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FISCAL AND TAX IMPLICATIONS OF AN INCREASE IN CROSS-BORDER LABOUR

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Abstract
Increased cross-border labour mobility is a global phenomenon that has a significant impact on fiscal and taxation policies, both in the country of origin and the country of destination. This study aims to analyse the fiscal and tax implications of this phenomenon using a literature review method of various related literature, regulations, and empirical data. The results show that remittances from migrant workers are an important source of foreign exchange that contributes to the economic growth and fiscal stability of the home country. However, there are challenges in optimising tax revenue due to differences in taxation systems, the risk of double taxation, and limited education and tax compliance of migrant workers. On the other hand, destination countries benefit from the tax contribution of foreign workers, but are also faced with issues of social protection and regulatory harmonisation. Therefore, an integrated policy is needed that includes harmonisation of international tax treaties, improvement of worker education and protection, and strengthening of monitoring systems to ensure optimal benefits and fiscal justice from cross-border labour mobility.
Keywords: Implications, Fiscal, Tax, Cross-border Labour.

Introduction

The phenomenon of cross-border labour mobility has become one of the main features of economic globalisation today. Technological developments, ease of transportation, and the integration of international labour markets have encouraged more and more individuals to seek employment opportunities abroad (Tørsløv et al., 2022) . Cross-border workers are individuals who undertake labour mobility across national borders, either officially or unofficially, to work abroad for a certain period of time for a wage, which can include Indonesian migrant workers abroad as well as foreign workers working in Indonesia, where this activity involves the movement of productive age population between countries through border routes and is often faced with various administrative, legal, and rights protection challenges (Aslan, 2019) .

Indonesia, as a country with a large population and high unemployment rate, has become one of the main suppliers of migrant labour to various countries in the world, such as Malaysia, Taiwan, Hong Kong, Singapore, and Saudi Arabia. The increase in cross-border labour not only has social and economic impacts, but also has significant implications for fiscal and taxation policies. One of the most obvious positive impacts is the contribution of remittances sent by migrant workers to the country. These remittances have become an important source of foreign exchange, even occupying the second position after the oil and gas sector in the structure of state revenue (Institute on Taxation and Economic Policy, 2023) .

However, behind these positive contributions, there are various challenges that must be faced. One of them is the protection of rights and legal certainty for migrant workers. Many Indonesian migrant workers face the risk of violence, discrimination, and human trafficking due to weak protection and supervision systems, both in countries of origin and destination. Data shows that thousands of Indonesian migrant workers experience cases of human rights violations every year, ranging from unilateral termination of employment to physical and psychological violence (Azemar & Desbordes, 2020) .

In addition, cross-border labour flows also bring consequences to national and international taxation systems. The determination of tax subjects, the imposition of double taxation, and issues related to permanent establishments (BUT) are challenges in managing the taxation of migrant workers. The state must be able to adjust tax regulations so that there is no overlap or legal vacuum that can harm workers and the state (Saputra & Ali, 2023) .

On the other hand, the presence of cross-border labour can also help reduce the unemployment rate in the country. For some Indonesians, working abroad is a solution to improve their standard of living and fulfil their family's economic needs. However, many choose the non-procedural or illegal route, potentially facing greater legal and social risks (Patunru & Uddarojat ., 2021)

According to official data, the number of Indonesian migrant workers who work abroad every year reaches hundreds of thousands of people, with the majority working in the informal sector such as domestic assistants, caregivers, and elderly nurses. This high proportion of workers in the informal sector complicates efforts to monitor and protect their rights, including in terms of taxation and social security. From a fiscal perspective, remittances sent by migrant workers have a positive impact on the national economy, especially in increasing purchasing power and family welfare in the area of origin. However, the state also faces challenges in optimising tax revenue from migrant workers who are scattered in various jurisdictions, especially if they are not officially registered or work without legal documents (Sitoresmi ., 2025)

The fiscal and tax implications of increased cross-border labour are also closely related to international agreements, such as Double Taxation Avoidance Agreements (DTAs). These agreements aim to prevent the imposition of double taxation on income earned by migrant workers, but their implementation often faces administrative obstacles and differences in interpretation between countries (Atika Sitoresmi, 2025) . In addition to fiscal and taxation aspects, cross-border labour mobility also raises social issues, such as social integration in destination countries, protection of women workers' rights, and the impact on families left behind in the homeland. The Indonesian government has endeavoured to strengthen bilateral and multilateral cooperation to improve the protection and welfare of migrant workers, but the challenges on the ground are still enormous (IOM Germany, 2023) .

In the context of borders, traditional cross-border routes such as Entikong in West Kalimantan are one of the main points of mobility for migrant workers, both legally and illegally. Every day, thousands of people cross this border, most of whom are Indonesian citizens seeking work in neighbouring countries. This condition calls for better cross-border governance, including in terms of tax administration and social protection (DPR RI, 2025) .

Research on the fiscal and tax implications of an increase in cross-border labour is highly relevant to provide a comprehensive picture of the challenges and opportunities facing Indonesia. Through the literature review, this research is expected to contribute to formulating policies that are more effective and equitable for all stakeholders.

Research Methods

The research method used in this study is the literature review method, namely by collecting, examining, and analysing various relevant literature sources such as scientific journals, books, international agency reports, tax regulations, and policy articles related to the fiscal and tax implications of the increase in cross-border labour (Machi & McEvoy, 2016) . The data reviewed is secondary and obtained from official and credible sources, then analysed descriptively-qualitatively to identify patterns, challenges, and opportunities arising from the phenomenon of cross-border labour mobility, especially in the context of formulating adaptive and equitable fiscal and taxation policies (Petticrew & Roberts, 2020) .

Results and Discussion

Fiscal Impact of Cross-Border Labour

The fiscal impact of increased cross-border labour has complex dynamics involving interactions between state revenues, public spending, and macroeconomic policies. Remittances are a major contributor, with Indonesia receiving USD 2.11 billion from migrant workers in 2019, ranking 17th globally as the highest remittance recipient. This flow of funds increases foreign exchange reserves and boosts household consumption, which indirectly increases value-added tax (VAT) receipts through increased public spending (Kleven, 2022) .

On the tax revenue side, cross-border labour creates the challenge of tax subject duality. Indonesian migrant workers are potentially taxable in the destination country as well as at home under the worldwide income system, while foreign workers in Indonesia receive special tax facilities for the first four years of employment. This policy aims to attract investment but risks reducing the tax base if it is not matched by effective knowledge transfer (Badan Pemeriksa Keuangan RI, 2022) .

The government regulates a Fiscal Overseas (FLN) of IDR 2.5 million per person for international flights, which serves as an instalment of income tax. However, legal migrant workers with a Kartu Tenaga Kerja Luar Negeri (KTKLN) are exempt from this obligation, creating incentives for the formalisation of migrant workers as well as potential revenue losses in the early stages of labour mobility (Beer et al., 2022) .

At the macro level, remittances contributed to the stabilisation of the balance of payments by closing 1.35% of Indonesia's current account deficit in 2019. They also buffer the economy during crises, as seen when remittances continued to flow during the COVID-19 pandemic despite falling 9.5%. However, reliance on remittances risks creating vulnerabilities in the event of a global recession (Devereux & Vella, 2021) .

Negative fiscal impacts arise from socio-political costs such as mass repatriation programmes during the crisis and the financing of pre-departure training. LPEM (2024) notes the need for language and technical skills training for 68% of prospective migrant workers, which falls on the budget of the Ministry of Manpower. These costs do not include monitoring and enforcement of illegal recruitment practices (Tierney, 2024) .

On the expenditure side, skilled labour mobility creates brain drain effects in strategic sectors such as health and education. Studies in Sumatra show that fiscal decentralisation and an increase in the workforce have a positive impact on economic growth, but the loss of skilled workers can reduce the effectiveness of regional development programs (International Monetary Fund, 2022) .

The tax incentive policy for specialised foreign workers in the Job Creation Law has the potential to increase foreign direct investment (FDI). However, research shows that this facility needs to be balanced with a structured knowledge transfer mechanism to ensure a multiplier effect on local labour productivity. Asymmetric fiscal impacts are seen between origin and destination countries. Destination countries such as Malaysia and Saudi Arabia benefit from income tax on migrant workers, while Indonesia bears the cost of training and worker protection. This imbalance has triggered a discourse on benefit redistribution through bilateral agreements (Pratiwi & Zein, 2020) .

The informal sector is a major fiscal challenge, with 65% of Indonesian migrant workers working in the unregistered sector. Informal workers are difficult to track for taxation and vulnerable to exploitation, reducing potential tax revenue while increasing the budget burden for social protection programmes. Human capital investment through certified training programmes is proven to increase fiscal contributions. LPEM study (2024) shows trained migrant workers have 40% higher income, which is directly proportional to increased remittances and tax paying capacity (Benzarti & Carloni, 2022).

Harmonisation of international tax regulations through P3B is the key to reducing double tax burden. Indonesia has ratified 68 bilateral tax treaties, but its implementation still faces administrative obstacles such as differences in interpretation of the concept of BUT (Permanent Establishment). The long-term impact lies in the transformation of the economic structure. Remittances invested in MSMEs and education are proven to increase the local tax base, while the return flow of experienced migrant workers can encourage entrepreneurship. However, fiscal policies that support the reinvestment of migrant funds into productive sectors are needed (Ministry of Finance RI, 2025) .

As such, the complexity of these fiscal impacts requires a holistic policy approach that integrates aspects of worker protection, cross-jurisdictional taxation efficiency, and utilisation of remittances for sustainable development.

Tax Issues in Cross-Border Labour

Taxation issues in cross-border labour are becoming increasingly complex with the increasing mobility of workers between countries and the development of remote work models. One of the main challenges is the management of taxes on the income of workers who work in other countries without having to physically move domicile, which raises the risk of double taxation and uncertainty of taxing jurisdictions (Budiman & Gumawang ., 2025)

Double Taxation Avoidance Agreements (DTAs) are an important instrument in addressing this issue. P3B is a bilateral agreement between two countries that aims to prevent the imposition of double taxation on the same income, so that cross-border workers and companies can avoid the detrimental burden of double taxation. With P3B, remote workers can work across countries without worrying about being taxed in both countries simultaneously, provided they fulfil the requirements set out in the agreement (Tørsløv et al., 2022) .

However, the application of P3B is not always easy due to the tie-breaker rules that govern which country is entitled to impose the main tax based on criteria such as permanent residence, centre of main interests, and habitual residence. If these criteria cannot determine tax status, then the Mutual Agreement Procedure (MAP) between the tax authorities of the countries concerned can be used to resolve the dispute (Institute on Taxation and Economic Policy, 2023) .

In addition, the issue of permanent establishment (PE) is an important concern. If cross-border workers perform activities that are considered to be management or control of the business in the country where they work, then this may give rise to tax liabilities for the company in that country. This permanent presence can cause the company to be subject to corporate income tax in the foreign country, so companies must be careful in regulating the role and authority of remote workers so as not to create PE (Azemar & Desbordes, 2020) .

The difference in status between contractors and employees is also a challenge in cross-border labour taxation. In some countries, contractors who perform substantially similar work to permanent employees may be considered employees by local tax authorities. This can lead to unexpected tax liabilities for companies, so it is important for companies to ensure the classification of employment relationships clearly and in accordance with the regulations in the country where the worker is located (Saputra & Ali, 2023) .

In the context of Indonesian workers abroad, the imposition of tax follows the principle of Foreign Tax Subject (SPLN). For example, an Indonesian worker who works more than 183 days in Malaysia and has been taxed in Malaysia is not required to report income tax in Indonesia. However, if the worker has income from other sources in Indonesia, such as property rental, then the income is still taxed according to the applicable provisions (Patunru & Uddarojat ., 2021)

This inadequate understanding of tax obligations is often an obstacle for migrant workers. Research shows that many Indonesian migrant workers do not understand the tax burden they have to bear in their country of employment, which impacts the amount of remittances sent to Indonesia and their tax compliance. Therefore, tax socialisation and education for cross-border workers is very important (Sitoresmi ., 2025)

Companies employing a cross-border workforce should also conduct an in-depth review of the tax regulations in the country where the workers are based. This includes understanding local tax laws, tax reporting requirements, and tax risks that may arise due to changes in policy or interpretation by local tax authorities. Compliance with these regulations not only saves companies from fines and penalties, but also safeguards business reputation at the international level (Atika Sitoresmi ., 2025)

In addition, there are differences in tax treatment for foreign employees working for contractors, consultants, or key suppliers on government projects financed by foreign grants or loans. In some cases, their income tax is covered by the government, but this provision must be carefully understood to avoid errors in withholding tax (IOM Germany, 2023) .

One of the tax challenges in cross-border labour is the uncertainty of tax jurisdiction, especially when employees reside in one country but work for an employer in another. This situation creates a grey area regarding tax obligations, which requires careful coordination between employers, employees and tax authorities to ensure compliance and reduce the risk of financial penalties (DPR RI, 2025) .

In this case, the role of tax consultants becomes very important to help companies and employees understand and manage cross-border tax obligations effectively. Tax consultants can provide appropriate tax management strategies, including the utilisation of P3B and permanent presence risk avoidance.

Thus, tax issues in cross-border labour involve various aspects such as avoidance of double taxation, permanent presence, classification of employment relationships, and compliance with local and international tax regulations. Addressing these issues requires in-depth understanding, cross-country coordination, and education for workers and employers so that cross-border labour mobility can provide optimal benefits without incurring adverse fiscal and legal risks.

Cross-border Labour Compliance Challenges and Solutions

Compliance challenges in the management of cross-border workforces are increasingly complex with the rise of globalisation, digitalisation, and remote working trends. One of the main challenges is legal uncertainty due to the absence of a specific regulatory framework governing cross-border labour relations, especially in the context of remote work. When employees work from a different jurisdiction to the employer's location, there is often confusion over which laws apply, whether in terms of employment, taxation, or social security (Budiman & Gumawang ., 2025)

The issue of tax compliance is one of the most complicated areas. Differences in income tax rules, withholding and reporting obligations across countries can create the risk of double taxation or even tax evasion. In addition, companies and employees often do not understand exactly which jurisdictions are entitled to tax income generated across countries, making them vulnerable to sanctions or penalties due to reporting discrepancies (Ministry of Finance of the Republic of Indonesia, 2025) .

The next challenge is in terms of social security. Each country has different social security contribution systems and rates. Uncertainty over which country is authorised to collect social security contributions can lead to workers losing coverage or even paying double. This has an impact on the health protection, pension and accident benefits that workers receive across borders (Qiang Bie et al., 2013) .

Compliance with labour classification is also a crucial issue. Misclassification between permanent employees and independent contractors can pose legal and financial risks for both companies and workers. These errors can lead to fines, lawsuits, and the obligation to pay outstanding taxes and benefits (Rini Astuti et al., 2023) .

In addition to legal and tax aspects, compliance challenges also arise in terms of human rights and labour protection. Migrants and cross-border workers often face the risk of exploitation, discrimination and rights violations, especially if they work in the informal sector or through unaccountable recruitment agencies. Lack of legal protection and destination country oversight increases their vulnerability. Lack of education and socialisation on legal rights and obligations, both for workers and employers, exacerbates compliance challenges. Many migrant workers do not understand their rights, reporting procedures, or grievance mechanisms in case of violations, so cases of violations often go unaddressed (Olubukola Omolara Adebiyi, 2023) .

Cross-jurisdictional administration and reporting also adds to the compliance burden. Each country has different reporting formats, deadlines and supporting documents. Companies operating across borders must have an integrated reporting system to avoid errors or delays that can lead to administrative sanctions (Anna S. Ivanova et al., 2022) .

Another challenge is the rapid and non-uniform regulatory changes in different countries. Companies must constantly monitor developments in labour, tax and social security laws in each jurisdiction in which they operate. Failure to keep up with these changes can lead to inadvertent non-compliance. Solutions to address cross-border compliance challenges include the use of technology and global support systems. Cloud-based HR and payroll platforms can help automate real-time reporting, tax withholding and payment of social security contributions across countries, thereby reducing the risk of manual errors and accelerating adaptation to regulatory changes (Nurul Hidayah & Ahmad Fauzi, 2025) .

Collaboration with local tax and legal consultants is essential to ensure proper interpretation of regulations and implementation of appropriate policies. Companies can also utilise Employer of Record (EOR) services to transfer much of the administrative and legal compliance responsibilities to a third party that understands the local context (Sebastian Beer et al., 2022) .

Governments also play an important role in strengthening protection and compliance, for example through the harmonisation of bilateral agreements, the drafting of migrant worker governance rules, and the strengthening of monitoring and law enforcement systems at the border (Yusuke Tashiro & Akira Takahashi, 2024) .

Finally, education and training for workers and employers must be improved on an ongoing basis. Providing information in multiple languages, legal literacy training, and easy access to grievance mechanisms will strengthen compliance and overall protection of cross-border labour rights.

Conclusion

The increase in cross-border labour has significant fiscal and tax implications for both countries of origin and destination. On the fiscal side, the presence of migrant workers contributes positively through remittances, which are an important source of foreign exchange and can boost national economic growth. However, on the other hand, an uneven understanding of tax obligations, both in the country of origin and destination country, can affect the amount of remittances received and the effectiveness of state revenue from the income tax sector of migrant workers. Therefore, optimising state revenue from this sector requires responsive policies, massive tax education, and strengthening supervision and social protection for cross-border workers.

In terms of taxation, the prevailing taxation system, both worldwide income and territorial, requires harmonisation of regulations and double taxation avoidance agreements to avoid double tax burden and economic distortions that can reduce the interest of foreign workers to work in Indonesia or vice versa. The government needs to balance efforts to increase tax revenue with the principles of fairness and protection of vulnerable groups, and ensure that tax policy is directed to support inclusive economic growth and long-term fiscal stability.

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