee & Kim (2021) who mentions This influence is not always significant in developed countries because the tax system is relatively more stable. In this study, it was also found that the effectiveness of *Tax Treaty* in attracting foreign investment is influenced by tax policies, regulations *transfer pricing*, as well as the economic condition of the investment destination country. So, in this case, the policy *Tax Treaty* does not play a role as the main factor in determining investment decisions.

Influence *Tax Treaty* Dependent variables are not always significant, because foreign investment decisions are also influenced by various other factors outside of taxation. Foreign investors' decisions to invest their capital in Indonesia are not only influenced by policies *Tax Treaty*, but is also influenced by various other factors such as economic conditions, political stability, ease of doing business, infrastructure, and market potential in the investment destination country (Sabir et al., 2019). These factors are important considerations for investors in determining the location of investment because they affect the level of risk and profit that will be obtained.

*Tax Treaty* It's usually not a major concern for investors when they choose to invest, especially if there are no other supporting elements. This shows that although *Tax Treaty* Can offer clarity on laws and rules regarding taxes for investors, such agreements do not necessarily lead to an increase in the amount of foreign direct investment. Investors see more than just tax issues; They also consider other things such as market conditions, ease of obtaining permits, and overall economic stability (Tjhai, 2022). This shows that investors are paying attention not only to tax rates, profits, and rules, but also sustainability and other additional elements.

## CONCLUSION

This study aims to examine the impact of *the Tax Treaty*, as one of its components, on foreign investment inflows in Indonesia from 2020 to 2024. A quantitative approach is used, utilizing simple linear regression. The findings show that *the Tax Treaty* policy is not the main determinant of foreign investment inflows into Indonesia during the specified period, mainly due to the influence of other factors. As a result, government policies aimed at increasing foreign investment should include a wider range of elements related to various aspects and stability of the national economy.

This study has some limitations. First, the study only covers the period from 2020 to 2024, which is relatively short and insufficient to draw long-term conclusions. Second, the assessment of *Tax Treaty* variables in this study is limited to one specific indicator of BPT, thus failing to provide a comprehensive picture of all aspects of international *Tax Treaties*, including dividends, interest, and royalties. Third, this study does not take into account non-tax factors that also affect the attractiveness of foreign investment, such as economic conditions, political stability, ease of doing business, infrastructure, and market potential in the target country. Therefore, it is recommended that future researchers consider using a longer

timeframe or expanding the scope of their research by including additional variables and acknowledging non-tax factors to achieve broader results.

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