Evaluation of Arm's Lenght Principle and Transfer Pricing Method on the Application of Income Tax Payable (Case Study of PT. ABC)

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ABSTRACT

Transfer pricing is a sensitive issue in the business world and the global economy, expecially taxation. Transfer pricing activities carried out by multinational companies affect the level of state tax revenues, either directly or indirectly. The purpose of the research conducted by the author is to determine the suitability of the transfer price method to the calculation of Income Tax Payable related to transfer pricing transaction. The research was conducted in one of companies engaged in information technology services & consultants in Indonesia. From the results of study, it can be concluded that in terms of the use of the transfer price method, in accordance with the arm's length principle. However, in relation to the application of the transfer price method, it does not meet the general application practices according to the OECD Guidelines, which causes the calculation of Income Tax Payable by Corporate Taxpayers to be inconsistent with regard to transfer pricing transactions.

Keywords: Arm's Length Principle, Transfer Pricing Method, Income Tax Payable

I. INTRODUCTION

Multinational companies invest by establishing subsidiaries, branches of companies, franchises, and agents with the aim of developing business as well as investing and transacting on an international scale. As a profit-oriented organization, the company will try to produce goods and services to be sold to consumers at a certain price so that the company gets a profit. *Organisation for Economic Co-operation and Development* defines transfer pricing as the price determined in transactions between group members in a multinational company where the specified transfer price can deviate from the fair price as long as it is suitable for the group. International standards used to regulate transfer pricing can be misused to produce results where profit allocation is not aligned with economic activity to generate profits (*Organization for Economic Co-operation and Development*, 2015). Transfer pricing activities carried out by multinational companies affect the level of state tax revenues, either directly or indirectly.

In Indonesia, the rules regarding transfer pricing are generally regulated in Article 18 of Law Number 7 of 1983 as amended several times, most recently by Law Number 36 of 2008 concerning Income Tax, hereinafter referred to as the Income Tax Law which states that the Directorate General of Taxes is authorized to determine return of the amount of Taxable Income Tax for taxpayers who have a special relationship with other taxpayers in accordance with the reasonableness and practice of business affected by the special relationship.

The special relationship in multinational companies that are members of a group is often connoted as something that is not good and means 'pejorative', namely the transfer of taxable income from a company in a multinational group of companies to another company in the same group of companies in a country that has a low tax rate (Darussalam, Danny Septriadi, dan B. Bawono Kristiaji, 2013). Multinational companies carry out various ways such as manipulating the pricing of goods or services against the profits obtained, exploiting the loopholes contained in existing regulations, and cooperating with human resources in taxation to ignore tax ethics and consider it not a violation of the law (R.R Dewi & Mustikasari, 2020).

The problem of transfer pricing manipulation indirectly has an impact on the destruction of taxes and profit regulation, namely the evaporation of 4% - 10% of global corporate income tax, this is detrimental for developing countries that rely on tax management reaching 20% - 30%, even in Indonesia itself the largest revenue from taxes up to 80%. This means that the transfer pricing manipulation problem is not limited to the determination of the taxation mechanism and system, but also the need to grow tax behavior and tax accounting behavior that grows from the awareness of taxpayers.

The company's policy is to prove that every transaction made by the company has implemented the arm's length principle, namely making Transfer Pricing Documents. The rules regarding transfer pricing are regulated in the Minister of Finance Regulation Number 213/PMK/03/2016 concerning Types of Documents and/or Additional Information Required to Be Retained by Taxpayers Conducting Transactions with Related Parties, and Management Procedures. Therefore, the transfer pricing policy should not necessarily be connoted to be an unfavorable meaning but must be viewed from a more comprehensive context to determine whether the price in the transfer pricing transaction used reflects the fair market price.

Based on the things that have been stated above, the authors are interested in conducting research on the evaluation of price fairness and transfer pricing methods on the application of Income Tax payable by PT. ABC, which will be written in a practical work report with the title: "Evaluation of Arm’s Length Principle and Transfer Pricing Method on the Application of Income Tax Payable (Case Study of PT. ABC)".

PT. ABC is a global technology services company. PT. ABC provides various services for managing applications and related infrastructure, cloud adoption and information technology services for business activities. In carrying out its activities, PT. ABC conducts transactions both with affiliated companies and with independent companies so that in this case PT. ABC is considered to have a special relationship transaction.

II. REVIEW OF LITERATURE

This study develops from previous research conducted by Medianti Jipi Saraswati which was published in a scientific journal with the title "Evaluation of Arm’s Length Principle and Suitability of Transfer Pricing Methods with the Director General of Taxes Number PER-32/PJ/2011 (Case Study at PT. Mertex Indonesia)" with the results obtained are that the transfer price method chosen is in accordance with the Director General of Taxes Number PER-32/PJ/2011. In addition, other scientific journals that are used as references are research by Antoniusta Bangun on "Analysis of the Implementation of the Advance Pricing Agreement Approach on Transfer Pricing Transactions". This study concludes that there is an implementation of the Advance Pricing Agreement in determining the fairness of Transfer Pricing transactions and calculating the income tax payable. The development of this research by adding a discussion on the evaluation of transfer prices to the calculation of income tax payable related to transfer pricing transactions and the object of research.

III. FRAMEWORK THEORY

1. Income Tax

Based on Article 1 of the Income Tax Law that "Income Tax is imposed on tax subjects on income received or earned in the tax year". The tax subject will be subject to tax if he receives or earns income in accordance with the provisions of the tax laws and regulations. Income Tax is imposed on the tax subject with respect to the income received or earned in the tax year. The object of tax is income, namely any additional economic capability received or obtained by the Taxpayer, both from Indonesia and from outside Indonesia, which can be used for consumption or to increase the wealth of the Taxpayer concerned in any name and in any form.

2. Special Relationship

According to the Income Tax Law in accordance with Article 18 paragraph (4), the special relationship as referred to in Article 10 paragraph (1) is considered to exist if:

a. Taxpayers have direct or indirect equity participation of at least 25% (twenty five percent) in other Taxpayers.
b. Taxpayers control other taxpayers who are under the same control either directly or indirectly. A special relationship between taxpayers can also occur due to mastery through management or the use of technology even though there is no ownership relationship.
c. There is a family relationship either by blood or by marriage in a straight line and/or side by side one equal.

Determination of the special relationship and fairness of affiliated transactions for Taxpayers who run businesses in the fields of oil and gas mining, general mining and other mining as regulated in Article 33A paragraph (4) of the Income Tax Law is based on the provisions of a production sharing contract, contract of work, or cooperation agreement. mining concessions that are still valid until the expiration of the said contract or cooperation agreement. If the provisions of the contract do not stipulate this matter, the determination of the special relationship and fairness of the affiliation transaction of the Taxpayer is determined based on Article 18 paragraph (4) and Article 18 paragraph (3) of the Income Tax Law.

3. *Transfer Pricing*

According to the OECD, transfer pricing is the price determined in transactions between group members in a multinational company where the transfer price determined can deviate from the fair market price if it is suitable for the group. Transfer pricing in the perspective of taxation is a price policy in transactions carried out by parties that have special relationships.

4. Arm’s Length Principle

Arm’s Length Principle is the principle that regulates that the conditions in transactions between parties that have a special relationship or are comparable to the conditions of transactions between parties who do not have a special relationship with the comparator. The Arm's Length Principle is determined by market forces, so that the transaction reflects a fair market value (FMV). The transaction value between taxpayers who have a special relationship is considered reasonable if:

a. The price and profit value are the same as the price and return on independent transactions (for similar conditions and transactions).
b. Prices and profit values are different because there are different conditions and transactions that are not the same.

5. Transfer Pricing Method

Both the OECD and the United States recognize five methods that can be used in transfer pricing analysis. In accordance with PER-32/PJ/2011, there are five methods of Determination of Transfer Pricing that are permitted, including:

a. Price Comparison Method between unrelated parties (Comparable Uncontrolled Price).
b. Resale Price Method
c. Cost Plus Method
d. Profit Split Method
e. Transactional Net Margin Method

IV. METHOD

This research approach is descriptive evaluation (Hardani, Helmina, Andriani., (et.al), 2020). This company is a company that exists in Central Jakarta, but for the purpose of confidentiality of company data, the identity of the company's name is disguised, and the company's address is not fully stated according to the agreement agreed between the company and the author during the research. The research was conducted for 3 months starting from November 1, 2020, to February 28, 2021.

The data collection technique obtained by the author carried out a series of studies through 1) participant observation: In this case, the author was directly involved as an employee of the Tax Consultant Office which handles taxation, especially in terms of transfer pricing. Thus, the authors can find out firsthand how the transfer pricing practices carried out by the company in an effort to calculate the tax payable; 2) Interview: the writer obtains data by asking questions to key management who have comprehensive knowledge related to the company's business activities; 3) Library research: In this research, a literature study is conducted by studying a number of books (literature), journals, papers, and so on to obtain a framework and research objectives. In addition, domestic and international tax provisions are studied to understand the context of the research problem in depth. Secondary data is also used, obtained from the tax office, tax consultant office, and other agencies to strengthen research data in effort to obtain a comprehensive picture of the social phenomena studied.

The data processing technique used is descriptive evaluation, which is a process carried out to determine policies by first considering the positive values and benefits of a program, as well as considering the processes and techniques that have been used to conduct a research (Hardani, Helmina, Andriani (et.al), 2020). The focus in this research is:

1. The suitability of the transfer price method with the calculation of Income Tax payable related to the transfer pricing transaction by PT ABC.

2. Obstacles faced by PT ABC in determining the amount of Income Tax payable by corporate taxpayers related to transfer pricing transactions.
3. Efforts made by PT ABC to overcome obstacles faced in determining the amount of Income Tax payable by corporate taxpayers related to transfer pricing transactions.

Based on the 2019 Corporate Income Tax SPT data, PT ABC in the analysis of Arm's Length Principle using the Transactional Net Margin Method (TNMM).

V. RESULT AND DISCUSSION

The Conformity of the Transfer Price Method to the Calculation of Income Tax Payable Related to Transfer Pricing Transactions

1. Suitability of Transfer Pricing Methods Related to Transfer Pricing

Companies that are members of the ABC group include ABC Pte Ltd (Singapore), ABC Sdn Bhd (Malaysia), and PT. ABC (Indonesia). The type of business of the ABC group is an Information Technology (IT) service & consulting company including application services, infrastructure services, and professional services. As part of the ABC Group in various areas in Jakarta, PT. ABC provides IT services to companies from various industries in Indonesia by combining and implementing the latest services and technologies since 2006.

The implementation of the transfer pricing examination with the aim of determining the transfer price method that is in accordance with PT ABC's business activities consists of several stages, including the following:

a. Analysis of Business Characteristics

PT ABC is a global technology services company. PT ABC's technology services unlock the productivity benefits of business operations with advanced applications, workflows, and analytics. The products and solutions provided are innovative tools that simplify, automate, and transform business processes. PT ABC's experienced team of experts assists businesses with transformational solutions to scale operations, increase accuracy, increase customer engagement, and improve information security.

The functions performed by each ABC Group are described using supply chain management (value chain). Marketing activities, application services and professional services, as well as application sales are carried out by each company. Agency activities are carried out when companies in Singapore and Malaysia require professionals and other resources from Indonesia. The activities of testing the quality of application products, troubleshooting after mass products, and determining quality control operating procedures are mostly carried out by PT ABC. All costs on the resources of PT. ABC spent on projects from affiliated companies will be reimbursed to user affiliated companies with a range of 95% of the total professional fees.

PT ABC & ABC Pte Ltd is bound by a cooperation agreement that represents the company's value chain, where when PT ABC does the work of ABC Pte Ltd and ABC Sdn Bhd it will get a margin share of 5% of the value of ABC Pte Ltd.'s work to service recipients. So that the amount of revenue recognized by PT ABC is the amount of direct cost project plus a margin of 5% of the value of ABC Pte Ltd.'s work to service recipients. If the transaction is carried out independently without involving affiliated companies, then all responsibilities are carried out independently by each company.

Based on the analysis of business characteristics as described above, PT ABC has the characteristics of a type of business, namely a service model. This is because PT ABC is fully responsible for the management of services related to information technology service activities. In addition, PT ABC also bears the profit or loss from its activities based on its ability to sell services to other parties and explore markets that have not yet entered the provider.

b. Function, Asset, and Risk Analysis

At the function analysis stage, to map out economically relevant facts and business characteristics, the functions, assets, and risks must be considered, as well as the allocation of functions, assets, and risks between the parties involved in affiliated transactions. The author analyzes the functional analysis carried out by PT ABC including the planning functions of product and service development, purchasing licenses from external parties, providing human resources for professional services, application development, research and development, setting selling prices, invoices and billing, marketing, advertising, and promotion, quality control, and administration and other activities.

Based on the statement of financial position, PT ABC owns, develops, or manages intangible assets related to its business such as applications and licenses to be sold to its customers. PT ABC's tangible fixed assets are long-term material assets that are used for business and are not expected to be converted into cash in the current or future tax year, such as computer equipment and other equipment used to manufacture corporate applications, office buildings and furniture, and office building.

Some of the risks borne by PT ABC in conducting its business activities include research and development risk, financial risk, marketing risk, foreign exchange/exchange rate risk, and sales risk.

c. *Transfer Pricing Method Analysis*

The results of the analysis of determining the transfer pricing method based on facts and conditions (the most appropriate method) in accordance with the comparison analysis, analysis of functions, assets, and risks borne by PT ABC are described in the following table:

Table 1 Transfer Pricing Method

No.	Method	Reason	Conclusion
1.	*Comparable Uncontrolled Price Method*/ CUP	There is no internal comparison for technology and software service transactions related to PT. ABC's business with affiliates. External data such as market prices and public data cannot be used to determine CUP because the products sold to affiliates have their own characteristics and types.	Rejected
2.	*Resale Price Method*/ RPM	PT. ABC is a technology and and software services company, the authors conclude that RPM would not be appropriate for evaluating the fairness of remuneration for transactions.	Rejected

No.	Method	Reason	Conclusion
3.	*Cost PlusMethod/* CPM	PT. ABC operates as a technology and software services company, the authors evaluate CPM as a possible transfer pricing method. However, differences in accounting principles between countries and between parties are tested and compared. This can lead to inconsistent categorization of expenses between cost of goods sold and operating expenses, which means that result at comparable entities gross margin levels cannot be relied upon to provide sufficiently comparable data. Therefore, CPM is not considered the most suitable method to test the fairness of affiliate transactions.	Rejected
4.	*Profit Split Method/* PSM	Transactions are not integrated and there are no unique contributions.	Rejected
5.	*Transactional Net Margin Method/* TNMM	In assessing the implementation of TNMM, the authors consider the relevant information available and can identify application and software service companies that perform functions and bear risks similiar to those carried out by PT. ABC. In addition, PT. ABC performs complex transactions. Therefore, the authors can use the TNMM to estimate the range of fairness for PT. ABC's activities.	Accepted

Several reasons for each method have been described in table 1 by considering PT. A B C. Based on the results of the analysis in table 1, the transfer pricing method applied by PT ABC, namely the Transactional Net Margin method (TNMM) is in accordance with Arm's Length Principle.

2. Calculation of Income Tax Payable Related to Transfer Pricing Transactions

PT. ABC has conducted a fairness test and business practice related to affiliated transactions based on comparability analysis, selection of methodology, and application of ALP by considering the facts and existing conditions. Preliminary research on the financial performance of taxpayers is conducted to identify the risk of tax avoidance that may occur due to a special relationship. Initial research PT. ABC is done by studying the industry average ratio of taxpayers.

a. Financial Report Overview

Table 2 Financial Report Overview

(*In millions of Rupiah*)

Description	2018	2019	Increase/decrease	Percentage(%)
Revenue	290.720	345.246	54.526	19%
Cost of Revenue	228.729	272.923	44.194	19%
Gross Profit	61.991	72.323	10.332	17%
Operation Expenses	44.798	61.619	16.821	38%
Result From Operating Activities	17.193	10.704	-6.489	-38%
Total Operating Asset	139.292	171.866	32.574	23%
Current Liabilities	67.216	83.442	16.226	24%
Total Liabilities	69.714	93.654	23.940	34%
R&D Expenses	0	0	0	0
Selling Expenses	-6.089	-12.677	6.588	108%
Marketing	-2.627	-9.415	6.788	258%
Miscellaneous	-3.462	-3.262	-200	-6%
Administrative expenses	-38.438	-48.801	10.363	27%
Provision for doubtful trade receivables	-133	-847	714	537%
Currency exchange gain (loss), net	271	-706	-977	-361%
Equity	69.578	78.212	8.634	12%
Assets	139.292	171.866	32.574	23%

Source: *PT ABC*

In 2019, PT ABC's revenue increased by 54,526 or 19%, and was also directly proportional to the increase in cost of revenue, which was 19%. This is not comparable to the Result from Operating Activities obtained, because it decreased by 6,489 or 38%. This condition was caused by the increase in operating expenses from the previous year which was very significant when compared to the increase in revenue and cost of revenue, which was 16,821 or 38%.

Based on the summary of the segmented financial statements, in 2019 the cost of revenue was Rp. 334.401 billion consisting of Rp.13,818 billion affiliated transactions and Rp.320,583 billion independent transactions. The components of the expense consist of cost of revenue and operating expense. This operating expense component consists of selling expenses and administrative expenses. PT. ABC experienced a very significant increase in selling expense, which was Rp. 6.588 billion or 108%. When viewed from the existing transaction components, this shows that there is an abnormal increase in the number of operating expenses for affiliated transactions and independent transactions that have an impact on the value of the Result from Operating Activities.

b. Financial Ratio

Table 3 Financial Ratio

Ratio	Formula	2018	2019	Increase / decrease
Ratio Berry	*Gross profit/ operational expenses*	138,38 %	117,37 %	-21,01%
Ratio of R&D costs to sales	R&D *expenses/ revenue*	0,00%	0,00%	0,00%
Ratio of marketing expenses to sales	*Selling expenses/ revenue*	2,09%	3,67%	1,58%
Debt to equity ratio	*Liability/ equity*	100,20 %	119,74 %	19,54%
Ratio of gross profit to cost of revenue	*Gross profit/ cost of revenue*	27,10%	26,50%	-0,60%
Ratio of gross profit to revenue	*Gross profit/ revenue*	21,32%	20,95%	-0,37%
Capital employed yield rate ratio	*Result from operating activities/* (*assets-current liability*)	23,85%	12,11%	-11,74%
ROA (*return on asset*)	*Result from operating activities/ total operating asset*	12,34%	6,23%	-6,11%
Return on Sales	*Result from operating activities / revenue*	5,91%	3,10%	-2,81%
Return on Total Cost	*Result from operating activities* / (*operational expenses + cost of revenue*)	6,29%	3,20%	-3,09%

Source*: PT ABC*

The application of the Transactional Net Margin Method uses the ratio of the rate of return on sales and the ratio of the rate of return on the total cost. In 2019 the ratio of the rate of return on sales and the ratio of the rate of return on total costs was 3.10% and 3.20%, respectively. When compared to the previous year, both ratios decreased by 2.81% and 3.09%. This is because in 2019 there was an increase in operating activities which was shown by a significant increase in operating expenses, which was 108%.

c. External Comparative Data Analysis

The profit level of PT ABC is compared with the quartile range of comparable or similar companies. Based on TP Catalyst - Release 126 - September 2020, 551 comparison data were obtained, after manual selection there were 7 comparison data that were accepted and selected.

Table 4 Result of Selection of External Data as Comparative Data and Interquartile Range

No.	Nama Perusahaan	*Return on Total Cost*			*Return on Sales*		
		2017	**2018**	**Rata-Rata**	**2017**	**2018**	**Rata-Rata**
1	Cotiviti India Private Limited	17,42%	18,00%	17,73%	14,83%	15,26%	15,05%
2	Easy Systems Inc	2,74%	3,90%	3,27%	2,67%	3,75%	3,17%
3	Goods And Services Tax Network	10,00%	0,78%	1,12%	9,09%	0,77%	1,11%
4	Keiyo Gas Information Systems Co. Ltd	3,44%	7,01%	5,27%	3,33%	6,55%	5,01%
5	Kireeti Soft Technologies Limited	4,90%	2,67%	3,82%	4,81%	2,61%	3,75%
6	Sagarsoft (India) Limited	5,64%	29,09%	20,87%	5,35%	22,61%	17,32%
7	Showa System Engineering Corporation	7,41%	8,15%	7,79%	6,90%	7,53%	7,22%
			MIN	1,12%		**MIN**	1,11%
			Q1	3,55%		**Q1**	3,46%
			Q2	5,27%		**Q2**	5,01%
			Q3	12,76%		**Q3**	11,13%
			MAX	20,87%		**MAX**	17,32%
			PIHAK YANG DI UJI	3,20%		**PIHAK YANG DI UJI**	3,10%

Source: PT ABC

Based on table 4 the determination and application of the Transactional Net Margin Method with Profit Level Indicator (PLI) Return on Total Cost (ROTC) and Return on Sales (ROS) obtained the following results:

- PLI ROTC, PT ABC's quartile range of 3.20% is between Min and Q1 which is 1.12% and 3.55%
- PLI ROS, PT ABC's quartile range of 3.10% is between Min and Q1 which is 1.11% and 3.46%.

In accordance with Per 43-/PJ/2010 article 13 paragraph 2, the fair range of affiliated transactions is if the ratio of the tested companies is in the quartile range. Based on the stages of analysis that have been carried out, it shows that the transactions carried out by PT ABC with affiliated parties do not meet the practice Arm's Lenght Principle because the quartile range of PLI ROS and PT ABC's ROTC is not between the first quartile to the third quartile for external comparison.

d. Evaluation of Income Tax Payable

The analysis of fairness and normality of business that has been carried out shows that the transactions carried out by PT ABC with affiliates have not met the principles of fairness and normal business requirements. The causes of this irregularity can be viewed from two perspectives, namely the imposition of a cost of revenue and the recognition of revenue.

The cost of revenue component that makes up the composition of the invoice value billed to ABC Pte Ltd is less likely to be manipulated because it is actual. In contrast to the determination of the margin value of 5% obtained by PT ABC for affiliated transactions which is a policy determined by ABC Pte Ltd (parent company). The results of the analysis of fairness analysis and business practice show that the margin value of 5% on affiliated transactions does not meet the required principles.

This indicates that there is a margin transfer to Singapore where the corporate income tax rate is lower than the tax rate imposed by Indonesia, which is 17%. With a small margin value set from each affiliate transaction of PT ABC, ABC Pte Ltd and ABC Sdn Bhd, it will have a small impact on the amount of corporate income tax payable to be paid by PT ABC. Policies related to the determination of margin distribution must be evaluated so that the transfer price meets the Arm's Length Principle.

Based on the analysis of the comparison data used, to meet this principle, the minimum margin that should be applied is 20% of the ABC Pte Ltd project value to consumers. So the calculation of the invoice value used is as follows:

$$\text{Invoice Value} = \textit{Cost of Revenue} + (20\% \times \textstyle\sum \text{ the value of ABC Pte Ltd's work to the beneficiary})$$

Based on these assumptions, the financial summary of the correction in revenue recognition is as follows:

Table 5 Financial Highlights Regarding the Use of the Transfer Price Method (20% Margin Assumption)

Description	Amount (in Million Rupiah)
Revenue	347.043
Cost of Revenue	272.923
Gross Profit	74.120
Operation Expenses	61.619
Result From Operating Activities	12.501
Rasio Return on Total Cost Ratio (ROTC)	3,74%
Rasio Return on Sales	3,60%

In connection with the determination and implementation of the Transactional Net Margin Method with the Profit Level Indicator (PLI) return on total cost (ROTC) and return on sales (ROS) using the 20% margin value shown in table 4, PT ABC's profit rate with the assumption of a margin of 20 The % is compared with the quartile range of comparable or similar companies, then the following results are obtained:

- PLI ROTC, PT ABC's quartile range of 3.74% is between Q1 and Q2, namely 3.55% and 5.27%.
- PLI ROS, PT ABC's quartile range of 3.60% is between Q1 and Q2, namely 3.46% and 5.01%.

Based on the stages of the analysis, it shows that if PT ABC uses a minimum margin value of 20%, the transactions made by PT ABC with affiliated parties have complied with the Arm's Length Principle.

The following is an analysis of the calculation of the Corporate Income Tax Payable of PT ABC, which applies the Arm's Length Principal practice in determining transfer prices for affiliated transactions.

Table 6 Analysis of Payable Corporate Income Tax Calculation

(*In millions of Rupiah*)

No.	Description	Based on SPT(Rp)	Correct (Rp)	After Correction(Rp)
1	**2**	**3**	**4**	**5 = 3 + 4**
1	Domestic Commercial Net Income	345.246	1.797	347.043
2	Cost of Goods Sold	272.923		272.923
3	Gross Profit	72.323		74.120
4	Selling Cost	(12.677)		(12.677)
5	Administrative Cost	(48.801)		(48.801)
6	Allowance for Doubtful Accounts	(847)		(847)
7	Foreign Exchange Profit (Loss), Net	706		706
8	Net Profit from Operating Activities (3-(6+7+8+9))	10.704		12.501
9	Financial Revenue	726		726
10	Profit Before Tax (10-12)	11.430		13.227
11	Income Subject to Final Income Tax and Excluding Tax Object	1.496		1.496
12	Positive Fiscal Adjustment	5.960		5.960
13	Negative Fiscal Adjustment	2.073		2.073
14	Investment Facility in the form of Reduction of Net Income	-		-
15	Fiscal Net Income	13.821		15.618
16	Income Tax Payable	3.455		3.905

Source: *PT ABC*

Constraints Faced by PT ABC in Determining the Amount of Income Tax Payable by Corporate Taxpayers Related to Transfer Pricing Transactions

Based on the results of interviews with PT ABC that in the process of determining the amount of Income Tax owed by Corporate Taxpayers related to the transfer pricing transaction, there are several obstacles as follows:

1. The policy in determining the margin value obtained by PT ABC in affiliate transactions is determined by ABC Pte Ltd. PT ABC, which in this case acts as a subsidiary, has difficulty negotiating regarding the determination of the policy.
2. The selection of external data as comparison data and interquartile range is characteristically the same, but the components of Cost of Goods Sold are not the same.

Efforts Made by PT ABC to Overcome Constraints Faced in Determining the Amount of Income Tax Payable by Corporate Taxpayers Related to Transfer Pricing Transactions

1. PT ABC discussed again with ABC Pte Ltd regarding the impact of tax risks that will be faced by the company because of not fulfilling the principles of fairness and business practice, one of which is an audit. A comprehensive data analysis that describes the amount of risk that must be borne by the company will be shown to increase the beginning power in decision-making by ABC Pte Ltd.
2. Increase the data used for the external data selection process as comparison data, one of which is by adding SIC references and NAICS code. This is expected to provide more accurate and precise results in accordance with the business characteristics and financial statements of PT ABC.

VI. CONCLUSIONS AND SUGGESTIONS

Conclusion

From the results of the discussion, the author draws several conclusions as follows:

1. This study aims to evaluate the fairness of prices and transfer pricing methods on the application of income tax payable at the company PT ABC. The results of the evaluation of the data obtained are as follows:

a. PT ABC is a technology services company that provides various services such as application and infrastructure management, cloud adoption, and Information Technology services in business activities. In accordance with the Regulation of the Director General of Taxes Number PER-22/PJ/2013 related to the analysis of functions, assets, and risks, it is intended to identify business characteristics accurately, based on this PT ABC's business activities are classified as service model services. PT ABC's business transaction activities are complex, because apart from providing Information Technology management services, it also provides sales of hardware and software licenses. Thus, the transfer price method used by PT ABC is to use the Transactional Net Margin Method.

b. In connection with the application of the Transactional Net Profit Method of PT ABC based on the auditee's financial statement data, it can be concluded that the transactions made by PT ABC with affiliated parties do not meet the practice Arm's Length Principle. The non-fulfillment of this principle is caused by the determination of the margin value obtained by PT ABC from each transaction to the affiliate is too small, which is 5% of the total value of the work of the affiliate to the customer. This affects the calculation of the amount of corporate income tax payable by PT ABC in 2019.

c. To comply with the practice Arm's Length Principle, the margin value that must be determined by PT ABC related to its affiliated transactions is a minimum of 20%. So that the calculation of Corporate Income Tax payable by PT ABC in 2019 will be obtained, which is Rp. 3,905,000,000, or an increase of Rp. 450,000,000 from the previous calculation. Thus, the change in the value of the margin from 5% to 20% has a significant effect on the total value of PT ABC's Corporate Income Tax Payable in 2019.

2. Obstacles faced by PT ABC in determining the amount of Corporate Income Tax payable related to transfer pricing transactions, one of which is in determining the margin value. PT ABC as a subsidiary of ABC Pte. Ltd. lacked beginning power in negotiating it, due to the absolute decision making of ABC Pte. Ltd as the parent company. This will pose a tax risk when an audit by the Directorate General of Taxes (DGT) is carried out because of non-fulfillment of the principles of normality and fairness. In addition, another obstacle faced by PT ABC is the lack of external comparison data that has the same suitability of business characteristics.

3. PT ABC has attempted to re-discuss with ABC Pte Ltd regarding the impact of tax risks faced by the company because of the non-fulfillment of the practice Arm's Length Principle, one of which is an audit. In terms of external comparison data, the efforts made by PT ABC by multiplying the data used by adding references to SIC and NAICS code.

Suggestion

Based on the conclusions described above, the authors provide the following suggestions:

1. To comply with the practice Arm's Length Principle, the determination of the margin value made by PT ABC with affiliates and independent parties must be in accordance with market prices. Market prices are the best approach to transfer pricing.
2. To minimize the impact of tax risk on non-fulfillment of the practice Arm's Length Principle for determining transfer prices in affiliated transactions caused by the determination of the margin value determined by ABC Pte Ltd, PT. ABC must develop its business independently without the involvement of ABC Pte Ltd and ABC Sdn Bhd. This is intended to increase the starting power of PT. ABC when conducting the negotiation process. In addition, so that the business characteristics and components of the external data financial statements are comparable to the companies being tested, the process of searching for comparative data must be carried out optimally. Adding references to SIC and NAICS code as well as knowledge about publicly traded companies is a way to obtain comparative datmore accurately. The degree of comparability must be measured accurately and precisely because it will be a determining factor in the accuracy of the results of the chosen method.

3. Companies are advised to apply better tax management, especially in terms of transfer pricing. This can minimize tax risks in the future, both in terms of determining cooperation with related parties to meet the Arm's Lenght Principle.

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