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**Research Paper**

# Analysis of Comparability and Fairness of Management Fee Transactions between Related Parties and Its Implications on Fiscal Correction of Corporate Income Tax for Fiscal Year 2020 at PT.ABC Jakarta

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***ABSTRACT***
*This research aims to analyze the comparability and fairness of fee management transactions between related parties and their application to the correction of PPhfiskal at PT. ABC Jakarta, uses transactional net margin method (TNMM) as a method of pricing in transfer pricing transactions with related parties. In relation to this method, it is necessary to apply the Principles of Arm's Length as defined in PER 32/PJ/2011. This research uses descriptive research with a qualitative approach based on case studies. The results show that, PT. ABC determines the transfer pricing method by conducting functional analysis (FAR) which is known to be contract manufacturing and conducting a comparable analysis using external comparisons, namely the Orianadatabase with the results of two companies that can be used as a comparison, namely PT MalindoFeedmillTbk and ZTE Indonesia. The method used is the Transactional Net Margin Method (TNMM) because it is considered to be in accordance with the type of characteristics of Contract Manufacturing which is a complex transaction.Transfer pricing in transactions made by PT. ABC with the special relationship party is considered to have reflected the fair price because the steps in applying the Principles of Reasonableness and Business Prevalence are in accordance with PER-32 / PJ / 2011. But in this effort, there is a difference of views with the examiner of the Directorate General of Taxes that raises debate so it needs to continue to the level of Objection.PT. ABC earned a profit with the payment of corporate PPh tax as much as: Rp. 4,583,247,641 x 25% = Rp.1,145,811,910,- With ease of tax installments of Rp. 95,484,325,8,- and the amount of positional corrections amounting to Rp. 480,336,615, - and negative corrections as much as Rp. 9,129,416.-*
***Keywords:*** *Manajemen Fee, Transfer Pricing, Party-To-Do, Fiscal Correction PPh*

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## I. Introduction

The growth of multinational corporations presents increasingly complex taxation issues for both the tax administration and multinational corporations themselves because separate state rules for taxation of multinational corporations cannot be seen separately but must be addressed in a broad international context (*Organization for Economic Co-operation and Development*, 2017). Multinational companies of course have a positive impact on a country, such as being a source of foreign exchange and tax revenues, increasing employment, technology transfer, increasingly heterogeneous choices of people's products, and improving a country's reputation for investors. However, there are problems that arise with the presence of multinational companies in a country. One of the most common is related to the aspect of taxation where there are differences in tax rules between countries in the world especially in relation to differences in tax rates. Multinational companies in their business practices will eventually conduct transactions in business groups known as affiliate transactions. Affiliate transactions occur in a company with other related entities such as controlling shareholders, directors, managers and companies under the same control (Nekhili&Cherif, 2011). Companies that have special relationships generally conduct transaction and economic *activity transfer pricing* (Darussalam, *et. al*, 2013: 21). In Article 18 paragraph 4 of the Income Tax Law No. 36 of 2008 (PPh Law) mentioned that affiliate transactions are transactions between parties who have a special relationship. In the PPh

Law also regulates the parties who are considered to have a special relationship. Transactions between affiliate parties give rise to a price for each transaction commonly called the transfer price (*transfer pricing*).

Transactions between taxpayers who have a special relationship, often the element of income and income reduction (article 16 of the PPh Law) are not necessarily the same when compared to transactions conducted by independent parties. Furthermore, the Ministry of Finance also issued Regulation of the Minister of Finance No.213/PMK.03/2016 ("PMK-213") regarding the obligations of Taxpayers who conduct transactions with parties who have a special relationship to document the transfer price applicable for the Tax Year ended December 30, 2016 and so on. This causes income reporting and deductions to calculate Taxable Income not in accordance with the Arm's Length Priciples / ALP. The unreasonable Taxable Income when calculated at the Corporate Income Tax rate(article 17 letter b of the PPh Law) will reduce the amount of taxes owed. In accordance with the provisions of Article 18 paragraph (3) of the PPh Law, the Director General of Taxes has the right to make adjustments to the amount of income and deductions that are the basis in the calculation of Taxable Income.

Previous research conducted by Sari (2019) with the title of Analysis of The Principles of Fairness and Business Prevalence of Affiliate Transactions (Case Study at PT. ABC) it is known that PT. ABC uses TNMM (*Transactional Net Margin Method*) as a method *of transfer pricing* with corporate affiliates, which is a method that compares net profit margin and net margin of similar entities that can be independently compared. To see if PT. ABC has applied the principle of fairness and business prevalence so Sari (2019) uses the *Net Cost-Plus Mark-Up* (NCPM) ratio as a method of analysis and stated that the *transfer pricing* treatment applied has been in accordance with Indonesian Tax Regulation PER 32/PJ/2011. Other research known to have similarities with Sari (2019) includes Suryana (2021) with the title Evaluation of Transfer Price Application at PT. Reebonz and Januariza (2020) with the title of Application of *Transfer Pricing* Method on Footwear Sales Transaction of PT. X Indonesia.

In contrast to Sari (2014), Januariza (2020) and Suryana (2021), research conducted by Saraswati (2014) with the title of Evaluation of Price Fairness and Conformity of *Transfer Pricing* Method With Tax Director General Number Per-32/ Pj / 2011 found PT. ABC has a problem with the DJP examiner related to the application of *the Transfer Pricing* Method and objects to the Underpayment Tax Determination Letter (SKPKB) issued by the examiner because it feels that the *Transfer Pricing* they make in transactions with special relationship parties has reflected a reasonable price and there is no error in it.

This research is a development of sari research (2014) and Saraswati (2014) using case study research objects at PT. ABC is located in Jakarta. Researchers retested whether the *transfer pricing* applied was in accordance with Indonesian Tax Regulation PER 32/PJ/2011. PT. ABC is a company that provides mechanical and electrical services such as gas compression equipment / power plants in the energy and resources sector. The company has several business associates or cooperation with related parties.

## II. Literature Review

### a. Principles of Fairnessand Bussiness Prevalence(*Arm's Length Principle*)

The Principle of Finance and Business Prevalence (*Arm's Length Principle*) is a principle that regulates that if the conditions in transactions conducted between parties who have a special relationship are equal or comparable to the conditions in transactions conducted between parties that do not have a special relationship that is a comparison then the price or profit in transactions conducted between parties who have a special relationship must be the same as or within the price range of profit in transactions made between parties that do not have a special relationship that is a comparison. According to Nurhayati (2013), transactions that occur between companies that have special relationships often use unnatural prices. *Arm's length principle* is the principle of fairness and prevalence of transactions between parties who have a special relationship that should be comparable to transactions made with parties who do not have a special relationship (OECD, 2017). The Principle of Reasonableness and Business Prevalence is carried out with the following steps:

a. Perform a comparable analysis and determine the comparison;
b. Determine the appropriate method of determining the correct transfer price;
c. Applying the Principles of Fairness and Business Prevalence based on the results of analysis

### b. Comparison Analysis

The analysis of the Association is an analysis conducted by the Taxpayer or the Directorate General of Taxes on the conditions in transactions conducted between taxpayers and parties who have a special relationship to be compared with the conditions in transactions conducted between parties who do not have a special relationship, and identify the differences in conditions in both types of transactions. Based on Article 4 paragraph 1 of the Regulation of the Director General of Taxes Number Per-32/Pj/2011 Concerning Changes to the Regulation of the Director General of Taxes Number Per-43/Pj/2010 Concerning the Application of The Principles of Fairness and Business Prevalence in Transactions Between Taxpayers and Parties Who Have

Special Relationships state that in conducting a comparable analysis must pay attention to the following: Transactions conducted between Taxpayers and parties who have special relationships state that in conducting a comparison analysis must pay attention to the following: Transactions conducted between Taxpayers and parties who have special relationships it is considered comparable to transactions conducted between parties that do not have a special relationship in terms of:

1. There is no material or significant difference in conditions that may affect the price or profit of the comparable transaction; or
2. There are differences in conditions, but adjustments can be made to remove the material or significant effect of the difference in conditions on price or profit.

Economic circumstances that must be identified to determine the level of market equality include: geographical location, market size, the level of competition in the market as well as the positionof settlement between sellers and buyers,availabilityof substitute goods or services,the increase in demand and supply in the market both as a whole and regionally, consumer purchasing power, the extentand scope of government regulations in the market, productionincludes land costs, labor and capital wages, transportation costs and market levels,fencing and transaction time and so on.

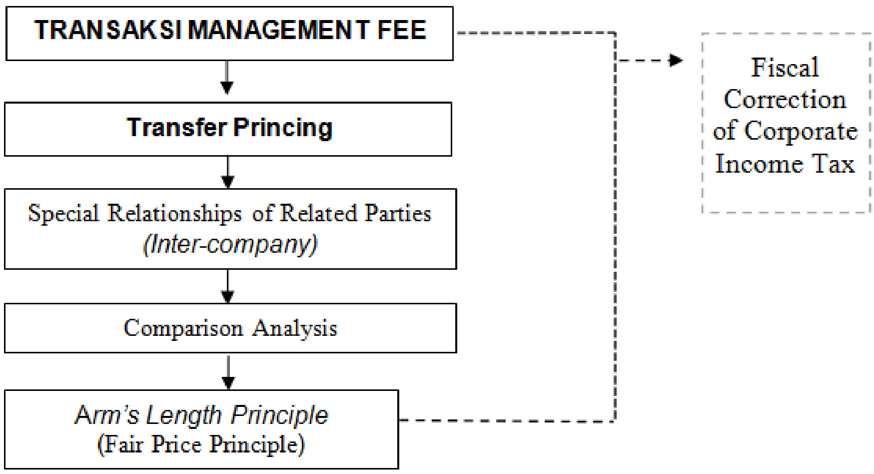
**c. Fiscal Correction of Corporate Income Tax**

According to Agoes*et al*., (2010:218), fiscal reconciliation is "an adjustment of commercial profits that differs from fiscal provisions to generate net income or profit in accordance with tax provisions". The scope of the implementation of the examination in accordance with the Circular Letter of the Director General of Taxes Number SE-10 / PJ.04 / 2008 on tax inspection policy, consisting of: 1) Field examination, namely examinations conducted at the place of residence, place of business activities, or work

**Research Model**

A research model is the construction of a frame of mind or the construction of a theoretical framework that is fragmented in the form of diagrams and/or certain mathematical equations. It essentially states the research hypothesis. As a construct of a frame of mind, a model will display: (a) the number of variables studied, (b) predictions about relationship patterns between variables, (c) decomposition of relationships between variables, and (d) the number of parameters received.

From the description of the frame of mind above, a research model can be created such as the following image:




Research Model Images.

## III. Research Methods

a. Approach and Type of Research

This research uses descriptive research methods through qualitative approaches. According to Sugiyono (2011: 9) states that qualitative research methods are research methods based on the philosophy of postpositivism, used to examine the conditions of natural objects, (as opposed to experiments) where researchers are as key instruments, data collection techniques are done triangulation (combined), data analysis is inductive / qualitative, and qualitative research results emphasize meaning rather than generalization. Qualitative methods are used by researchers because researchers perform analyses that explain or transform, translate, and explain the meaning of data or phenomena found by researchers directly.

b. Data-Proposing Techniques
According to Sugiyono, (2017) data collection methods are the ways used by researchers to collect data. Without knowing the data feeder technique, then the researcher will not get data that meets the data standards set. The data collection techniques used in the study include documentation observations and interviews.

c. Determining informants
The informant selection technique in this study is a purposive sampling technique. Purposive sampling technique is a technique that attracts informants based on certain criteria. created by researchers based on research purposes. According to Spradley in Moleong (2011), informants should have several criteria to consider, namely:
1. Subjects who have long intensively blended in with an activity or field of activity that is targeted or research attention and this is usually characterized by the ability to provide information outside the head about something asked.
2. Subjects are still fully attached and active in the environment and activities targeted by research.
3. The subject has enough time and opportunity to be asked for information.
4. Subjects who are in providing information do not tend to be processed or packaged in advance and they are relatively innocent in providing information.

d. Data Analysis Techniques
Data analysis is done so that existing research data can more easily arrive at the decision-making process. Data analysis according to Sugiyono (2017) data analysis is carried out since before entering the field, while in the field and after in the field. The process of data analysis in this study is data reduction, presentation of data and withdrawal of conclusions.

e. Location and Research Schedule
The research site was conducted at PT. ABC Jakarta, Indonesia.

**Results of Research and Discussion**
a. Fee Management Analysis applied by PT. ABC-Jakarta related to transfer pricing transaction with related parties

Based on the functions carried out, the assets used, as well as the risks borne by PT. ABC chose *the transfer pricing* method with reference to the principle of The Most Appropiate Method, which is the method that best suits the situation and condition of the actual company. Differences in the functional profile of risk, contract requirements, business strategy and economic circumstances cause price differences thus affecting what method to choose. Selection of the most suitable transfer pricing method applied to PT. ABC can be seen in Table 2. Table 2 clearly shows that the Transactional Net Margin Method / TNMM method is very suitable for the conditions in PT. ABC because PT. ABC conducts complex transactions, where PT. ABC produces goods according to the order so that the treatment is not the same between one party and another. Transactional *Net Margin* method was chosen as the most appropriate method to test the reasonableness of pt. ABC due to sales transactions in connection with its manufacturing activities and payment of commissions on management services of PT. ABC against its affiliates. This method can be applied by PT. ABC by comparing net profit margins realized by PT. THE ABC of related party transactions reviewed with net margins of similar entities that can be independently compared. The contract is made by listing *the scope of* services to be carried out along with the amount of *the fee* that will be charged. If approved by management, the service process is carried out and after completion will be given *an invoice* along with the results of the audit report.

b. Comparison analysis of Fee Management applied by PT. ABC-Jakarta related to princing transfer transaction

From the transaction activities carried out by PT. ABC with related parties, PT. ABC is required to create *transfer pricing documentation*. Number of sales of PT. ABC in the previous year more than Rp. 50,000,000,000 (fifty billion), which amounted to Rp. 65,377,651,363. Sales with a minimum of Rp. 50,000,000,000 (fifty billion) is the threshold / requirement required to prepare a transfer pricing*documentation*document. In making *Transfer Pricing Documentation*, PT. ABC has published information in accordance with the provisions of 213/PMK.03/2016. In terms of identity and business activities, PT. ABC contains information about management, business details and business strategies, as well as an overview of the business environment. In the terms of affiliate transaction information and independent transactions conducted, PT. ABC contains about transaction schemes, tested transactions (sales, purchases, and intra-group services). In the provisions of the Application of The Principles of Reasonableness and Business Prevalence, it contains an explanation of the analysis of comparableness, business characterization, methods of transfer pricing, comparison selection, and determination of reasonableness ranges using profit level indicators. In the provisions of financial statement information, it contains income statement information before and after adjustments and an explanation of the adjustments that must be made. And in the last provisions regarding important events, for PT. ABC non-financial events do not affect in the formation of prices or profit levels of PT. ABC. In the comparison process, FAR Analysis is one of the stages where to understand the transactions of the affiliate parties examined, so that it can be tested to find potential comparisons. The determination of internal and external comparisons will depend on the similarity of the results of far analysis that has been done (Prabowo, 2010). Here is a summary of FAR ANALYSIS PT. ABC according to the results of interviews that have been conducted:

**Table 2**
Summary of FAR Analysis

| No | Function/Asset/Risk | PT. ABC | ABC Inc | Independent |
|---|---|---|---|---|
| I | **Function** | | | |
| | Raw Material Purchase | High | - | - |
| | Research and Development | High | High | - |
| | Manufacturing Flow | High | - | - |
| | Manufacturing Process | High | - | - |
| | Ownership of Goods and Products | Hgh | - | - |
| | Merging and Packing | High | - | - |
| | Warehouse & Logistic | High | - | - |
| | Selling Price Determination | High | Medium | - |
| | Invoice &Billing | High | - | - |
| | Marketing, Advertising and Promotion | High | High | - |
| | Quality Control (QC) | High | Medium | - |
| | Selling & Distribution | High | Medium | - |
| II | **Assets** | | | |
| | **Intangible Assets** | | | |
| | Owner's knowledge of the product | High | High | - |
| | Product Patent Owner | High | High | - |
| | Knowledge etc. License | High | High | - |
| | Trademark Ownership | High | High | - |
| | Trademark License | High | High | - |
| | Intangible Asset Development | High | High | - |
| | Economic Ownership of Intagible Assets | High | High | - |
| | | | | |
| | **Tangible Assets** | | | |
| | Factory Equipment Ownership | High | - | - |
| | Product Facility Ownership | High | - | - |
| | Land Ownership | High | - | - |
| | Building Ownership | High | - | - |
| | Product Technology Ownership | High | - | - |
| | Stock Ownership | High | - | - |
| III | **Risk** | | | |
| | Risk of Research & Development | High | High | - |
| | Financial Risk | High | - | - |

| | | | | |
|---|---|---|---|---|
| | Risk of Imported Raw Material | High | - | - |
| | Risk on Local Raw Material | High | - | - |
| | Risk of Inefficient Production Flow | High | - | - |
| | Risk to Production Schedule | High | - | - |
| | Risk of Production Failure | High | - | - |
| | Market Risk | High | - | - |
| | Investment Risk | High | - | - |
| | Stock Risk | High | - | - |
| | Currency Exchange Risk | High | - | - |
| | Risk of Product and Warranty damage | High | - | - |
| | Risk of Bad Debts | High | - | - |

Source: Primary data processed by researchers, 2020.

As stated in the FAR Analysis Table above, it can be seen that the functions performed by PT. The ABC with the related Parties and the Independents is very different. It can be explained that internal comparison data is not available, due to differences in functions carried out related to the transactions of related parties and independent parties. Based on the data that has been analyzed, it can be known that the steps of PT. ABC in applying the Principle of Fairness and Business Prevalence is in accordance with the Director General of Taxes Number PER-32/PJ/2011.

c. Transaction Fairness AnalysisRelated to Transaction Management Fee Between Related Parties to PT. ABC-Jakarta

After conducting a comparison analysis and FAR analysis, then further testing of each method to find out which method is most appropriately applied in pt transaction. ABC. Such methods are CUP method, RP method, CP Method, PS method and TNMM. In applying *the Resale Price Method* (RP Method) to transactions carried out by PT. ABC provides the result that the method cannot be applied (does not apply) to test the reasonable nature of transactions between companies. This is because pt. ABC is not an entity that performs the function of reselling, but rather a *fully-fledged manufacturer*that adds significant substantial value to the raw materials purchased.Thus making comparisons at the level of gross margin unreliable. Then *the CostPlus Method* (CP Method) is not applicable or cannot be applied in testing the reasonableness of sales transactions based on reliable data on functional comparisons between controlled transactions and uncheckable transactions unavailable. Because the CP method requires a high level of functional similarity. In addition, it is very difficult to obtain the gross profit data of similar companies required for such analysis. In applying *the Profit Split Method* (PS Method) to transactions carried out by PT. ABC provides the result that the method cannot be used to assess the fairness of the transaction being tested. Because the transaction does not involve a highly integrated controlled transaction that is in accordance with the FAR analysis table that has been done. Therefore, that PT. ABC does not contribute to the use or creation of intangible assets. And the transaction of PT. ABC can be separately analyzed. The transactional net margin method (TNMM).

TNMM measures the total profit earned from controlled business activities determined by PT. ABC so that reliable data covering controlled transactions under review is available, and therefore, the comparison between TNMM depends primarily on the similarity of investment and risks assumed by controlled parties and uncontrolled parties in connection with such activities. Under TNMM, comparison needs that have similar and significant product diversity and some functional diversity between controlled and uncontrolled parties are acceptable. After seeing the explanation of the methods above, then the conclusions that can be taken by PT. ABC that, the TNMM method can be applied or the right method in testing the fairness of transactions carried out by PT. ABC. Because reliable and appropriate Information is publicly available where TNMM can be applied to subcontracting transactions between companies. The principle of fairness is a principle that adheres to the prevailing value in the market or fair value. It is known in the analysis of the comparison, that external comparison is the one that can support the fairness of the price, then after the selection of a comparable company, the Transactional Net Margin Method / TNMM method is applied to financial information. Companies comparable to PT. ABC. The approach taken to the application of the Transactional Net Margin Method / TNMM method does not use the transaction price approach but rather emphasizes the profit testing approach. *Markup on Total Cost* (MTC) was selected as an indicator of the level of profit to be used to determine the fairness (arm's length principle) on sales transactions in the context of PT.ABC.

**Table 3** Financial Performance of PT. ABC for Segments of Parties with Special Relationships in 2020

| Remark | Total (US$) |
|---|---|
| Net Sales | 20,665,246 |
| Selling Expenses | (19,235,536) |
| Gross Profit | 1,429,710 |

| | |
|---|---|
| Operating Costs | (712,688) |
| Operational Profit | 717,022 |
| **Mark-up on Total Cost (MTC)** | **3.59%** |

Source: PT. ABC, 2020

In Table 3 it can be known that the profit rate of MTC PT. ABC with transaction opponents who have a special relationship or with Shikibo party by 3.59%. MTC profit rate of PT. The ABC will be compared to the mtc quartile range of comparable companies or similar in a certain period of time. It is presented in Table 4.

Table 4 Inter-quartile MTC of Similar Companies 2020

| **Remark** | **MTC** |
|---|---|
| Maximum Limit | 5.23% |
| Upper Quartile Limit | 4.37% |
| Median Limit | 1.31% |
| Lower Quartile Limit | 0.87% |
| Minimum Limit | 0.70% |

Table 4 shows the range between comparable enterprise MTC quartiles in the period 2020. It is known that PT. ABC is on MTC with a percentage of 3.59%, hence the business segment and transactions of PT. ABC with parties that have a special relationship in 2020 is located in the inter-quartile mtc range of comparable companies in the period 2020. Based on such results it can be concluded that the transfer price of the transaction of PT. ABC with Shikibo is considered consistent with the Principles of Reasonableness and Business Prevalence.

d. Analysis of the relationship of The Analysis of The Fairness and Fairness of Transactions Related to Transaction Management *Fee* Between Parties Related to Fiscal Correction of Corporate Income Tax at PT. ABC-Jakarta

The following presented the calculation of taxes owed in 2020 based on the financial statements of PT. ABC as follows:

Table 5.2. Calculation of Taxes Owed in 2020

| Remark | BeforeAnalysis | After Analysis | Difference(Rp) |
|---|---|---|---|
| Profit Before Tax | 4.369.834.902 | 4.583.247.641 | 213.412.739 |
| Corporate Income Tax 25% XProfit Before Tax | 1.092.458.725 | 1.145.811.910 | 1.145.811.910 |
| TotalTaxPayable | 1.092.458.725 | 1.145.811.910 | 1.145.811.910 |
| PPh Installment | 91.038.331,1 | 91.038.331.33 | 4.445.994,7 |

Source: Data Processing

As for the explanation of corrections made in the adjustment table, as follows:

Table 5. 3. Adjustment table in 2020

| Description | Commercial | Adjustment Analysis | Fiscal |
|---|---|---|---|
| Vehicle Expense | (358.413.344) | (a).179.206.672 | (179.206.672) |
| Interest Expense | (385.813.027) | (g).1.825.883 | (383.987.144) |
| Interest Income | 9.129.416) | (h).(9.129.416) | |

Source: Data Processing

Explanation of corrections made, obtained from the following details:

a. Vehicle Expense`.

The company covers the cost of vehicle expenses such as car maintenance costs, fuel oil (BBM) costs and toll money payment costs for employees whose cars are taken home. These costs are not included in the grey area because taxation does not allow the company to cover the cost in full. But the company has not made corrections to the cost of vehicle expenses, the vehicle expenses in 2020 Rp. 358,413,344. Based on existing regulations in accordance with KEP-220 / PJ / 2002, that vehicles brought home by employees can be used as gross reduction at a rate of 50% with the criteria of the type of car. Under these regulations, the company should make corrections to the company's vehicle load as follows:

| Remark | Year of 2014 | |
|---|---|---|
| | Saloon car | Correction (Tarif50%) |
| Car Care | 137.697.064 | 68.848.532 |
| Fuel | 188.416.772 | 94.208.386 |
| Toll fee | 32.299.500 | 16.149.750 |
| | 358.413.336 | 179.206.668 |

So, the conclusion of this vehicle load that can be used as a gross reduction is the type of sedan car that is regulated in KEP-220 / PJ / 2002 about the treatment of income tax on the cost of using mobile phones and company vehicles, which are charged a rate of 50% with the calculation above then the correction that should be done by the company is in 2014: Rp. 358,413,336 x 50% = Rp. 179,206,668.

b. Donations

According to article 9 paragraph (1) of PPh Law No. 36 of 2016, the property granted, assistance or donations cannot be used as a cost of reducing gross income, except as stipulated in pmk and kmk such as the Regulation of the Minister of Finance No. 609 / PMK.03 / which states donations that can be used as gross income in connection with the provision of humanitarian assistance in natural disasters that occur. In this case, the company made a donation to maintain the security of the complex and road maintenance in the complex area of PT. AbCs so that the company must positively correct the cost of donations and in practice the company has correctly made fiscal corrections to the cost of donations amounting to: in 2020: Rp. 13,465,000.

c. Communication Costs

This communication expense is incurred by the company to finance office phones, vouchers and communication costs of parties who have special positions. Employees with specialpositions will receive credit voucher purchase facilities, mobile phone purchases. For the cost of purchasing a mobile phone owned and used by the company for certain employees because their position or job can be charged as a company fee of 50% of the amount of acquisition costs as referred to in the DECISION DJP no KEP-220 / PJ / 2002. The positive fiscal correction in this communication cost in 2020: Rp. 45,230,700.

d. Tax Expense

The company bears the tax costs in the income statement. It can't be stated as a cost. Therefore must be removedat Rp. 110,353,605. (year 2020)

e. Miscellaneous Expense

The Company has made positive fiscal corrections at other costs, this is due to PT. ABC does not make a nominative listfor the costs related to miscellaneous expense and for the costs that are not directly related to the company's operations, therefore, these costs cannot be used as a gross deduction. Thus, with respect to taxes, these costs are considered non-existent. With the conclusion the company has correctly made corrections in miscellaneous costs of: Year 2020: Rp. 28,366,452.

f. Interest Income

Related to the bank's interest income, PT ABC must bear the interest expense and taxes for interest which for both expenses are directly deducted by the bank. This type of tax is a final tax which cannot be used as a company expense. Therefore, based on PP Regulation No.131 of 2000 concerning income tax withholding on deposit interest and positive fiscal koreski of 20% of interest income on income statement. The amount of correction that must be made by the company on the final interest expense is in 2020 amounting to: Rp.9,129,416 x 20% = Rp. 1,825,883.

g. Interest Expense

Based on PP 131 of 2000 and the decree of the Minister of Finance No. 51 / KMK.04 / 2000 states that current account and deposit interest services are incomes that are subject to final. The company has to take this cost out of the income because it has been subject to final taxes but in the reality, the company has not made corrections to the interest income. Therefore, based on existing regulations, companies should make negative fiscal corrections to interest income because they are final and in accordance with applicable regulations. The amount of the final correction that must be made by the company in 2020 amounted to Rp. 9,129,416.

From the results of the correction above, based on the results of the audit of the company's financial statements in 2020, the company recorded a pre-tax profit of Rp. 2,441,494,209 and after a fiscal correction under the Law increased to Rp. 3,225,773,349 and after correction the company's fiscal profit increased to Rp. 16,918,304,497. Based on fiscal reconciliation to commercial financial statements at PT. ABC conducted in 2020, so that based on the calculation of fiscal losses, taxpayers are not owed and on taxpayer losses can be calculated that the company earns profit by paying corporate PPh tax as much as: Rp. 4,583,247,641 x 25% = Rp. 1,145,811,910. With the ease of tax installments Rp. 95,484,325.8.

## IV. Conclusions and Suggestions

**Conclusion**

1. PT. ABC determines the transfer pricing method for its transactions with special relationship parties by conducting a Comparison Analysis and determining the comparison first, then determining the most appropriate*Transfer Pricing* Method.
2. How PTABC determines the transfer pricing method is to perform a functional analysis (FAR) that is known to be the type of characteristic is *Contract Manufacturing* and perform a comparable analysis using external comparisons, namely XXX databases with the results of two companies that can be used as comparisons, namely PT MalindoFeedmillTbk and ZTE Indonesia. The method used is *transactional net margin method* (TNMM) because it is considered to fit the type of characteristics of contract manufacturing which is a complex transaction.
3. Transfer pricing in transactions made by PT. ABC with the special relationship party is considered by management to have reflected reasonable prices because the steps in applying the Principles of Reasonableness and Business Prevalence are in accordance with PER-32 / PJ / 2011. But in this effort, there is a difference of views with the examiner of the Directorate General of Taxes that raises debate so it needs to continue to the level of Objection.
4. taxpayers are not owed and on taxpayer losses can be calculated that the company earns profit with the payment of corporate PPh tax as much as: Rp. 4,583,247,641 x 25% = Rp.1,145,811,910,- With ease of tax installments of Rp. 95,484,325,8,- and as for the amount of positional corrections of Rp. 480,336,615,- and negative corrections of Rp. 9,129,416.

**Suggestion**

1. PerdirjenTax Number PER-32/PJ/2011 has explained that in applying the transfer pricing method with the aim of obtaining a reasonable price / profit, the company must choose the most appropriate method (The Most Appropiate Method). Thus, it is best to PT. ABC must strictly use the method according to the conditions of PT. ABC is real and if at any time there is a significant change in company conditions then the use of transfer pricing methods must be adjusted immediately.
2. Documentation activities related to pt. ABC with the special relationship party needs to continue to be fulfilled. It is very important to meet the requirements of the application of the Principles of Fairness and Business Prevalence as referred to in PER-32 / PJ / 2011. When PT. ABC can show documents supporting the application of the principle, then in the case of examination by the Inspector Team of the Directorate General of Taxes PT. ABC has strong evidence to support its argument in applying fair prices / profits, so PT. ABC was able to resolve its dispute with the examiner up to the level of appeal.
3. The Directorate General of Taxes as the owner of the authority in collecting state revenues from the tax sector is advised to carry out its duties and obligations in accordance with applicable laws and regulations. This is important because it will affect the compliance of taxpayers in carrying out their obligations in the field of taxation.
4. The government and the Directorate General of Taxes are advised to continue to increase supervision related to the rules and especially the application of transfer pricing carried out by national and multinational companies that conduct their operations in Indonesia so that taxpayers continue to carry out their tax obligations.
5. Based on the results of discussions and analysis conducted by researchers, researchers recommend that companies make fiscal corrections first before reporting their taxes and pay attention to tax provisions and recording procedures both contained in the PPh Law and the decision of the director general of taxes regarding costs that can be charged as income deductions.

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