IMPROVED UNDERSTANDING OF TAX TREATY INDONESIA – MALAYSIA, SPECIFICALLY FOREIGN INCOME OF EMPLOYEES AND FREELANCERS

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ABSTRACT

Urbanization and globalization have occurred in the last few years, including human resources. Business activities can be carried out by domestic and foreign people. Malaysia is one of the closest countries to Indonesia where Indonesians earn income, and vice versa. Taxes are the largest state revenue for the majority of countries, including Indonesia and Malaysia, and one of the tax objects is Income Tax. So the income received by the foreign tax subject is at risk of being subject to double taxation between the country of origin and the country of source of income. For this reason, the Indonesian Government and the Malaysian Government agreed to the Tax Treaty in 1991. Many taxpayers are not aware of the Indonesia-Malaysia tax treaty and how their income is taxed in the source country, how Indonesian and Malaysian citizens who work and are domiciled in another country as employees or who are still domiciled in their home country but earn income in another country as freelancers. Specifically, through the Indonesia - Malaysia Tax Treaty, it is explained how income tax is deducted on income as an employee or freelancer who comes from a foreign country, or vice versa. PERMAI is an NGO whose members are mostly Malaysians who have Indonesian ancestry or have families with Indonesian ancestry, and have various activities such as being employees or owning businesses in Penang, Malaysia. Together with Universiti Sains Malaysia and NGO PERMAI, this activity aims to increase understanding of Malaysian people who have income in Indonesia and Indonesian people who have income in Malaysia. With this activity, it is hoped that Indonesian or Malaysian citizens who receive income abroad understand how the income tax withholding process on income received from foreign countries.

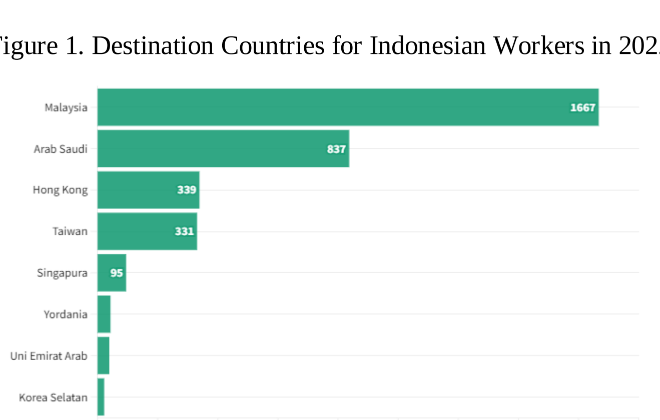
Keywords: Tax Treaty, Income Abroad, PERMAI, Indonesia – Malaysia.

1. INTRODUCTION

Globalisation has a wide impact on business activities, including human resources who urbanise from villages to cities and across countries. The supply and demand for human resources as a party to develop business is the basis for the physical and virtual domicile of employees or professionals (Kusdarini et al., 2021). In terms of physical domicile, Indonesian workers have migrated to almost all corners of the world and Asia such as Saudi Arabia, Hong Kong, Taiwan, Jordan, United Arab Emirates, South Korea, United Kingdom, Oman, Qatar, Italy, and Singapore, including Malaysia which is a cognate country and not too far from Indonesia (Bangun, 2023), thus becoming the main destination country for Indonesian Migrant Workers.

Migrant labour, both physical and virtual, is needed in a variety of sectors, from households to plantations to specialised professionals. The limited number of resources in one country both in quantity and quality is an opportunity for people in other parts of the country to participate in co-operating with income earners in different countries (Juniansyah et al., 2023).

Figure 1. Destination Countries for Indonesian Workers in 2022



In addition to administration, language, and income, one of the issues related to migrant workers is income tax (Hasan et al., 2024). Differences in the taxation rules of each country, both in terms of procedures, rates, and especially taxation rights, can lead to the risk of double taxation on income received by migrant workers or professionals who are foreign nationals. However, several countries have entered into tax treaty agreements (Farida, 2020), including the Government of Indonesia and the Government of Malaysia since 1991. But do migrant workers and professional service providers understand this? And have income earners in different countries implemented the tax treaty? The understanding of service providers, both migrant workers and professionals and employers can minimise double taxation that can reduce income for service providers.

For this reason, Universitas Mercu Buana in collaboration with NGO PERMAI and University Sains Malaysia conducted community service activities for the community in Pulau Pinang Malaysia who are Indonesian migrant workers and Indonesian professionals working in Pulau Pinang, as well as Malaysian professionals who provide services in Indonesia both physically domiciled and virtual, about the Indonesia Malaysia tax treaty specifically for workers and professional services, with the aim of increasing the understanding of service providers and income providers regarding income tax on these service transactions.

PERMAI is a Non-Governmental Non-Political NGO engaged in the field of Social Education and Culture with the majority of administrators and members are Indonesians domiciled in Malaysia, both Indonesian citizens and Malaysian citizens with various professions, including: Expatriates, Entrepreneurs, Lecturers, Teachers, Students, Worker. With so many members who have professions, this community service activity is expected to help participants' understanding to minimise the imposition of double taxation on income received.

Meanwhile, University Sains Malaysia is a university located in Pulau Pinang and is included in the QS-200 world ranking, so that academic experience can help achieve the objectives of this community service activity, especially in increasing the understanding of activity participants related to the Indonesia-Malaysia tax treaty.

Based on analysis and problem, the purposes of this activity are 1) assist Indonesian citizens and Malaysian citizens in understanding the taxation rules on overseas income, and 2) assist Individual Taxpayers as service providers to minimise the imposition of double taxation on income from overseas.

The purpose of this community service activity is in line with the “Merdeka Belajar Kampus Merdeka” programme regarding learning or sharing sessions conducted by students and lecturers outside the campus, in this case learning material related to taxation, especially the Indonesia-Malaysia tax treaty which is usually studied in the "International Taxation" course can be carried out outside the campus space with participants from the general public.

2. METHOD

2.1. Preparation

The community service activity team previously held discussions with LPPM and the faculty regarding the preparation of activities on Pulau Pinang Malaysia, then the discussion continued by involving NGO Permai and University Sains Malaysia to find out the condition of the activity participants and the problems and solutions expected. After knowing the targets and targeted solutions, adjustments were made from the Universitas Mercu Buana lecturer team and the LPPM team to prepare for departure and the needs needed in community service activities in Pulau Pinang Malaysia. The time, place, number of teams and theme of the activity were also discussed in the discussion so that each lecturer had prepared their respective duties before the activity was carried out.

2.2. Implementation Method

The method of this Community Service activity is carried out through:

1) Socialization: which will explain tax treaty Indonesia – Malaysia, especially about tax income of employee and freelancer. Purpose of these method is increasing participants' understanding and ability to comply with taxes (Herawaty et al., 2022; Tarmidi et al., 2022).

2) Practice: where participants will be given the opportunity to practice procedure like calculate and full case study about income tax as an employee or as a freelancer from Malaysia or Indonesia. The purpose of this method is increasing understanding and improving the ability (Nugraeni & Susilawati, 2020; Widjaja et al., 2020).

3) Question and Answer: where participants are given the opportunity to ask questions related to tax treaty Indonesia – Malaysia about tax income as an employee or as a freelancer who get income abroad. The consultation or discussion in the form of questions and answers about taxation helps participants to be more open in understanding all the topics explained (Maghriby et al., 2017; Rahmi et al., 2020).

4) Assistance: Participant can get assistance direct in activity or over activity about tax treaty Indonesia – Malaysia and administration procedure of income tax as an employee or as a freelancer.

2.3. Target Audience

The target audience for this Community Service Program is Indonesian citizens providing services in Malaysia and Malaysian taxpayers providing services in Indonesia. This activity is planned to be carried out offline with the COVID-19 health protocol in Penang City, Malaysia.

2.4. Evaluation Method

Activity evaluation is a process for collecting data and information needed in this community service activity. The evaluation of this activity is more focused on reviewing the participants' understanding of income tax as an employee or income tax as a freelancer based on Tax Treaty Indonesia - Malaysia. Activity evaluation has a function as a process controller of the results of the activity program so that a systematic, effective and efficient activity program can be guaranteed. The evaluation of activities seeks to obtain information about the results of activities, also including feedback from socialization participants which is very helpful in improving activities through the questionnaire provided.

3. RESULTS AND DISCUSSION

3.1. Result

This international joint community service have done by lecturer from Universitas Mercu Buana, and team of Pertubuhan Masyarakat Indonesia (PERMAI) Pulau Pinang Malaysia, also supported by University Sains Malaysia at Pulau Pinang Malaysia. This activity is carried out with the following details:

Day	: Sunday
Date	: April 27. 2025
Time	: 09.00 (Penang times) untill finished
Location	: Yayasan An-Nahdhoh Pulau Pinang, Malaysia
Participant	: 33 (room A)

Figure 2. Activity of PKM

This activity consists of several sessions as follows:

a. First Session, Opening and Welcoming from Mrs. Dr. Erna Setiany, SE. M.Si. as Vice-Chancellor Universitas Mercu Buana, Dr. Anees as representative of University Sains Malaysia, and also Representative of PERMAI

b. Second session, explanation of tax treaty Indonesia – Malaysia specifically income abroad of employee and freelancer, the treaty has provided direction on how to process of international withholding tax for domestic taxpayers who work and earn income abroad, or vice versa.

c. Third session, namely discussions and questions and answers between the implementers and participants about the topics that were socialized.

3.2. Discussion

The participants of this Community Service activity are Indonesian citizens who live, work and trade in Pulau Pinang Malaysia and also Malaysian citizens who have income from Indonesia. The majority of participants do not know and do not understand about international withholding tax based on the Indonesia - Malaysia tax treaty.

In the PKM activity, it was found that the majority of participants did not know about the Indonesia - Malaysia tax treaty, and did not understand the process of withholding income tax on income received, nor did they understand how the process in the annual tax report.

With this socialization, participants know more about taxation for themselves as workers and income recipients in Malaysia. However, participants will begin to communicate and coordinate with their families in Indonesia to ask the Tax Officers in their area regarding the procedures for implementing the rules regarding income from abroad.

4. CONCLUSION

The Community Service activity with the topic of tax treaty Indonesia – Malaysia especially for employee and freelancers for Indonesian citizens who are domiciled and earn income from Malaysia or Malaysian citizens who are domiciled or have income from Indonesia, the following conclusions were obtained 1) all participants did not know this Tax Treaty, participant just know there withholding tax in Malaysia or Indonesia, and 2) participants need more information about tax procedures both formal and material on income from abroad and withholding tax.

ACKNOWLEDGMENT

This Community Service Activity (PKM) is a collaboration between Universitas Mercu Buana, Pertubuhan Masyarakat Indonesia (PERMAI) Pulau Pinang Malaysia, andan University Sains Malaysia. Apart from being a tridharma obligation of lecturers, this activity is in fact directly beneficial for activity participants in increasing participants' understanding of the material being socialized, in addition to increasing participants' awareness of tax rights and obligations related to their personal and business.

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