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Anti-money laundering law strengthened on the implementation of carbon tax in Indonesia

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Abstract

Purpose – This study aims to evaluate the efficacy of a comprehensive anti-money laundering framework in implementing the carbon tax in Indonesia.

Design/methodology/approach – This paper is a conceptual paper that uses a qualitative method. The primary sources are the regulations related to the carbon tax, followed by sets of rules for Indonesian anti-money laundering and green crime, among other things, environmental crime. Then, it continued to an analysis process until it concluded.

Findings – The money laundering scheme in the context of the carbon tax is challenging to trace and requires strengthening when integrated with other state revenue sources.

Research limitations/implications – Implementing a carbon tax is linked to money laundering risks, as it allows carbon buying and selling transactions on the carbon market. There could be a risk of state revenue leakage when implementing the carbon tax. Other than that, there are crime risks surrounding implementing the carbon tax. Therefore, other scholars can do research in the field of the compliance of the responsible parties when implementing a carbon tax.

Practical implications – Criminals are suspected of laundering money by purchasing carbon credits through brokers and reselling them, which obscures illicit sources and makes tracking difficult.

Originality/value – Indonesia should elaborate on anti-money laundering principles to ensure the secure implementation of the carbon tax in all areas and maintain financial system integrity.

Keywords Anti-money laundering strengthening, Beneficial ownership, Carbon tax

Paper type Conceptual paper

Introduction

Addressing climate change requires redefining sustainable development and threat mitigation strategies, as industrial pollution and uncontrolled deforestation contribute to pressing issues. It is crucial for environmental and economic sustainability, as failure to do so could damage natural resources. Fremstad and Paul (2019) highlight the interconnectedness of climate change and economic inequality, highlighting the potential harm to low-income individuals worldwide without significant action. Reducing greenhouse gas emissions and implementing low-carbon strategies are crucial for mitigating the effects of climate change at both national and worldwide levels (At and Indicators, 2023).

The OECD reports that governments are increasing the cost of carbon pricing via taxation or emissions trading schemes to reduce the emission of greenhouse gases, with coverage expanding across countries and sectors by 2021 (OECD, 2022). Human activities' greenhouse gas emissions are disrupting Earth's atmospheric system, causing temperature changes and climate disturbances (OECD, 2023). Countries face the challenge of reducing greenhouse gas emissions while stabilizing concentrations, preventing climate system disruptions and adapting to manage preventable climate change risks (OECD, 2023).

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Countries raising carbon prices through taxes and emissions trading schemes must adapt their emission reduction strategies, shifting from measurable human energy CO_2 emissions to precise air CO_2 changes (Schernikau and Smith, 2022). Combating climate change requires more than just policy; it requires precise implementation of carbon tax policies.

Indonesia plans to incorporate low-carbon, sustainable growth into its national development policy in 2017, as announced by the World Resources Institutes (World Resources Institute, 2022). The plan for 2020–2024 of Indonesia's national development plan emphasizes low-carbon development, featuring the Low Carbon Development Initiative launched by BAPPENAS 2017. The goal is to create a green economy.

Indonesia has been included as a country that has regulated carbon taxes, but its readiness to implement them faces extraordinary challenges. There have been several postponements to implementing the carbon tax, which was initially planned to be carried out in 2022 but was finally agreed to be postponed until 2025. There are two schemes for carbon tax implementation in Indonesia: cap-and-trade and cap-and-tax schemes. The uncertain global situation is the primary factor that has postponed the carbon tax implementation.

Carbon taxes offer cost certainty but not emission reduction magnitude. The Government sets emissions prices, while businesses and consumers avoid taxes by switching fuels and adopting new technologies (Center For Climate and Energy Solutions, 2025). Hu *et al.* (2020) highlight the carbon tax and the trade-offs between cap-and-trade, and the carbon tax outperforms the cap-and-trade regarding carbon leakage. Businesses and consumers plan to reduce emissions by switching to fuels or adopting technologies to avoid taxes.

Indonesia's Ministry of Finance warns of potential money laundering risks from implementing carbon taxes, which could overturn efforts to combat climate change. Carbon trading schemes aiming for net-zero emissions targets may be linked to money laundering due to the significant financial contributions of leading investors (Winanto and Kurniawan, 2022).

The topic of carbon tax and also money laundering are not new issues. Some literature mentions carbon tax in many studies. The Bitcoin industry's highest energy demand is slightly reduced due to carbon emission penalties under the carbon tax scenario (Jiang *et al.*, 2021). Ghazouani *et al.* (2020) assess the effects of carbon taxing policy on the environment, focusing on countries such as France, Japan and China that have implemented carbon tax reforms to reduce emissions. There are differences between carbon taxes and Emission Trading Schemes (ETSs), and Green said they differ in cost certainty, with the government setting the price without emission limits. ETSs provide quantity certainty with an upper limit, but costs may vary based on allowance scarcity and design features (Green, 2021). Money laundering discussions are conducted from various discourses as well. The function of anti-money laundering represents a significant aspect of global policymaking, impacting millions of businesses and involving billions of transactions daily. Addressing policy design issues independently and integrating policy science rigor should improve results (Pol, 2020). Money laundering is a tax crime that involves concealing or disguising the illicit origins of crime proceeds, which may also indicate corruption (Witbooi *et al.*, 2020).

This paper is a conceptual paper developed from the research on green crimes. It uses a qualitative method, starting from the regulations related to the carbon tax, the sets of regulations for Indonesian anti-money laundering, and green crimes (among other things, environmental crime) as the primary sources. It then continued to an analysis process until it concluded.

This paper examines the Indonesian Government's readiness to address the carbon tax and money laundering risk related to climate change and the Sustainable Development Goals. The regulations must also be adequate to tackle money laundering.

Result and discussion

Overview of carbon tax regulation and implementation in Indonesia

The Government of Indonesia is implementing a carbon tax through Law Number 7 / 2021 on Harmonization of Tax Regulation (HPP Law) to reduce carbon emissions in the energy sector. Article 13 of HPP Law defines carbon tax subjects as individuals or businesses that purchase and generate emissions containing carbon-containing goods. Carbon tax objects involve purchasing carbon-containing commodities or activities emitting specific CO_2 levels, with government-imposed higher rates equivalent to the carbon market price per kilogram of CO_2e. The carbon tax rate is set at a minimum of IDR 30 per kilogram of carbon dioxide equivalent (CO2e) if the carbon market price falls below IDR 30. The Government's potential carbon tax revenue from the energy sector is directly related to the number of CO_2 emissions and the lowest carbon tax rate under HPP Law. The carbon tax's potential revenue is projected from 2019 to 2025 using the exponential smoothing method, which forecasts averages. This carbon tax implementation is one of the Government's efforts to reduce carbon emissions in line with the implementation of carbon trading.

Bintang Adi Pratama *et al.* mention that Indonesia's Government is implementing a Carbon Tax, known as the Pigouvian Tax, to combat harmful environmental impacts from carbon emission production. The Law on Harmonization of Tax Regulations mandates a carbon tax on purchases of goods or activities that emit carbon. The carbon tax aims to shift society and industry towards green economy activities with low carbon emissions, aiming for net-zero emissions by 2050 (Pratama *et al.*, 2022).

Considering Article 13 (3) of Law Nr 7 / 2021, the flow of carbon tax implementation in Indonesia is as follows: In 2021, the carbon trading mechanism was established; From 2022 to 2024, a tax mechanism based on emission restrictions (cap-and-tax) will be implemented for the power generating sector, namely for coal-fired power plants. Then, carbon trading and taxation will be implemented in stages based on the preparedness of connected sectors, including economic conditions, actor readiness, impact and scale in 2025.

The carbon tax should be implemented on April 1, 2022, but the implementation must be postponed for some reason. The reasons include an unclear plan for the policy, determining a practical plan for businesses, and resource and capacity constraints. A low rate may not be practical, imposing economic burdens on specific sectors, especially MSMEs and fossil fuel-dependent industries. Limited resources and capacity may hinder the efficacy of the carbon tax application and the enforcement of associated regulations (Matheus *et al.*, 2023). Those explanations must be elaborated further to prepare for implementing the carbon tax from an anti-money laundering perspective.

A carbon tax is levied on purchasing carbon-containing goods or activities over a specific period, determined by the time of purchase. It includes carbon-containing goods purchased, the end of a calendar year activity generating unavoidable emissions or other times regulated by government regulations [vide Article 13 subparagraph (7)]. A carbon tax serves as a mechanism to address pollution by levying charges on fossil fuel consumption, aiming to rectify inefficiencies in the market. The primary market failure identified is the creation of negative externalities, including climate change and air pollution.

The carbon tax is due at the time of purchase of carbon-containing items, the conclusion of the calendar year period of an activity that produces a specific quantity of carbon emissions, or any other time regulated by or under government regulation. The carbon tax rate is greater or equal to the carbon price in the carbon market per kilogram or equivalent unit of CO_2.

"Economic Value of Carbon" (NEK) is a critical carbon tax component. The Indonesian Presidential Regulation Number 98 of 2021 defines The Economic Value of Carbon as the value of each unit of greenhouse gas emissions resulting from human and economic activities. NEK implementation involves carbon levies based on carbon content, emission potential, and climate change mitigation actions, including taxation, customs, and excise. The implementation of the NEK is carried out through carbon levies in the form of central and local taxation, customs and excise, and other state levies. Based on Article 35 subparagraph (1) Regulation of the Ministry of Environment and Forestry Nr 21 / 2022 concerning the implementation procedure of Economic Value of Carbon, among other things, Article 58 subparagraph (1) of Presidential Regulation 98 / 2021 explained the levy in carbon in the field of taxation based on:

- carbon content;
- carbon emission potential;
- the amount of carbon emissions; and/or
- climate change mitigation actions' performance.

Carbon trading has legal consequences for Indonesia due to its commitment to participate in the effects of greenhouse emissions through its NDC. Therefore, various legal frameworks have been enacted in various forms. As Indonesia already has law Number 7/2021 on the Tax Regulation Harmonization, there are several sets of rules and implementing regulations, among others: The Government Regulation Nr. 98 / 2021 concerning the Economic Value of Carbon Implementation to achieve the NDC target and Greenhouse gas emission recovery in National Development. Law Nr. 4 / 2023 concerns the development and strengthening of the financial sectors. In this regulation, there is a mandate to establish a Carbon Exchange. There is a Regulation of Financial Services Authority Nr. 14 / 2023 on Carbon Trading through Carbon Exchange. This regulation mandated that carbon trading be conducted through carbon exchanges. The trading organizer is required first to obtain a business license from the Financial Service Authority. Article 3 (1) mentioned that the Carbon Unit is stock. Article 1 number 3 mentioned that the Carbon Unit is evidence of carbon ownership, represented by a certificate or technical approval equivalent to one of the recorded carbon dioxide in the SRN-PPI (National Registry System- Climate Change Control). Carbon units transacted on the carbon exchange must be registered with SRN PPI and the carbon exchange organizer (vide Article 3 sub 2). The regulation also mentioned the GHG emission reduction certificate (via Article 1 number 4).

Threat and crime of carbon tax

In its explanation, Interpol identifies the areas within emerging carbon markets that are potentially or have proven to be vulnerable to criminal activity. In broad terms, the illegal activities identified include:

- Fraudulent manipulation of measurements to claim more carbon credits from a project than were obtained;
- Sale of carbon credits that either do not exist or belong to someone else;
- False or misleading claims concerning the environmental or financial benefits of carbon market investment;
- Exploitation of weak regulations in the carbon market to commit financial crimes such as money laundering, securities fraud or tax fraud; and

- Computer hacking/phishing to steal carbon credits and theft of personal information. (Interpol, 2013)

The mode of crime that can be committed is to create carbon credits from one country and sell them to other corporations in other countries. The exchange can be made repeatedly until it finally reaches the corporation that buys it. The more countries or hands involved, the more difficult it is to trace the origin of the Carbon Credits to the final buyer. In direct proportion to the complexity of the crime mode, it is easier for perpetrators to take advantage of the many legal loopholes each country passes in implementing this Carbon Trading Tax.

The European Union (EU) has actively implemented cap-and-trade schemes, utilizing emissions trading to combat climate change since 2005 (Reuters, 2012). National and regional carbon markets are developing or expanding, allowing the private sector to trade carbon credits for cost-effective emissions reduction. However, complex trading poses challenges for all companies. Firms may become either offenders or victims of money laundering in the carbon tax (Winanto and Kurniawan, 2022). The World Bank reported that in April 2022, several countries, including Indonesia, implemented the ETS, with all but Indonesia implementing ETS instruments to increase prices (World Bank, 2023).

Furthermore, businesses should prioritize reduced carbon emissions by adhering to rules and regulations, which may require higher costs and additional expenses, potentially impacting profitability (Yamen and Mersni, 2024). A carbon credit is often viewed as a legal fiction, unlike typical commodities that require physical delivery during the market exchange. Like other financial markets, carbon trading is susceptible to fraud and criminal activities due to high investment amounts, outdated legislation and inadequate transparency and monitoring.

Aditwarman explains that carbon trading is fundamentally supported by international agreements that nations have ratified to reduce greenhouse gas emissions. It is different from regular stock trading. Carbon trading is carried out with a focus on the achievements targeted by the Nationally Determined Contributions (NDC) of each country. The process commences with establishing greenhouse gas emission limits linked to the NDC and specific economic sectors. It also relates to carbon rights, and permits for greenhouse gas emissions are obligations that require all entities to surrender carbon rights proportional to their emission levels (Aditwarman, 2024). The explanation above implies that the Government shall ensure the mechanism of carbon rights purchase, permits and the regulation of the carbon exchange.

Illegal activities include fraudulent claims of carbon credits, selling uncollected credits, making false claims about environmental benefits, exploiting tax rules in the carbon market and using computer hacking to steal personal information can be performed in the activities related to carbon tax.

Carbon markets involve the direct exchange of carbon credits and the trading of derivatives and financial instruments. The expansion of carbon markets is increasing the complexity of tradable financial instruments. The financial crisis underscored the necessity for enhancing technical and enforcement capabilities among financial regulators to manage complex financial instruments effectively. The carbon market faces potential harm if regulators fail to manage complex financial instruments effectively, particularly for companies.

Financial regulators should be wary of “white collar” criminals entering the carbon market and economic crimes like securities fraud, tax evasion and money laundering. Carbon markets are complex and susceptible to manipulation due to poor legal control and a lack of assets supporting traded carbon credits. The rapid expansion of investment in carbon markets, coupled with immature regulation and control, makes them vulnerable to exploitation. Interpol enhances the carbon market by facilitating the direct trade of carbon credits, derivatives and other financial instruments. The rapid growth of the carbon market has heightened trading instrument complexity, exacerbated by the global financial crisis, highlighting regulatory challenges (Interpol, 2013) The complexity of financial products, exacerbated by derivatives traders' involvement in carbon markets, makes compliance assessments difficult and complex. The financial crisis highlighted regulators' inability to effectively regulate sophisticated financial derivatives, posing a risk to carbon markets if not adequately regulated (Interpol, 2013).

Carbon credits, produced in one country, marketed to companies in another, and exchanged through multiple markets, pose challenges in traceability and criminal exploitation due to legal gaps or contradictory restrictions. Law enforcement and regulators often lack the power to enforce international carbon markets due to limited jurisdiction and lack of a proper global response. Carbon markets frequently expand into countries with weak regulatory systems, causing concern as contradictions in licensing criteria or regulations can lead to enterprises shifting to less legal or regulatory jurisdictions (Thomson, 2010).

Carbon markets are susceptible to criminal exploitation, money laundering and tax fraud due to interconnected national and regional markets unless strict rules are implemented across all jurisdictions. Regulators must address potential loopholes in transferring extensive carbon credits across multiple carbon markets with their unique legal regimes (Europol, 2009).

The Financial Services Authority of the Republic of Indonesia has also issued Regulation Nr. 17 / 2023 concerning the implementation of Corporate Governance for Commercial Bank. In particular, this regulation is mandating sustainable finance. It includes the preparation of a sustainable finance action plan, implementing practices of business and strategy of investment due to environmental, social and governance values, as well as the implementation of good governance at the Bank in managing climate-related risks for the bank in managing climate-related risks (OJK, 2024). In addition, the Government of Indonesia, through the Financial Services Authority, has developed guidelines on Climate Risk Management and Scenario Analysis (CMRS) specifically for developing the sustainable finance sector in Indonesia. CRMS is a comprehensive framework that encompasses governance, strategy, risk management and disclosure to evaluate the resilience of banks' business models and strategies regarding climate change in the short, medium and long-term periods.

Criminals may purchase carbon credits to enter unlawful earnings into the financial system, concealing the source and making it harder to trace the cash. The process involves purchasing carbon credits from a broker, reselling them, and using additional trades to layer transactions before transferring the revenue to a banking institution. Most governments have implemented a set of regulation measures to prevent money laundering. The Law mandates financial institutions to detect suspicious or anomalous activities that may indicate criminal or laundered money. Then, it must report such transactions to countries' financial intelligence units (FIUs). The laws regarding carbon trading are currently still being determined. Many countries are still determining the legal status of carbon credits because their carbon markets are in their development stages.

Implementing the carbon tax may risk potential state revenue leakage instead of saving the state revenue if the Government is unwilling to implement it well. There is a threat of corruption in carbon tax that potentially occurs at all stages of implementing the policy of carbon tax implementation. It needs to exercise whether Tax in this carbon tax is fully understood as an obligation or just as sanctions. If the case happens that the polluter trader did not meet the requirement of reducing emissions, and they have to pay Tax, it could be dangerous. From this perspective, it is an obligation to reduce carbon emissions. Likewise, the nature of polluters is to avoid sanctions. They will do anything for not paying sanctions while they know that they ignore the obligations to reduce carbon emissions.

Robust anti-money laundering law to strengthen carbon tax implementation

The mechanism of carbon trading in Indonesia will be conducted through carbon exchanges. The Regulation of Financial Services Authority Nr. 14 / 2023 mandates carbon trading laws, which require capital market traders to organize carbon trading through carbon exchanges, requiring a business license from the Financial Services Authority. The regulatory framework covers license application, governance, requirements and supervision.

In the context of Carbon Tax, a money laundering issue is followed. Money laundering involves the improper use of financial institutions and other institutions for financial gain, involving various professions that can aid in this crime. However, professionals should be encouraged to take preventive measures by adhering to the report's guidelines. Money laundering can occur without the involvement of formal financial institutions. However, banks, capital markets, institutions, insurance, foreign exchange offices and notaries consistently facilitate the clearing illegal funds domestically and internationally (Gjoni *et al.*, 2015).

Under the regime of Anti-Money Laundering, Law Nr. 8 of 2010 (AML law) plays an essential role in reporting parties' compliance. As it is understood, money laundering involves concealing or dangling the identity of illegally obtained funds to appear legitimate, using entities to disguise their natural owners and integrating them into legal business and the economy. Under the AML Law, the reporting parties consist of Financial Institutions, Services Users Institutions and other professionals (vide Article 17). The reporting parties must comply with the Law and implement the principle of acknowledging service users (vide Article 18). The elucidation of Article 18 says that the principle of recognizing service users is called Customer Due Diligence (CDD) and Enhance Due Diligence (EDD), as mentioned in the Financial Action Tasks Force (FATF) Recommendation #5. Under the Anti-Money Laundering regime, CDD/EDD is a must and will be valued as a compliance. The anti-money laundering law in Indonesia requires prioritization of CDD/EDD obligations following the FATF recommendation and its interpretative note. CDD provisions involve identifying, verifying, and monitoring service users' transactions.

Further, it needs to be understood that FATF regulates CDD/EDD, ensuring business conduct and service user identification and verification through reputable, independent sources of documents, data and information. Financial institutions must verify beneficial owners, understand service user roles and understand the goal and nature of proposed business partnerships. They must conduct due diligence and supervise transactions to ensure consistent execution based on understanding the service user, business, risk profile and funding sources.

The provision regarding CDD is crucial, as money laundering is primarily based on its transactions, including financial transactions. CDD should be performed using a precautionary procedure detailed in the East London Waste Authority's Anti-Money Laundering Policy 2022 / 23 and the Indonesian anti-money laundering law, as outlined in various Head of Indonesian FIUs regulations. The principle of polluters' pay exists from the environmental perspective. It is also called the "pay as you throw" principle. It is an instrument of economics that implements "polluter pays' by billing the natural waste generated by the population. The principle has three essential pillars:

(1) waste generator identification;

(2) the amount of waste generated must be calculated; and

(3) unit price is charged to each individual for services requested or provided (Ukkonen and Sahimaa, 2021).

The social cost of carbon must be understood, and policies regarding climate change must be implemented. It is a concept aimed at the economic effect of each additional ton of carbon or its equivalent (Nordhaus, 2014). From the explanation above, CDD/EDD must comprehensively understand how to implement climate change and the environment. The parties involved in carbon trading and Tax must fully consider implementing CDD/EDD.

The Government may implement a carbon tax policy to impose financial costs on carbon emissions from particular economic activities. The carbon tax policy should focus on mitigating environmental risks and fostering a low-carbon economy, which aligns with the sustainable development goals. The carbon tax policy faces challenges in value and transparency, as its value depends on the business entity's emissions level. Reporting parties must identify affected parties in the carbon trade and conduct scrutiny, auditing and reporting to identify money laundering activities. The reporting parties' compliances will enhance the anti-money laundering regime to prevent and eradicate carbon tax by integrating the financial system and minimizing money laundering risks.

A carbon tax will be related to the implementation of anti-money laundering for the Beneficial Ownership of a corporation. The Indonesian Presidential Regulation Number 13 of 2018, known as the Regulation on Beneficial Ownership, serves as the legal basis for understanding Beneficial Ownership in Indonesia. In line with international standards for preventing money laundering and terrorist financing, the Government of Indonesia established A mechanism to acknowledge the natural benefit of a company's owner. Accurate, current, and public information about benefit owners is crucial as money launderers can use corporations as instruments for crime proceeds. German Environment Agency, in this matter, shows that compliance issues also arise because of the concealment of the actual beneficial Ownership (Agency, 2023). In this context, the mechanism of enhancing due diligence must be rigorous and precise, as well as transaction monitoring. As informed above, the mechanism of CDD/EDD must consider the principle of polluters' pay principle and the implementation of sustainable finance as requested by the Financial Services Authority.

Beneficial Ownership is more pertinent to money laundering schemes. Stuart Yeh mentions that regulating beneficial Ownership to prevent illicit fund laundering has legal consequences for noncompliance with required reports and individuals posing as beneficial owners failing to provide accurate information. Transparency is crucial for Beneficial Ownership (Zigo and Vincent, 2021).

Article 1 number 2 of the Regulation on Beneficial Ownership defines a beneficial owner as a natural person with the authority to appoint or dismiss the Board of Directors, Board of Commissioners, Management, Trustees, or Supervisors, control the corporation, receive benefits and meet the criteria outlined in the regulation. Indonesia's Corporations can be limited liability companies, foundations, associations, cooperatives, CVs, firm partnerships and other forms. Each corporation must establish a Beneficial Owner, at least one person, according to each form's criteria, as per Article 3. The criteria for beneficial Ownership depend on the form of the corporation itself. Those forms of Corporations under Indonesian Law are Limited Liability Companies, Foundation, Association, Cooperatives, Communion Commanders (CV), Firm Partnership and other corporations. This regulation on Beneficial Ownership will be important in providing a framework for the corporation that will be the player in the practice of carbon tax.

Indonesian Law mandates reporting parties to comply with CDD/EDD obligations and exercise diligence in carbon tax activity to understand beneficial owners from recognized corporation models. Business actors often conceal the Beneficial Owner in corporations, creating a complex ownership structure. The corporation's layering structure makes it challenging for the public to discern the valid owner of the corporation. The capital owner authorizes a trusted individual to represent themselves in the corporation's organizational structure and as a registered party as the capital owner and capital owner (Syakur, 2022). Corporations must optimize money laundering schemes to ensure carbon tax implementation and minimize risks of climate change exploitation through criminal activity, thereby promoting financial system integrity.

Some countries have implemented carbon taxes, and some of them have integrated them with the aspect of anti-money laundering. Eykel Bryken Barus and Suparna Wijaya share Sweden's and Finland's experiences regulating and implementing a carbon tax. The carbon tax implemented in Finland has successfully reduced emissions and has not harmed the country's economy. Finland also makes many other policies that incentivize society. Finland's economic growth is maintained by reducing income tax rates, covered by carbon tax revenues, rather than making them eligible for emissions reduction, as government revenues are reduced. Finland also taxes fossil fuels, both for transportation and heating purposes. The Swedish Government imposes a carbon tax on fossil fuels for transportation and heating. Fossil fuels comprise gasoline, coal and diesel oil. The Swedish Government subjected strategic sectors, including industry agriculture, forestry and mining, to the EU ETS instead of a carbon tax. The EU ETS tariff is low enough not to affect these strategic sectors or harm the country's economy. Finland and Sweden do not treat carbon tax as an incentive (Barus and Wijaya, 2022).

The Government of Singapore introduced its carbon tax law through the Carbon Pricing Act and Regulations on January 1, 2019. The Government is implementing a carbon tax mechanism by supporting a robust measurement, reporting and verification (MRV) framework. The Carbon Pricing Regulations 2018 has specified the details of MRV requirements. This regulation has set detailed measurements related to emission reporting, monitoring plans for business activities, monitoring plans for tax facilities, revision of plans, assessment by external parties and assessment related to pre-verification and verification of the emission report. Furthermore, Singapore aims to achieve net-zero emissions by 2050 but faces challenges in alternative energy diversification. Singapore launched the Green Plan in February 2021, focusing on sustainability and reducing carbon emissions. In October 2023, it explored nuclear energy adoption (U.S. Department of State, 2024).

The explanation of carbon tax regulation and implementation from other countries can be a reference to establishing appropriate systems and mechanisms to protect against the impacts of climate change and the prevention of money laundering. Money laundering can happen at every stage of the carbon tax mechanism. It needs to integrate the value of money laundering prevention and environmental aspect protection, in this case through implementing the collaborative CDD/EDD, risk awareness of the subject of a carbon tax, transaction monitoring, conducting VAT ID verification, ensuring account assignment in the registry matches and determining business purpose. A robust anti-money laundering regime will significantly support carbon tax implementation.

Recommendation and conclusion

Implementing a carbon tax is aimed at the noble goal of reducing carbon emissions. However, without realizing it, in practice, there is still a risk of crime that follows, and in this case, money laundering. The carbon tax that Indonesia intends to implement follows the cap and tax mechanism, with the implementation of carbon trading through a carbon exchange. The vulnerability that can occur is that the obligation to implement low-carbon trading is interpreted not only as an obligation but solely as a sanction. The other vulnerability is related to the risks of being used by malicious emitters and subject to tax try to avoid the payment of expensive carbon taxes. A carbon tax can be a weapon if there is no appropriate mechanism for elaborating CDD/EDD well enough to fulfill the mechanism of being an emitter under the regulation that regulates that thing. The carbon tax could be a risk of state revenue leakage when implementing a carbon tax.

Thus, the Government of Indonesia should integrate and elaborate a robust law. It is not solely built from a carbon tax perspective to prevent money laundering but also to raise awareness that paying a carbon tax is not a sanction but an obligation to reduce carbon emissions that can affect human beings due to climate change.

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