Indonesia opens a new front in the GAFA wars

Blog post by Asia Director Ying Staton, 30 September 2016

ASEAN policymakers have always watched their European counterparts closely – both for good and bad examples. The European Commission's landmark decision last month instructing Ireland to claw back €13 billion of unpaid corporate tax from Apple is no exception.

The ruling by Brussels almost certainly strengthened the resolve of the Indonesian tax office, which last week announced its intention to reclaim unpaid taxes from US technology giant Google that could amount to over US$400 million for 2015 alone. The allegation is that PT Google Indonesia paid less than 0.1% of its total income in Indonesia in tax last year by accounting for the revenue in neighbouring Singapore. Along with other peers including Microsoft and Apple, Google has negotiated preferential tax rates in Singapore in return for locating their Asian headquarters in the city-state.

More worryingly for Google, the case in Indonesia has been escalated into a criminal investigation, an indication the Indonesian Government is digging in its heels and won't be satisfied with the kind of £13million-a-year 'sweetheart deal' Eric Schmidt struck with the UK Treasury last year. Political pressures in Jakarta are high: President Jokowi has staked the success of his first term on a flagship tax amnesty programme designed to encourage wealthy individuals and corporates to bring the capital they have offshored back to Indonesia. The fact that Indonesia has struggled for years with one of the lowest tax take to GDP ratios in ASEAN lends a fiscal as well as a political urgency to the issue.

Indonesia is not alone in targeting multinationals for unpaid tax. The Australian Tax Office is currently investigating a number of companies including Google, BHP Billiton and Rio Tinto on tax allegations (in many instances the income was also filed in Singapore) and in India a sizeable roster of MNCs including Vodafone and Shell have been ordered to pay back taxes and warned against structuring themselves in a way designed to avoid future tax liabilities.

This growing confrontation will affect not only the relationship between states and multinationals, but fraternity between neighbours: the resentment felt both by and towards low-tax jurisdictions such as Singapore, who are currently able to profit from such arrangements, is not likely to spur efforts towards further regional integration.

There is a broader political dynamic at work too. Just as everywhere else, ASEAN politicians are sensitive to the fact that since the slowdown of 2009 there is a widening gap between corporate profits (which recovered quickly post-crisis) and household incomes (which did not). There is also widespread anxiety about technological change and the impact on jobs. Multinational corporations – and US giants most of all – have become a proxy for the menaces of technology-driven globalisation.

The perception that these companies are ubiquitous and omnipotent yet lacking in accountability is as common in Jakarta as it is in parts of Brussels. Companies like Apple and Google would be wise to take note. The Brussels judgment and the Indonesian criminal case are different parts of a global frontline.