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Tax Governance and Risk Mitigation in Applying the Indonesia–Singapore Tax Treaty: A PT PMCS Case Study

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Abstract

Effective corporate tax governance is essential for foreign investment enterprises to navigate complex international tax frameworks and maintain regulatory compliance. This study explores the implementation of corporate tax governance at PT PMCS, evaluates the influence of foreign ownership and the Indonesia–Singapore Double Taxation Avoidance Agreement (DTAA) on tax decisions, and identifies mechanisms to mitigate cross-border tax risks. Utilizing a qualitative single-case study grounded in Agency Theory and Institutional Theory, data were gathered through in-depth interviews with six key informants and triangulated with financial reports (2019–2023) and tax documents. Thematic analysis conducted using NVivo 15 reveals that PT PMCS implements structured tax governance through written policies, clear segregation of duties, and compliance controls. Passive foreign investors grant local management operational autonomy while maintaining supervisory mechanisms, whereas cross-border tax risks are managed through systematic transaction verification and Certificate of Domicile (Form DGT) documentation. This study extends Agency and Institutional theories by explaining how governance mechanisms align investor oversight with local autonomy. The findings offer actionable guidance for multinational enterprises and tax authorities in integrating enterprise risk management with international tax compliance controls.

Keywords

Agency Theory, Foreign Ownership, Indonesia–Singapore DTAA, International Tax Risk, Tax Governance.

1. Introduction

Cross-border operations in Foreign Direct Investment (FDI) enterprises introduce complex accounting and tax challenges, requiring management to align domestic compliance with international frameworks, particularly Double Taxation Avoidance Agreements (DTAA) (Agusti, 2025; Lukman, 2025). Executive management must continually balance profit optimization, liquidity, and legal tax compliance (Berry et al., 2023; Mediaty, 2025). PT PMCS, a foreign-invested company operating in Indonesia with individual investors from Singapore, encapsulates these dynamics through cross-border transactions such as component imports and offshore technical service fee remittances (Wijaya, 2024). In this setting, corporate tax governance serves as an essential strategic mechanism to ensure financial stability, lower exposure to cross-border tax disputes, and maintain long-term business continuity (Baharudin, 2025; Wulandari et al., 2025).

Table 1. Summary of Financial Statements & Trend Analysis of PT PMCS (2019–2023)

No	Report Elements Finance	2019 (Billion IDR)	2020 (Billion IDR)	2021 (Billion IDR)	2022 (Billion IDR)	2023 (Billion IDR)	CAGR (%)
1	Current Assets	16.16	19.35	30.09	36.22	42.13	27.07
2	Current Liabilities	10.40	10.17	18.88	20.34	23.07	22.05
3	Total Liabilities	14.57	12.29	19.41	20.34	23.07	12.18
4	Total Equity	2.42	7.76	11.32	16.38	19.44	68.29
5	Total Assets	16.99	20.04	30.73	36.72	42.52	25.77
6	Net Income	1.76	6.02	5.04	5.06	3.07	14.93
7	Current Ratio (%)	155.40	190.20	159.40	178.10	182.60	173.14
8	Debt-to-Equity Ratio / DER (x)	0.3877	0.3042	0.2216	0.2505	0.2578	0.2844

The phenomenon gap justifying this study is evidenced by PT PMCS's rapid financial expansion during the 2019–2023 period (see Table 1). Total assets grew significantly from IDR 16.99 billion to IDR 42.52 billion (CAGR 25.77%), while total equity expanded from IDR 2.42 billion to IDR 19.44 billion due to profit retention. Concurrently, current liabilities rose from IDR 10.40 billion to IDR 23.07 billion. Although the company maintained a healthy Current Ratio (155.40%–190.20%) and reduced its Debt-to-Equity Ratio (DER) from 0.3877 to 0.2578, net income exhibited sharp fluctuations, peaking at IDR 6.02 billion in 2020 before settling at IDR 3.07 billion in 2023. These micro-level company swings mirrored macro-level national tax revenue collection trends during the same period, which, as shown in Figure 1, shrank by -19. 6% in 2020 before recovering to IDR 1,869.23 trillion in 2023 (102. 8% target achievement). The risk of reporting and administrative tax vulnerabilities is considerably increased by this rapid structural expansion and cross-border transaction volume



Figure 1. Tax Revenue Statistics for 2019–2023

The connection between variables illustrates how foreign ownership structures and the Indonesia-Singapore DTAA directly affect executive tax decisions, Effective Tax Rate (ETR) stability, and risk exposure. Singaporean investors who are passive give local management complete operational independence, creating a tax governance framework that strikes a balance between compliance and fiscal efficiency under DTAA regulations.

The constraints of past international tax literature are the novelty and research gap of this study. To evaluate transfer pricing, tax avoidance, or ETR in large listed companies, current research mostly uses aggregate quantitative approaches (Dewi & Ardiyanto, 2020; Amrie, 2021; Nurdiansyah & Masripah, 2023). Conversely, there is a scarcity of qualitative empirical studies that explore the operation of DTAAs and internal tax governance mechanisms in mid-market FDI businesses. This study's originality is the empirical integration of Agency Theory and Institutional Theory, which combines longitudinal financial indicators (2019–2023) with qualitative field evidence of treaty compliance practices (Certificate of Domicile/COD).

In light of this, the present study tackles three fundamental research issues by first examining how corporate tax governance practices are implemented to manage tax obligations at PT PMCS. Building upon this governance framework, the study evaluates the impact of the Indonesia–Singapore DTAA and foreign ownership structures on PT PMCS's corporate tax choices. Finally, it analyzes how the company detects, mitigates, and records international tax risks arising from cross-border transactions.

At PT PMCS, this research seeks to evaluate the implementation of corporate tax governance, assess the effects of DTAA regulations and foreign ownership, and pinpoint tax risk mitigation strategies. In theory, this research enhances the literature on tax accounting by bridging Institutional and Agency Theories in FDI organizations in the middle market. The results practically direct management in creating risk-based tax Standard Operating Procedures (SOPs) and give tax authorities (Directorate General of Taxes) empirical insights for assessing tax treaty administration.

2. Literature Review

2.1 Agency Theory in Foreign-Owned Entities

The operational dynamics and contractual connection between principals (shareholders) and agents (management) are described in Agency Theory, as conceived by Jensen and Meckling (1976). Agency issues are frequently caused by information asymmetry and varying risk appetites between foreign owners and local managers in multinational and foreign investment businesses. Local management enjoys operational autonomy, which may not always correspond with the foreign

principal's long-term corporate goals or risk tolerance limits (Enre, 2023; Ghofiir et al., 2025).

Singaporean private shareholders at PT PMCS act as passive investors (sleeping partners), giving the local directors complete operational and strategic independence to determine tax policies and oversee daily budgetary responsibilities. According to empirical research, return-oriented goals often encourage tax planning effectiveness in foreign ownership structures (Latifah, 2022; Fuadi, 2024). On the other hand, corporate management is frequently forced to engage in proactive tax compliance by strict institutional oversight (Praditha et al., 2024; Triyanto & Tarmidi, 2024). When foreign shareholders have substantial interests, management ownership brings manager and owner interests into alignment, but its direct impact on corporate tax policy is diminished (Tarmidi et al., 2022). To prevent moral hazard, lower the chance of principal-agent disputes, and maintain its reputation, PT PMCS uses transparent financial reporting, internal monitoring, and structured tax governance (Ambarita, 2025; Mediaty, 2025).

2.2 Institutional Theory and Isomorphic Pressures

According to institutional theory, organizations modify and adapt their internal operational systems to acquire institutional legitimacy and ensure the long-term viability of their business within their surroundings (DiMaggio & Powell, 1983; Mufidah et al., 2025). In the context of cross-border tax management, corporate behavior is fundamentally shaped by three distinct institutional isomorphic pressures. First, coercive pressure manifests through strict regulatory mandates and statutory requirements enforced by tax authorities, including the Law on General Provisions and Tax Procedures, the Income Tax Law, the Value-Added Tax (VAT) Law, and technical integration with the Directorate General of Taxes (DGT) e-Faktur and Coretax systems, alongside statutory provisions in Double Taxation Avoidance Agreements (DTAA) (Rahmawati, 2023; Adinda et al., 2024; Liana, 2025; Rahman & Putri, 2025).

Furthermore, normative pressure arises from professional expectations and ethical standards embedded in ISO 9001 quality management control protocols, external tax advisory services, and financial accounting frameworks, which collectively promote accountability and procedural consistency (Mulya, 2023; Jejeniwa et al., 2024; Scott, 2025). Finally, under conditions of regulatory ambiguity, mimetic pressure drives organizations toward standardized industry benchmarking and peer imitation, particularly regarding verification procedures for the Certificate of Domicile and Tax Treaty documentation across peer multinational enterprises to minimize compliance uncertainty and potential tax-related risks (Muhtadi & Hernat, 2023; Pratiwi, 2025).

2.3 Tax Governance and Cross-Border Risk Mitigation

According to Tarmidi (2019), Amir et al. (2023), and Baharudin (2025), corporate tax governance functions as a crucial internal control system that incorporates tax compliance, risk management, and strategic decision-making to ensure accountability and strengthen organizational oversight. Beyond routine administrative filing, tax governance in cross-border business settings involves proactively identifying, assessing, and documenting international tax exposures to support informed managerial decisions and maintain regulatory compliance (Suwandi et al., 2024; Pratiwi, 2025). Cross-border transactions such as the importation of physical components and the remittance of service expenses from abroad naturally result in tax exposure under transfer pricing examinations and withholding tax regulations, particularly Article 26 Income Tax, which governs withholding obligations on specific income paid to non-residents (Saputra, 2021; Nurdiansyah & Masripah, 2023).

Good tax management mitigates these risks by establishing a strict separation of duties, codified internal SOPs, and rigorous treaty documentation protocols, including Certificate of Domicile compliance to support concessionary treaty rates (Rahma et al., 2022; Liana, 2025). Additionally, the integration of quality control measures, such as enterprise systems and ISO 9001 frameworks, ensures that fiscal reconciliations align precisely with commercial accounting records. Consequently, this operational synergy stabilizes the ETR and prevents costly tax disputes with fiscal authorities (Jejeniwa et al., 2024; Wulandari et al., 2025).

2.4 State of the Art and Research Gap

Earlier tax accounting literature has primarily examined quantitative data connecting Effective Tax Rate (ETR) or aggressive tax avoidance indicators to financial ratios, capital structure, leverage, and profitability (Dewi & Ardiyanto, 2020; Tarmidi et al., 2020; Amrie, 2021; Susilawati et al., 2022; Triyanto & Tarmidi, 2024). Other research streams have mostly concentrated on board-level governance mechanisms within major publicly traded companies. By moving beyond aggregated quantitative indicators, this research addresses a crucial gap in empirical literature (Ridwan et al., 2021; Tarmidi & Sabandi, 2024; Mufidah et al., 2025). Specifically, this study integrates qualitative field insights into international tax treaty management, agency dynamics, and risk control mechanisms within a middle-market foreign direct investment enterprise, alongside a longitudinal financial trend analysis spanning 2019 to 2023. By examining these operational dimensions, this qualitative case study aims to provide a comprehensive and contextual understanding of how middle-market FDI enterprises operationalize Double Taxation Avoidance Agreements while maintaining rigorous fiscal compliance. Through this dual methodological orientation, the paper bridges macro level governance theories with micro level operational realities in cross-border tax administration.

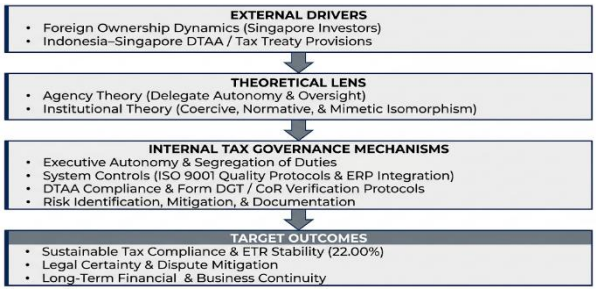


Figure 2. Conceptual Framework of Tax Governance and Risk Mitigation at PT PMCS

To organize internal corporate tax governance systems at PT PMCS (executive autonomy, enterprise systems, Form DGT protocols, and risk controls), the conceptual framework combines external drivers (foreign ownership dynamics and Indonesia–Singapore DTAA rules) with essential theoretical paradigms (Agency Theory and Institutional Theory). These organized operating pillars eventually generate target results in the form of tax compliance, ETR stability (22. 00%), legal certainty, and long-term business continuity, as shown in Figure 2 (Amir et al., 2023; Baharudin, 2025; Wulandari et al., 2025).

3. Methods

To study intricate, real-world international tax governance phenomena within their native organizational setting, this research adopts a qualitative single-case study design focused on PT PMCS (Creswell & Poth, 2018; Rahma et al., 2022; Mufidah et al., 2025). The single-case study method is particularly appropriate for

gaining contextualized insights into policy implementation, risk management systems, and organizational decision-making that cannot be fully captured by quantitative proxies. The unit of analysis encompasses the company's internal tax governance frameworks, corporate tax management processes, internal control systems, fiscal compliance procedures, and cross-border transaction practices under the Indonesia–Singapore DTAA (Saputra, 2021; Noor, 2025).

Data collection was executed using a multi-method qualitative approach following sequential research procedures. Primary data were gathered between June and July 2026 through semi-structured, in-depth interviews using a predeveloped interview guide, with sessions lasting between 45 and 90 minutes. Six key informants were selected through purposeful sampling based on their direct participation in corporate tax decision-making and cross-border administration, ensuring balanced representation across executive, operational, and external advisory levels (Creswell & Poth, 2018; Ridwan et al., 2021).

The informants comprised an external tax consultant (TR-01), tax supervisor/staff (TR-02), accounting supervisor (TR-03), HRGM manager (TR-04), finance and accounting manager (TR-05), and president director (TR-06). Their diverse roles enabled triangulation between strategic decision-making and operational implementation. Interview findings were complemented by document analysis and direct non-participant observation of tax filing procedures. Secondary data included fiscal reconciliation workpapers, Certificate of Domicile documentation, corporate income tax returns, internal tax SOPs, and financial statements covering 2019–2023. These sources supported the verification of interview findings and provided additional evidence regarding tax compliance, treaty implementation, and internal control practices

Selecting informants across these three organizational tiers enabled robust data triangulation, capturing both top-down strategic intent and ground-level operational execution. Primary interview data were complemented by direct non-participant field observations of tax filing procedures and meticulous document analysis. Secondary documents analyzed included fiscal reconciliation workpapers, Certificate of Domicile filings, Corporate Income Tax returns, internal tax SOPs, and longitudinal financial statements spanning 2019 to 2023 (Kahar et al., 2020; Hermawan et al., 2021; Hendra, 2023; Riptianto, 2023).

Qualitative data were systematically analyzed via thematic analysis utilizing NVivo 15 software, adhering to the six-phase framework established by Braun and Clarke (2006): data familiarization, initial code generation, searching for potential themes, reviewing and refining themes, defining and naming final themes, and producing the narrative report. Open, axial, and selective coding procedures were applied to construct logical connections among empirical nodes. To establish research trustworthiness, dependability, and rigor, multi-layered triangulation strategies were employed (Ridwan et al., 2021). This included source triangulation by cross-verifying interview accounts across informant tiers against physical financial records, and methodological triangulation by synthesizing interviews, observations, and archival records. Additionally, member checking was conducted to validate transcripts with key informants, while a transparent audit trail was maintained within NVivo 15 to eliminate individual bias and ensure analytical replicability.

Ethical considerations were strictly maintained throughout the research process. Prior to data collection, informed consent was obtained from all six informants, explicitly communicating the study's objectives, voluntary nature, and withdrawal rights without penalty. Participant privacy and confidentiality were preserved by anonymizing individual identities and corporate designations using alphanumeric codes (TR-01 through TR-06). All primary transcripts, audio recordings, and

internal document copies were securely stored in encrypted digital drives accessible exclusively to the research team.

4. Results

4.1. Corporate Tax Governance Practices and Internal Controls

The operational implementation of corporate tax governance at PT PMCS is established upon three foundational pillars: the governance structure, internal systems and controls, and managerial tax decision-making processes (Amir et al., 2023; Tarmidi, 2019). Within the governance structure, the company establishes a compliance-focused framework featuring clear operational delegation and a distinct separation of responsibilities to ensure accountability across all organizational levels (Baharudin, 2025; Mufidah et al., 2025). As a middle-market foreign direct investment enterprise, local management possesses complete executive and tax decision-making autonomy granted by foreign shareholders (Enre, 2023; Tarmidi et al., 2022). While the President Director holds ultimate fiduciary responsibility and acts as the final arbiter for strategic tax policies, the Finance and Accounting Manager oversees daily tax compliance, financial reconciliation, and reporting strategies (Lukman, 2025; Mediaty, 2025; Tarmidi et al., 2022). Furthermore, routine filings and daily tax execution are managed by the Tax Supervisor and Accounting Supervisor, whereas withholding taxes on employment costs are handled by the Human Resources and General Management (HRGM) Manager, with independent technical support provided by an external tax advisor (Hermawan et al., 2021; Amir et al., 2023; Ambarita, 2025).

To reduce compliance inconsistencies and ensure operational accountability, the company utilizes an enterprise resource planning (ERP) system integrated with ISO 9001 quality management standards (Jejeniwa et al., 2024; Scott, 2025). This digital architecture enables automated monitoring of sales, purchase orders, and inventory movements under a job-order and just-in-time structure, which successfully minimizes reconciliation disparities between commercial business accounts and VAT data (Mulya, 2023; Riptianto, 2023). System-based internal controls provide a reliable audit trail for fiscal reconciliation and corporate income tax reporting, thereby effectively mitigating tax compliance risks (Hermawan et al., 2021; Lukman, 2025). Furthermore, the integration of standardized accounting software ensures that all supporting transaction documents are systematically recorded and reviewed prior to monthly tax filings, fulfilling both normative and coercive institutional pressures (DiMaggio & Powell, 1983; Mulya, 2023; Scott, 2025).

Longitudinal financial analysis from 2019 to 2023 demonstrates that PT PMCS maintained a stable ETR and a healthy liquidity profile throughout the observation period (Berry et al., 2023; Mediaty, 2025). The company maintained a robust Current Ratio ranging between 155.40% and 190.20%, ensuring sufficient working capital to fulfill short-term tax obligations in a timely manner (Berry et al., 2023; Putri, 2024). Moreover, the Effective Tax Rate remained consistently aligned with the statutory corporate income tax rate of 22.00% to 23.00%, indicating that management prioritizes conservative, compliance-driven fiscal management supported by rigorous monthly reconciliations rather than aggressive tax avoidance strategies (Baharudin, 2025; Wulandari et al., 2025). The quantitative parameters, financial indicators, and compliance evaluations across this five-year observation period are detailed in Table 2

Table 2. Analysis of Tax Compliance Indicators and ETR Trends (2019–2023)

Year	Profit Before Tax (Billion IDR)	Current Tax Burden (Billion IDR)	ETR (%)	Description of Compliance Evaluation
2019	2.253	0.495	22.00	Applied statutory Corporate Income Tax (CIT) base rate (25%) adjusted with Article 31E facility reduction.
2020	7.714	1.697	22.00	Rate adjusted following statutory rate reduction under Law Number 2 of 2020 (22%).
2021	6.462	1.421	22.00	Consistent fiscal reconciliation & positive cost adjustments under Harmonization of Tax Regulations Law (*Undang-Undang Harmonisasi Peraturan Perpajakan*/HPP) Law.
2022	6.488	1.427	22.00	Full statutory compliance without major fiscal audit corrections.
2023	3.931	0.864	22.00	Stable at statutory rate, timely periodic tax return management.

4.2 Foreign Ownership, DTAA, and Tax Choices

Foreign ownership dynamics and international tax treaty provisions significantly shape the strategic tax choices and cross-border transactions of PT PMCS (Latifah, 2022; Adinda et al., 2024). The equity of PT PMCS is held by individual Singaporean investors who act strictly as passive partners without engaging in daily operational interventions or enforcing aggressive corporate tax targets (Enre, 2023; Widiastutik et al., 2025). This structural autonomy empowers local directors to tailor accounting and tax policies directly to Indonesian regulations while maintaining operational transparency through mandatory annual independent audits (Ghofiir et al., 2025; Wulandari et al., 2025). Within the framework of Agency Theory, this delegation of authority effectively mitigates classic agency conflicts and prevents short-term tax minimization pressures, encouraging management to adopt conservative, long-term fiscal governance (Jensen & Meckling, 1976; Ambarita, 2025).

In managing cross-border transactions such as component imports and technical service remittances, the company legally utilizes the provisions of the Indonesia–Singapore Double Taxation Avoidance Agreement to optimize tax liabilities while adhering strictly to statutory compliance (Kristiani, 2021; Liana, 2025). For instance, during dividend distributions to Singaporean shareholders, local management applies Article 10(2b) of the treaty by rigorously validating the tax residency and beneficial ownership status of the recipient (Syamsiah, 2025; Wahida, 2025). Through this administrative verification process which includes obtaining and verifying a valid Certificate of Residence via the tax authority portal the company lawfully applies a reduced preferential withholding tax rate of 10.00% instead of the domestic statutory rate of 20.00% (Muhtadi & Hernat, 2023; Wijaya, 2024). This mechanism demonstrates how foreign ownership structures incentivize legitimate tax treaty optimization without violating domestic tax laws or incurring administrative penalties (Purwitasari & Septiani, 2022; Fuadi, 2024).

Furthermore, the strategic application of international tax treaties at PT PMCS reflects the broader impact of institutional pressures on corporate decision-making (DiMaggio & Powell, 1983; Mufidah et al., 2025). By aligning internal documentation with DGT tax slip (*Elektronik bukti potong*/e-Bupot) reporting requirements and international treaty standards, PT PMCS responds to coercive institutional expectations while maintaining legal certainty in its cross-border operations (Baharudin, 2025; Scott, 2025). The continuous involvement of external tax advisors further reinforces normative isomorphism, ensuring that cross-border

tax decisions withstand regulatory scrutiny and minimize transfer pricing or tax treaty abuse risks (Adinda et al., 2024; Widiastutik et al., 2025). Consequently, the integration of foreign ownership oversight, tax treaty compliance, and robust risk management establishes a sustainable corporate tax governance model (Mufidah et al., 2025; Wulandari et al., 2025).

4.3 International Tax Risk Management Mechanisms

Cross-border operations inherently expose PT PMCS to international tax risks, which are managed through a structured, three-stage risk architecture encompassing identification, mitigation, and documentation (Juliana & Fitriono, 2024; Pratiwi, 2025). Within this framework, risk identification focuses on four primary operational vulnerabilities: treaty abuse and withholding tax exposures on foreign remittances, thin capitalization risks under debt-to-equity regulations, import and customs valuation discrepancies, and regulatory inquiries regarding fiscal reconciliation variances (Rahma et al., 2022). Furthermore, because over 90.00% of the company's inventory components are sourced through international procurement, exposure to foreign exchange fluctuations and transfer pricing scrutiny requires systematic identification mechanisms prior to transaction execution (Purwitasari & Septiani, 2022; Suwandi et al., 2024).

To mitigate these identified exposures, the company enforces proactive internal controls and strategic administrative procedures (Mufidah et al., 2025; Suwandi et al., 2024). These controls include pre-validating Certificate of Residence documents through official tax authority portals before applying preferential treaty rates, thereby securing compliance with Double Taxation Avoidance Agreements (Kristiani, 2021; Muhtadi & Hernat, 2023). Additionally, local management systematically restructures corporate retained earnings to maintain a safe Debt-to-Equity Ratio (DER) of 1.19 to 1.58, remaining well below statutory limits to eliminate thin capitalization adjustments (Saputra, 2021; Suwandi et al., 2024). The company also collaborates closely with independent external tax advisors to navigate complex cross-border contracts, respond to (*Surat Permintaan Penjelasan atas Data dan/atau Keterangan/*SP2DK) inquiries, and adjust to emerging tax administration systems such as Coretax (Rahma et al., 2022; Widiastutik et al., 2025).

Risk documentation is systematically operationalized through a hybrid filing system and job-order tracking architecture, where every cross-border purchase and remittance is directly linked to customer purchase orders, customs clearance declarations, and tax withholding slips (Andayani et al., 2021; Rahma et al., 2022). This comprehensive documentation chain provides complete audit trails that ensure all international expenses satisfy deductible expense criteria under Indonesian Income Tax Law (Agusti, 2025; Lukman, 2025). Furthermore, systematic archival practices guarantee compliance with the statutory ten-year document retention requirement, enabling PT PMCS to maintain strong legal positions during tax audits and maintain sustainable corporate tax governance (Andayani et al., 2021; Baharudin, 2025).

5. Discussion

The empirical findings of this study offer vital theoretical and practical insights regarding international tax governance when examined through the dual lenses of Agency Theory and Institutional Theory. From the perspective of Agency Theory, the findings are consistent with prior research by Enre (2023) and Ambarita (2025), confirming that corporate structures heavily dictate principal-agent dynamics. However, this study extends previous assumptions such as those by Desai and Dharmapala (2006, 2009), which frequently link foreign ownership directly to aggressive tax avoidance or profit shifting. In the case of PT PMCS, the passive

posture of Singaporean individual investors (sleeping partners) eliminates classical friction concerning short-term profit extraction versus fiscal compliance (Latifah, 2022; Tarmidi et al., 2022; Fuadi, 2024). Because foreign principals demand long-term investment security, local management adopts a conservative, low-risk tax posture. Furthermore, this study extends the application of Agency Theory by demonstrating that the engagement of an external tax advisor functions as a crucial surrogate monitoring mechanism. This advisory layer successfully bridges information asymmetry between local directors and passive foreign shareholders, ensuring rigorous compliance without triggering costly cross-border disputes (Triyanto & Tarmidi, 2024; Ghofiir et al., 2025).

When analyzed through Institutional Theory, the corporate tax governance of PT PMCS demonstrates strong alignment with the three institutional isomorphic pressures established by DiMaggio and Powell (1983), reinforcing the findings of Tarmidi (2019) and Mufidah et al. (2025). First, concerning coercive isomorphism, the findings are consistent with Riptianto (2023), showing that strict statutory mandates enforce compliance, evidenced by a perfectly stable ETR of 22.00% across the 2019–2023 period and seamless integration with the Directorate General of Taxes' e-Faktur and Coretax systems. This stability differs from broad quantitative studies (Dewi & Ardiyanto, 2020; Amrie, 2021; Susilawati et al., 2022; Tarmidi et al., 2020, 2022). Which frequently associate middle-market foreign firms with volatile tax metrics or aggressive tax shelters; instead, PT PMCS maintains a strict compliance-based fiscal strategy (Tarmidi & Sabandi, 2024). Second, normative isomorphism is consistent with Jejeniwa et al. (2024) and Scott (2025), reflected in the company's voluntary adherence to ISO 9001 quality management standards and reliance on professional accounting frameworks. Third, supporting Muhtadi and Hernat (2023) and Pratiwi (2025), mimetic isomorphism is evident in how the company benchmarks peer multinational enterprises by standardizing Certificate of Domicile verification procedures prior to claiming tax treaty relief.

Despite these robust compliance indicators, the qualitative evaluation reveals four primary governance deficits that extend current literature on operational tax vulnerabilities (Purwitasari & Septiani, 2022; Suwandi et al., 2024; Juliana & Fitriono, 2024). First, the absence of codified, standalone internal tax SOPs creates an over-reliance on informal operational memory. Second, heavy dependence on external tax consultants for routine decisions points to a distinct gap in internal capacity building. Third, the persistence of a hybrid paper-digital archiving system introduces long-term document retrieval vulnerabilities. Fourth, a reactive posture toward tax inquiry letters (SP2DK) from tax authorities highlights the absence of a proactive risk-mapping framework. Addressing these operational vulnerabilities is essential for PT PMCS to transition successfully from baseline compliance to a sustainable, self-reliant corporate tax governance architecture.

6. Conclusion

This study provides comprehensive empirical insights into corporate tax governance, foreign ownership dynamics, and cross-border risk mitigation within a middle-market foreign direct investment enterprise in Indonesia. The findings reveal that PT PMCS maintains a compliance-focused tax governance framework supported by executive board oversight, clear delegation of authority, and technical integration with ISO 9001 quality standards and enterprise systems, achieving a perfectly stable Effective Tax Rate of 22.00% from 2019 to 2023. Singaporean shareholders operate as passive investors, granting full operational autonomy, while the Indonesia–Singapore Tax Treaty is utilized lawfully for dividend distributions and offshore service fees backed by strict Certificate of Domicile pre-validation protocols. Despite a structured risk architecture involving debt optimization and treaty pre-validation, operational vulnerabilities persist, including the absence of

codified internal tax SOPs, heavy reliance on external consultants, hybrid paper archiving, and a reactive stance toward tax inquiry letters.

These findings bridge Agency Theory and Institutional Theory by demonstrating that passive foreign ownership combined with external advisory oversight successfully mitigates principal-agent friction and fulfills institutional isomorphic pressures. The study offers a roadmap for middle-market managers to build robust tax control systems and provides empirical feedback for the Directorate General of Taxes to enhance electronic treaty validation. Nevertheless, the conclusions are bound by certain limitations, notably its single-case study scope on a mid-market enterprise, exclusive focus on the Indonesia–Singapore tax treaty, and primary emphasis on direct taxes. Consequently, future research should employ multi-case comparative designs across diverse industry sectors, incorporate quantitative transfer pricing metrics, and explore alternative international tax treaty regimes.

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