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Analysis Of The Directorate General Of Taxes' Measures To Safeguard Taxation On Cross-Border Transactions And Prevent Tax Evasion Via Transfer Pricing

Sungkono Bayu Aji[1], Guntur Eko Saputro[2], Suwito Suwito[3]

[1,2,3]Republic of Indonesia Defense University, West Java, Indonesia

Corresponding Author: adjiecksung@gmail.com

Abstract

Global economic developments and the expansion of multinational enterprises have increased cross-border affiliated transactions, creating opportunities for tax avoidance through transfer pricing practices. This study analyzes the efforts of the Directorate General of Taxes (DGT) to safeguard Indonesia's taxing rights, examines the development of transfer pricing regulations, and evaluates the effectiveness of oversight policies in addressing Base Erosion and Profit Shifting (BEPS). Using a qualitative method with a normative-juridical approach, the research draws on tax regulations, OECD documents, government publications, and relevant academic literature. The findings show that Indonesia has strengthened its transfer pricing framework through the implementation of the arm's length principle, mandatory transfer pricing documentation (Master File, Local File, and Country-by-Country Report), the use of the Automatic Exchange of Information (AEoI), and the development of Advance Pricing Agreement (APA) and Mutual Agreement Procedure (MAP) mechanisms. Additionally, the OECD/G20 Inclusive Framework, including the Global Minimum Tax (Pillar Two), has helped reduce profit shifting to low-tax jurisdictions. Despite these measures, challenges remain, including limited comparable data, complex multinational structures, intangible assets, and the rapid growth of the digital economy. Strengthening tax administration, information technology, and international cooperation remains essential to ensuring sustainable revenue and tax equity.

Keywords: **Transfer Pricing, Cross-Border, Taxes, AEOI, APA, MAP, Global Minimum Tax.**

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INTRODUCTION

The current global economy, which is supported by increasingly rapid technological developments, means that company transactions between countries are increasing. International trade involving multinational companies is not only in the form of buying and selling goods and services but also in the form of transfers of intangible assets, payments for services between companies in the group, royalty payments, and other forms of affiliated transactions. This development has had a positive effect on economic growth and investment globally, but also provides new challenges for tax authorities in the countries involved, including Indonesia. One of the challenges posed is the emergence of efforts to divert profits (profit shifting) from one country to another which has a lower tax rate, or known as the practice of transfer pricing (Annisa, 2024; OECD, 2022).

Transfer pricing is a standard and normal practice for multinational companies in managing their group operations. It involves setting prices for transactions between related parties within the same business group. However, transfer pricing can become problematic when the pricing process is used for tax avoidance purposes—specifically, by setting unreasonable prices for transactions between affiliated companies located in different countries or tax jurisdictions. Such strategies enable companies to shift profits to countries with low tax rates, thereby reducing tax payments in the country where the income originated. These practices are known as Base Erosion and Profit Shifting (BEPS)—the erosion of the tax base through the shifting of corporate profits abroad, resulting in reduced tax revenue for the source country (Annisa, 2024; OECD, 2022).

For Indonesia, the issue of transfer pricing warrants significant attention, given that the nation's economy is an integral part of the global economy. As Indonesia actively seeks to attract Foreign Direct Investment (FDI), it faces a rise in the number of multinational corporations, leading to increased international trade activity. This trend inevitably results in a higher volume of cross-border transactions between affiliated entities. Such a scenario presents both positive and negative implications: while foreign investment boosts the economy and state revenue, there is a potential risk of tax revenue loss if intra-group transactions are not conducted at fair market prices—meaning they fail to adhere to the arm's length principle. Consequently, the oversight and management of transfer pricing practices require systems and regulations capable of ensuring that cross-border transactions between affiliates are conducted fairly, rather than serving as a means of tax avoidance that undermines state revenue.

The OECD (Organisation for Economic Co-operation and Development) has identified transfer pricing as one of the most common methods used in BEPS practices. Working alongside

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G20 member nations, the OECD has developed various international guidelines and recommendations aimed at enhancing transaction transparency, strengthening the exchange of tax information, and preventing the improper shifting of profits. A notable initiative is the OECD/G20 Inclusive Framework on BEPS, which comprises several Action Plans—including Action 13, which provides guidance on transfer pricing documentation through the preparation of a Master File, a Local File, and a Country-by-Country Report (CbCR) (OECD, 2022; pajak.go.id, 2023).

As a G20 member, Indonesia has demonstrated a strong commitment to implementing these standards. The Indonesian government has prepared various international tax regulations to align with global business developments and to strengthen the Directorate General of Taxes' (DGT) capacity to oversee compliance with tax obligations regarding cross-border transactions. The implementation of requirements for transfer pricing documentation (TP-Docs), the Automatic Exchange of Information (AEOI), Country-by-Country Reporting (CbCR), and procedures for Advance Pricing Agreements (APA) and Mutual Agreement Procedures (MAP) represents concrete steps taken by the Indonesian government to fulfill its commitment to strengthening the oversight of international affiliated transactions (pajak.go.id, 2023; Team Tax, 2024).

Significant regulatory refinement was achieved through the enactment of Law Number 7 of 2021 concerning the Harmonization of Tax Regulations (UU HPP), followed by the issuance of implementing regulation Minister of Finance Regulation Number 172 of 2023 concerning the Application of the Arm's Length Principle (PKKU) in Transactions Affected by Special Relationships (PMK 172/2023). PMK 172/2023 is a crucial regulation that integrates provisions regarding Transfer Pricing Documentation (TP-Docs) obligations, corresponding adjustments, Advance Pricing Agreements (APAs), and Mutual Agreement Procedures (MAP) into a comprehensive regulatory framework. This regulation also reinforces the application of the arm's length principle (PKKU) and expands the scope of oversight for transactions involving special relationships (Team Tax, 2024).

The Directorate General of Taxes of the Republic of Indonesia continues to refine regulations to enhance tax administration capacity, including through the strengthening of information systems, the utilization of global data, and international cooperation. The implementation of the Automatic Exchange of Information (AEOI) enables the Directorate General of Taxes to gather financial and tax information from various partner jurisdictions. Furthermore, Country-by-Country Reporting (CbCR) provides an overview of the distribution of revenue, profit, business activities, and taxes due from multinational business groups operating

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across multiple countries. Such information and data are invaluable in supporting risk assessment efforts to ensure more effective transfer pricing supervision and audits (pajak.go.id, 2023).

Despite the issuance and implementation of policies and regulations, transfer pricing practices remain a significant challenge for Indonesian tax authorities. This is partly due to the complex structures of multinational corporations, which result in increasingly complex transactions between group members. Furthermore, the use of intangible assets—which are difficult to value due to a lack of independent comparable data—along with disparities in tax rules across jurisdictions, complicates the oversight of these related-party transactions. Research by Barokah and Sari (2024) indicates a link between sales transactions with overseas affiliates and tax avoidance strategies, although this influence diminished following the strengthening of transfer pricing regulations in Indonesia. These findings suggest that regulatory reform and strengthening can enhance compliance, yet ongoing oversight remains essential (Barokah & Sari, 2024).

Another study by Aulia (Aulia, 2024) emphasizes the importance of strengthening tax administration by improving the quality of independent comparable data, leveraging information technology, optimizing the Automatic Exchange of Information, and developing mechanisms for resolving international tax disputes. The study demonstrates that the effectiveness of transfer pricing oversight is determined not only by the quality of regulations but also by the tax authority's capacity to conduct monitoring, evaluation, and enforcement (Aulia, 2024).

Globally, the development of international tax policies continues to be enhanced to prevent profit-shifting practices. The implementation of the OECD's Pillar Two introduces a 15% Global Minimum Tax for large multinational enterprises, serving as a new instrument to curb the shifting of corporate profits to jurisdictions with lower tax rates. Indonesia has established the legal framework to support the implementation of this policy, aiming to safeguard the fairness and sustainability of the national tax system (Annisa, 2024).

Based on the foregoing, it is evident that transfer pricing constitutes a serious and strategic issue within the realm of international taxation, given its significant impact on state revenue and the perceived fairness of the tax system. The measures implemented by the Directorate General of Taxes of the Republic of Indonesia to oversee cross-border transactions through various regulations and administrative procedures warrant further examination. This paper aims to analyze the steps taken by the Directorate General of Taxes to tax cross-border transactions and prevent tax evasion arising from transfer pricing practices, while also assessing

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the challenges and effectiveness of these policies and regulations in the context of current global economic developments and international taxation standards.

Problem Statement

Based on the preceding discussion, the problem statement for this paper is as follows:

1. What is the potential for the misuse of transfer pricing in cross-border transactions as a means of tax avoidance and tax evasion?
2. How have the regulations governing transfer pricing within Indonesian tax administration evolved?
3. What measures are being taken by the Directorate General of Taxes (DGT) to monitor cross-border transactions and prevent profit-shifting practices involving transfer pricing?
4. How effective are the policy implementation and supervisory activities carried out by the Directorate General of Taxes (DGT) in safeguarding the tax base in Indonesia?

Research Objectives and Benefits

The objective of this study is to comprehensively analyze the efforts of the Directorate General of Taxes of the Republic of Indonesia to safeguard Indonesia's taxing rights regarding cross-border transactions, with the aim of preventing tax avoidance and evasion through transfer pricing mechanisms. Specifically, the objectives of this study are as follows:

1. Analyze the concept of transfer pricing and its potential use in cross-border transactions.
2. Examine the evolution of transfer pricing policies and regulations in Indonesia, particularly following the enactment of the HPP Law and Minister of Finance Regulation (PMK) Number 172 of 2023.
3. Identifying strategic measures taken by the Directorate General of Taxes to prevent tax avoidance through transfer pricing.
4. Evaluating the effectiveness of transfer pricing supervision policies to support the optimization of state revenue.

The expected theoretical benefit is that this research will enrich academic literature in the field of taxation—specifically international taxation regarding transfer pricing practices, Base Erosion and Profit Shifting (BEPS), and tax administration for cross-border transactions.

In practical terms, this research is expected to yield the following benefits:

1. For the Directorate General of Taxes, this can serve as input for refining policies and strategies regarding transfer pricing supervision.

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2. For the government, this research serves as a basis for consideration in formulating more effective international tax regulations.
3. For academics, this research can serve as a reference for the development of studies on international taxation and tax governance.
4. For taxpayers and multinational business entities, this study is expected to provide an understanding of the importance of compliance with the arm's length principle in cross-border affiliated transactions.

METHOD

This study employs a qualitative approach utilizing a literature review method. A qualitative approach was selected because the research focuses on analyzing legal norms, tax policies, and the various tax administration instruments used by the Directorate General of Taxes (DGT) to monitor cross-border transactions and prevent tax avoidance practices involving transfer pricing. This approach enables the researcher to gain an in-depth understanding of the relationships between regulatory developments, policy implementation, and the potential challenges associated with international tax oversight.

A literature review is a research method that relies on the collection, identification, evaluation, and synthesis of various sources relevant to a research topic. According to Kraus et al. (2022), a literature review is a process of critical evaluation and analysis of research, theories, or publications relevant to a specific topic. Through a literature review, researchers gather, examine, and analyze prior works related to the research topic. In the context of this study, the literature review is used to identify the evolution of transfer pricing regulations in Indonesia, evaluate policies implemented by the government—specifically through the Directorate General of Taxes (DGT)—and examine previous research findings regarding the effectiveness of oversight on cross-border affiliate transactions. This approach is deemed appropriate because the issue under study concerns normative and public policy aspects, which require further examination of government legal documents and scholarly literature.

This study is descriptive-analytical in nature, aiming to systematically describe the various policies established and implemented by the Directorate General of Taxes to prevent profit shifting, while simultaneously analyzing the effectiveness of these policies in safeguarding Indonesia's tax base. A descriptive approach is used to outline the evolution of transfer pricing regulations, whereas an analytical approach is employed to evaluate the relationship between regulations, tax administration, and the objective of preventing tax avoidance.

This study employs a juridical-normative approach, as the majority of the data utilized

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consists of statutory regulations and official government documents. According to Soerjono Soekanto (2001), the juridical-normative approach is a form of legal research conducted by examining library materials or secondary data—specifically regulations and literature relevant to the research topic—as the primary basis for analysis. In this study, the juridical-normative approach focuses on analyzing legal norms governing special relationships between multinational taxpayers, the application of the arm's length principle, transfer pricing documentation, Advance Pricing Agreements (APAs), Mutual Agreement Procedures (MAPs), and the exchange of information between international tax authorities. This analysis of regulations and legal norms aims to understand how the Indonesian tax legal system addresses the challenges of transfer pricing in cross-border transactions.

The selection of the literature review method is also based on the research's relevance to the evolution of international standards issued by the OECD and G20 through the Base Erosion and Profit Shifting (BEPS) project. Several regulations currently implemented in Indonesia represent adjustments and harmonization with OECD recommendations, particularly regarding transfer pricing documentation and Country-by-Country Reporting (CbCR). Consequently, a literature review serves as a highly appropriate method for identifying the linkages between national regulations and international standards in the effort to safeguard state tax revenues (OECD, 2022; pajak.go.id, 2023).

It should be emphasized that this study does not aim to conduct statistical hypothesis testing; rather, it seeks to provide a comprehensive understanding of the measures and efforts undertaken by the Directorate General of Taxes of the Republic of Indonesia to monitor cross-border transactions, based on an analysis of regulations, policies, and published research regarding international taxation.

Data Sources

This study utilizes secondary data as the primary source of analysis. Secondary data refers to information obtained indirectly from the research subject—specifically through various documents, scientific publications, official reports, and legislative regulations relevant to the research topic. According to Hasan (2002), secondary data consists of information obtained or collected by the researcher from pre-existing sources. Such data—sourced from library materials, literature, prior research, books, and the like—serves to support primary information. In this study, data sources are categorized into two groups: primary legal sources and secondary scientific reference sources.

Primary sources of law consist of the various regulations and statutory provisions in force

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in Indonesia that serve as the legal basis for conducting oversight of transfer pricing and cross-border transactions in Indonesia. These regulatory documents include:

1. Law Number 6 of 1983 Concerning General Provisions and Tax Procedures (KUP), as Amended Several Times, Most Recently by Law Number 7 of 2021 Concerning the Harmonization of Tax Regulations.
2. Law Number 7 of 1983 Concerning Income Tax (PPh) as Amended Several Times, Most Recently through Law Number 7 of 2021 Concerning Harmonization of Tax Regulations.
3. Law Number 7 of 2021 Concerning the Harmonization of Tax Regulations (HPP Law)
4. Law Number 8 of 1983 Concerning Value Added Tax on Goods and Services and Sales Tax on Luxury Goods, as Amended Several Times, Most Recently by Law Number 7 of 2021 Concerning the Harmonization of Tax Regulations.
5. Government Regulation (PP) Number 20 of 2026 Concerning Amendments to Government Regulation Number 55 of 2022 Concerning the Adjustment of Regulations in the Field of Income Tax.
6. Government Regulation (PP) Number 45 of 2019 Concerning Amendments to Government Regulation Number 94 of 2010 Concerning Calculation of Taxable Income and Payment of Income Tax in the Current Year.
7. Minister of Finance Regulation Number 172 of 2023 Concerning the Application of the Arm's Length Principle in Transactions Affected by Special Relationships.
8. Minister of Finance Regulation Number 136 of 2024 Concerning the Imposition of Global Minimum Tax Based on International Agreements
9. Director General of Taxes Regulation Number Per-6/PJ/2026 Concerning Procedures for Exercising Rights and Fulfilling Obligations Regarding the Global Minimum Tax Based on International Agreements.

In addition to regulatory sources, this study also utilizes various scholarly literature sources as a theoretical foundation and basis for analysis to gain a comprehensive understanding of transfer pricing oversight in cross-border transactions. These literature sources consist of:

1. Accredited national journal articles discussing the evolution of tax policy and transfer pricing practices in Indonesia;
2. International journal articles examining issues of transfer pricing, tax avoidance, profit shifting, and Base Erosion and Profit Shifting (BEPS) in a global context.
3. Publications from the Organisation for Economic Co-operation and Development (OECD), specifically the OECD Transfer Pricing Guidelines, which serve as the international standard for the application of the arm's length principle.

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4. Results of previous studies examining the effectiveness of transfer pricing policies in Indonesia and other countries.

The use of these various scholarly sources aims to gain a broader academic perspective on transfer pricing challenges, factors influencing tax avoidance practices, and policy recommendations for enhancing the effectiveness of tax oversight. Previous studies also serve as a basis for comparison to evaluate Indonesia's position in addressing profit-shifting challenges within the global economy.

Data Collection Technique

In this study, data collection was conducted through documentary studies and literature reviews. Both techniques were carried out systematically to obtain data that were relevant, valid, and aligned with the research objectives.

Documentary research was conducted by collecting and examining various official documents related to transfer pricing regulations in Indonesia. The documents reviewed included laws, government regulations, Minister of Finance regulations, Director General of Taxes regulations, OECD reports, publications by the Directorate General of Taxes, and international policy documents concerning BEPS.

The identified regulatory aspects include: related party relationships; the arm's length principle; transfer pricing documentation; Country-by-Country Reporting obligations; automatic exchange of information; Advance Pricing Agreements; Mutual Agreement Procedures; as well as OECD Pillar Two and the Global Minimum Tax.

Document analysis was conducted to understand the objectives behind the regulation, its scope, and its application in the oversight of cross-border transactions.

Meanwhile, the literature review was conducted by searching for scholarly articles published in national and international journals relevant to the research theme. The literature search was carried out using academic databases and open-access electronic journal portals.

The criteria for literature eligible for inclusion in this study include: relevance to transfer pricing or international taxation; discussion of tax avoidance practices, BEPS, or profit shifting; recent publication (specifically the 2020–2025 period); and relevance to the Indonesian context and/or international comparisons. Selected literature is subsequently evaluated based on research objectives, methodologies employed, research findings, and resulting policy recommendations. This process aims to provide a comprehensive overview of the evolution of transfer pricing research and the effectiveness of supervisory policies implemented in Indonesia and other countries (Alexander, 2024; Aulia, 2024; Barokah & Sari, 2024).

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Data Analysis Techniques

The analysis technique employed in this study is a descriptive qualitative analysis approach combined with content analysis and comparative regulatory analysis.

Content analysis is used to identify, categorize, and interpret the substance contained in the various regulations and literature serving as the objects of research. This technique is carried out by:

1. Identify regulations related to transfer pricing.
2. Categorize policies based on the oversight instruments employed.
3. Examine the objectives and functions of each policy.
4. Interpret the relationship between national regulations and OECD and BEPS standards.

Through content analysis, research can provide insight into the direction of government policy in addressing the risks of tax avoidance by taxpayers involving international affiliated transactions.

Subsequently, a comparative regulatory analysis was conducted by comparing the evolution of transfer pricing policies in Indonesia with OECD-recommended principles and international tax administration practices. This approach was used to evaluate the extent to which national regulations are harmonized with global standards. The comparison covered several aspects, namely:

1. Transfer pricing documentation;
2. Utilization of Country-by-Country Reports;
3. APA and MAP mechanisms;
4. International exchange of information;
5. Oversight of cross-border affiliated transactions.

The final stage of the analysis involves a descriptive interpretation of all research findings. This analysis is employed to address the research problem by explaining:

1. Forms of transfer pricing risk in cross-border transactions.
2. Strategies of the Directorate General of Taxes to safeguard the national tax base.
3. Effectiveness of transfer pricing regulation implementation.
4. Challenges and opportunities for strengthening tax administration in the future.

The analysis results were then systematically compiled to draw conclusions that reflect the actual state of transfer pricing supervision activities in Indonesia and to propose policy recommendations capable of supporting the increase and optimization of state revenue amidst the dynamics of international taxation.

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RESULTS AND DISCUSSION

Transfer Pricing in Cross-Border Transactions

Transfer pricing refers to the method of determining prices for transactions between related parties (affiliates) within a single business group. Such transactions may encompass the sale of goods, provision of services, payment of management fees, royalty payments for brands or know-how, use of intangible assets, granting of loans, allocation of head-office costs, and even business restructuring. In modern business practice, transfer pricing is considered a legitimate mechanism, as it enables multinational corporations to efficiently allocate resources and economic activities across the various countries where they operate. However, transfer pricing attracts the scrutiny of tax authorities when it is utilized to shift profits to jurisdictions with lower tax rates for the purpose of reducing the overall tax burden(Annisa, 2024; OECD, 2022).

The OECD defines transfer pricing as the mechanism for setting prices in cross-border transactions between related parties. To ensure that the prices used reflect actual market conditions, the OECD introduced the Arm's Length Principle (ALP). This principle requires that the price of an intercompany transaction be comparable to the price that would be applied if the transaction were conducted between unrelated parties under comparable conditions. The principle applies to transactions involving parties with a proven special relationship. The ALP has become an international standard adopted by most countries, including Indonesia (OECD, 2022).

In the context of international taxation, the abuse of transfer pricing is frequently linked to the practice of Base Erosion and Profit Shifting (BEPS). BEPS involves reducing the tax base by shifting profits—a strategy employed by multinational corporations to move earnings from the country where their economic activities actually take place to jurisdictions with lower tax rates or no taxation at all. Such practices can be carried out through the manipulation of prices for goods, services, intangible assets, and loan interest, or via complex corporate structuring. Consequently, the country where economic activity occurs—or the source country of the income—experiences an erosion of its tax base, inevitably leading to a significant reduction in state revenue (OECD, 2022).

As a developing nation, Indonesia faces significant challenges regarding transfer pricing practices. Many multinational companies operating in Indonesia maintain affiliated branches across various international jurisdictions. Disparities in tax rates between Indonesia and other countries create economic incentives for companies to attempt to allocate profits to jurisdictions with lower tax rates. Such practices can only be detected if Indonesian tax authorities effectively monitor affiliate transactions. Consequently, the oversight of cross-border affiliate transactions and the enhancement of tax compliance in this area are crucial for

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safeguarding fiscal sovereignty and state revenue.

A study reveals that all multinational companies employ transfer pricing practices to minimize tax liabilities. Although transfer pricing is a permissible instrument, the practice frequently gives rise to disputes between taxpayers and tax authorities, particularly regarding the determination of arm's-length transaction prices (Serafin & Tjaraka, 2024).

Other research indicates a link between sales transactions with overseas affiliates and tax avoidance strategies among Indonesian manufacturing companies. However, the study also found that the strengthening of transfer pricing regulations weakened this relationship in the period following the implementation of mandatory transfer pricing documentation. These findings demonstrate that government policy plays a crucial role in limiting the scope for profit-shifting practices (Barokah & Sari, 2024).

Transfer Pricing Regulations in Indonesia

Transfer pricing regulations in Indonesia have undergone significant development over the past two decades, particularly since 1983. Initially, the legal basis for overseeing affiliated transactions was established in Article 18, paragraph (3) of Law Number 7 of 1983 Concerning Income Tax (PPh) as Amended Several Times, Most Recently through Law Number 7 of 2021 Concerning Harmonization of Tax Regulations. This Income Tax Law empowers the Directorate General of Taxes to redetermine the amount of income and deductions, as well as to reclassify debt as equity when calculating Taxable Income for taxpayers with special relationships with other taxpayers. Such determinations must align with business fairness and normal commercial practices—uninfluenced by the special relationship—by employing methods such as the comparable uncontrolled price method, resale price method, cost-plus method, or other recognized methods. These provisions serve as the foundation for applying the Arm's Length Principle within the Indonesian tax system.

The evolution of transfer pricing regulations in Indonesia is evident in the introduction of more specific rules aimed at enhancing legal certainty and efficiency for taxpayers. Furthermore, Indonesian regulations have been aligned with practices in most countries worldwide, making the country's tax administration more inclusive and capable of keeping pace with global tax developments (Saragi, 2024).

A subsequent development was the issuance of Minister of Finance Regulation Number 213/PMK.03/2016 of 2016 Concerning Types of Documents and/or Additional Information Required to Be Maintained by Taxpayers Conducting Transactions with Related Parties, and Procedures for the Management Thereof. This regulation mandates the preparation of transfer

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pricing documentation in the form of a Master File, Local File, and Country-by-Country Report (CbCR). The regulation represents a direct implementation of OECD BEPS Action 13, which aims to enhance transparency regarding the affiliated transactions of multinational enterprises.

Subsequently, in 2019, Minister of Finance Regulation Number 49/PMK.03/2019 of 2019 Concerning Procedures for Implementing Mutual Agreement Procedure was issued; this regulation governs the Mutual Agreement Procedure (MAP), enabling domestic taxpayers to submit a request for MAP implementation to the Director General of Taxes—acting as Indonesia's Competent Authority—in instances where tax treatment by the tax authority of a Double Taxation Avoidance Agreement (DTAA or Tax Treaty) partner country is inconsistent with the provisions of the DTAA.

Subsequently, Minister of Finance Regulation Number 22/PMK.03/2020 regarding the Procedures for Implementing Advance Pricing Agreements (APA) was issued. This regulation governs the provisions for Advance Pricing Agreements (APAs)—defined as written agreements between the Director General of Taxes and a taxpayer, or between the Director General of Taxes and the tax authority of a Double Taxation Avoidance Agreement (DTAA) partner jurisdiction (involving the taxpayer)—to agree upon criteria for determining transfer prices and/or to establish arm's-length prices or profits in advance. It stipulates that domestic taxpayers may submit APA applications to the Director General of Taxes regarding Affiliated Transactions, either on their own initiative or upon receiving written notification from the Director General of Taxes. The regulation also outlines procedures for APA applications, processing, implementation, evaluation, and renewal, as well as other related provisions.

Through Law Number 7 of 2021 Concerning the Harmonization of Tax Regulations (HPP Law), the government has further strengthened Indonesia's international tax legal framework. This tax reform was subsequently implemented through Government Regulation (PP) Number 20 of 2026 Concerning Amendments to Government Regulation Number 55 of 2022 Concerning the Adjustment of Regulations in the Field of Income Tax and Minister of Finance Regulation Number 172 of 2023 Concerning the Application of the Arm's Length Principle in Transactions Affected by Special Relationships. This Minister of Finance Regulation (PMK) 172 of 2023 serves as the most comprehensive regulation, integrating various provisions regarding transfer pricing, the Mutual Agreement Procedure (MAP), and the Advance Pricing Agreement (APA) into a single, unified regulation (Team Tax, 2024).

Government Regulation (PP) Number 20 of 2026 Concerning Amendments to Government Regulation Number 55 of 2022 Concerning the Adjustment of Regulations in the Field of Income Tax governs the determination of transfer prices for transactions conducted by

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parties influenced by a special relationship; notably, Article 35 stipulates that Taxpayers engaging in transactions with parties influenced by a special relationship are required to apply the Arm's Length Principle.

Furthermore, PMK 172/2023 expands the definition of a special relationship, affirms and clarifies the applicable transfer pricing methods, adds transfer pricing documentation requirements, and highlights the importance of conducting a sufficient economic analysis to determine the arm's-length nature of an affiliated transaction. This regulation also demonstrates the Indonesian government's commitment to aligning the national tax system with OECD standards, thereby enhancing legal certainty for taxpayers.

From the aforementioned history of the development of transfer pricing regulations in Indonesia, it is evident that the regulatory framework has transformed from a general approach into a more advanced, modern, and integrated oversight system based on international standards.

DGT's Measures to Monitor Cross-Border Transactions

Implementation of transfer pricing documentation

The primary instrument used by the Directorate General of Taxes to monitor cross-border transactions is the requirement to prepare transfer pricing documentation, commonly known as TP-Docs. This documentation comprises a Master File, a Local File, and a Country-by-Country Report (CbCR). The Master File contains general global information regarding the multinational business group, covering its organizational structure, business activities, owned intangible assets, and global transfer pricing policies. Meanwhile, the Local File provides details on affiliated transactions undertaken by the taxpayer in Indonesia, including the methodology for determining transfer prices and the conclusion regarding the application of the arm's length principle. Finally, the CbCR presents an overview of the distribution of income, profit, and taxes paid, as well as the overall economic activities of business group members across various countries (pajak.go.id, 2023).

From the information contained in these documents, the Directorate General of Taxes (DGT) is able to gain a comprehensive understanding of transaction patterns involving affiliates and the potential risks arising from transfer pricing activities. This documentation reporting system enhances transparency while simultaneously fostering voluntary compliance among taxpayers.

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Application of the Arm's Length Principle

As a nation seeking foreign investment, Indonesia faces challenges that arise once such investment materializes. One such challenge is the potential for multinational corporations—which establish branches or representative offices in Indonesia—to engage in transfer pricing practices. Within a multinational corporate group, various inter-company transactions occur, encompassing the sale of goods and services, the licensing of rights and other intangible assets, the provision of loans, and so forth. The determination of prices for these inter-corporate transactions is known as transfer pricing (Harimurti, 2007). Transfer pricing is understood as a corporate policy regarding the pricing of transactions—whether involving goods, services, intangible assets, or financial dealings—conducted by the company (Mulyani et al., 2020). Transfer pricing is also closely linked to the issue of double taxation; countries enter into Double Taxation Avoidance Agreements (DTAAs or Tax Treaty) with the aim of eliminating double taxation and, consequently, boosting foreign direct investment (FDI). Tax Treaties are also intended to prevent tax avoidance, a practice which, according to existing literature, has a negative impact on FDI (Baker, 2014).

Transfer pricing has become a key area of focus for the Directorate General of Taxes (DGT). Multinational companies operating in Indonesia constitute a major component of the tax revenue base; consequently, a lack of proper oversight—leading to widespread tax avoidance practices—could result in a significant potential loss of state revenue.

Therefore, the Directorate General of Taxes (DGT), together with the Government of the Republic of Indonesia, has established a regulatory framework to govern and oversee these practices, ranging from statutes to tiered implementing regulations. Article 36 of Government Regulation (PP) Number 20 of 2026 Concerning Amendments to Government Regulation Number 55 of 2022 Concerning the Adjustment of Regulations in the Field of Income Tax (PP 20/2026) stipulates that the Director General of Taxes is authorized to redetermine the amount of income and/or deductions used to calculate taxable income in cases where a taxpayer fails to follow the procedures for applying the Arm's Length Principle (ALP) in accordance with applicable regulations.

Government Regulation (PP) No. 20 of 2026 outlines the definitions essential for supervising cross-border transactions suspected of non-compliance with *Arm's Length Principle* (PKKU) regulations. This regulation establishes the parameters for defining taxpayers with a special relationship, the concept of transaction arm's-length nature, and the methods for determining appropriate arm's-length transaction values. Meanwhile, Minister of Finance Regulation (PMK) No. 172 of 2023—serving as the implementing regulation—details the stages

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of supervision for cross-border transactions that pose a risk of tax avoidance through transfer pricing.

The stages include the following:

1. Determine and confirm the existence of a special relationship between the parties to the transaction.
2. Examine Transfer Pricing documentation to identify commercial and/or financial relationships between the Taxpayer and affiliated parties, and analyze the conditions of the transactions.
3. Apply transfer pricing methods to analyze comparability and determine transfer prices in accordance with applicable regulations.

The methods employed to determine transfer prices in accordance with the Arm's Length Principle, based on Government Regulation No. 20 of 2026, are as follows:

a. comparable uncontrolled price method;
b. resale price method;
c. cost-plus method; or
d. other methods.

Other methods are as follows:

1. profit split method;
2. transactional net margin method;
3. comparable uncontrolled transaction method;
4. methods for the valuation of tangible assets and/or
5. intangible assets; or
6. methods for business valuation.

The method chosen was based on the results of research on transaction characteristics and the availability of comparative data on independent transactions. The method used allows the tax authority to make transfer price corrections if significant price differences are found that are not in accordance with market conditions, or prices are unreasonable.

Utilization of the Automatic Exchange of Information (AEoI)

In an economically globalized world, relying solely on domestic sources for tax-related information is insufficient. Consequently, Indonesia participates in the Automatic Exchange of Information (AEoI) mechanism, which enables the automatic exchange of financial and tax data between countries. Through AEoI, the Directorate General of Taxes (DGT) obtains information regarding the overseas assets, financial accounts, and economic activities of Indonesian

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taxpayers. This system strengthens tax administration capabilities in identifying potential tax avoidance and affiliated transactions that have not been correctly reported.

Within the tax system, the Automatic Exchange of Information (AEoI) serves as a countermeasure against potential tax evasion—specifically tax avoidance—in the annual tax returns submitted to tax authorities worldwide (including Indonesia). It enables these authorities to access financial information for taxation purposes by overriding confidentiality protections regarding taxpayers' accounts at financial institutions—whether domestic or foreign—thereby creating a more accurate and accountable tax database (Yanuar, 2023). Research by Yanuar (2023) further indicates that optimizing AEoI can drive an increase in state revenue from income tax levies; this is because the primary focus of AEoI is taxpayer financial information held at financial institutions—both domestic and overseas—which is closely linked to increases in the taxpayers' wealth or economic capacity.

In addition, Indonesia exchanges Country-by-Country Reports (CbCR) with various jurisdictions that have a Qualified Competent Authority Agreement (QCAA) in place. This information serves as a crucial component of the transfer pricing audit process. Research conducted in China by Yang (2023) found an increase of approximately 1.7 percent in the effective tax rates paid by companies subject to CbCR reporting requirements. It was also found that CbCR reduces tax avoidance arising from related-party transactions. Yang noted that CbCR has a more significant impact on companies characterized by lower information transparency and higher tax risk. CbCR alters the profit distribution of multinational enterprises, resulting in a decrease in the proportion of profits allocated to the headquarters or parent company (Yang, 2023).

Implementation of Advance Pricing Agreements (APAs)

An Advance Pricing Agreement (APA) is an agreement between the Directorate General of Taxes, a taxpayer, and/or the tax authority of another country to establish criteria and/or determine an arm's length price or arm's length profit in advance for parties with a special relationship (Tarigan, 2022). According to Tarigan (2022), the objectives of an APA are to curb the abuse of transfer pricing by multinational companies—thereby protecting the state against such abuse—minimize tax avoidance by multinational companies, and enforce tax regulations in Indonesia.

For taxpayers, an APA can provide certainty regarding the tax treatment of planned related-party transactions; for the Directorate General of Taxes (DGT), it can reduce audit-related administrative costs and enhance taxpayer compliance. Research by Oktaviani and

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Tambunan (2021) indicates that the implementation of APAs in Indonesia aligns with the OECD's BEPS Action Plan 14 recommendations—which aim to make dispute resolution mechanisms more effective—by adopting best practices that strongly encourage countries to implement bilateral APAs and establish APA guidelines.

Other studies indicate that the APA mechanism offers advantages as a preventive instrument by providing legal certainty prior to the execution of transactions; however, its utilization remains relatively low due to administrative burdens, lengthy negotiation periods, and concerns regarding data confidentiality (Heilbron, 2026).

In Indonesia, PMK 172 of 2023 was issued to strengthen APA regulations, with the aim of encouraging greater use of the APA mechanism by multinational corporate taxpayers operating in the country, thereby enhancing efficiency.

Implementation of the Mutual Agreement Procedure

The Mutual Agreement Procedure (MAP) is an international tax dispute resolution mechanism involving negotiations between the tax authorities of two countries, based on a Double Taxation Agreement (DTA or Tax Treaty). MAP is widely recognized as a mechanism for resolving international tax disputes and addressing cross-jurisdictional double taxation issues—typically governed by Article 25 of Tax Treaties (Defi, 2024). While MAP has proven effective in mitigating the risk of double taxation and offering a dispute resolution alternative to litigation, it still faces challenges such as lengthy processing times, the complexity of bilateral negotiations, and limited institutional capacity (Heilbron, 2026).

The Mutual Agreement Procedure (MAP) serves as a crucial instrument for avoiding double taxation resulting from transfer pricing adjustments made by two different countries. Beyond protecting taxpayers' rights, the MAP also strengthens Indonesia's position in safeguarding its taxing rights over income derived from economic activities occurring within Indonesian territory (Team Tax, 2024).

Implementation of the BEPS Agenda and Global Minimum Tax

As a member of the OECD/G20 Inclusive Framework, there is a commitment to implement various recommendations from the BEPS (Base Erosion and Profit Shifting) agenda (Annisa, 2024). The BEPS agenda is a global project led by the OECD and G20 aimed at preventing multinational enterprises from shifting profits to low-tax jurisdictions to avoid taxation (OECD, 2025). One of the latest developments is the implementation of the Global Minimum Tax (Pillar Two), which establishes a global minimum tax rate of 15 percent for large multinational

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enterprises (Annisa, 2024).

The implementation of a global minimum tax based on the OECD's Pillar Two framework marks a pivotal shift in international taxation, designed to prevent profit-shifting practices by multinational corporations (MNCs) to low-tax jurisdictions (Dilaga & Daryatno, 2025). Research by Dilaga & Daryatno (2025) indicates that the global minimum tax fundamentally alters the landscape of international tax competition, rendering aggressive tax planning strategies less effective and significantly increasing compliance complexity for multinational corporations.

The global minimum tax policy aims to reduce corporate incentives to shift profits to jurisdictions with very low tax rates. In other words, the scope for profit-shifting practices is becoming increasingly limited.

Previous research indicates that the direct impact of reduced profit shifting is an increase in revenue for high-tax countries (Janeba & Schjelderup, 2023). The key insight is that a global minimum tax with a low rate drastically alters incentives for tax havens: the policy encourages these nations to raise their tax rates to the global minimum level, thereby imposing an additional tax burden on companies engaged in profit shifting and potentially resulting in a net negative welfare impact for non-tax-haven countries. Conversely, the welfare impact would clearly be positive if the global minimum tax rate were high enough to halt profit-shifting practices (Johannesen, 2022).

Indonesia has established regulations regarding the implementation of the global minimum tax rate through Minister of Finance Regulation Number 136 of 2024 Concerning the Imposition of Global Minimum Tax Based on International Agreements, and Director General of Taxes Regulation Number Per-6/PJ/2026 Concerning Procedures for Exercising Rights and Fulfilling Obligations Regarding the Global Minimum Tax Based on International Agreements. The global minimum tax policy, as an implementation of Pillar Two, is expected to strengthen Indonesia's position in efforts to safeguard its national tax base in the future.

Effectiveness of Directorate General of Taxes Policies

Supporting Factors

Based on the results of studies and reviews of regulations and literature, there are several factors supporting the effectiveness of transfer pricing supervision in Indonesia, as follows:

a. Aligning national regulations with OECD standards has improved the quality of Indonesia's international tax legal framework. Minister of Finance Regulation (PMK) No. 172 of 2023 provides clear guidelines regarding the application of the Arm's Length Principle and transfer pricing documentation obligations (Team Tax, 2024).

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b. The implementation of the Automatic Exchange of Information (AEoI) and the exchange of Country-by-Country Reports (CbCR) have expanded the Directorate General of Taxes' (DGT) access to global tax information that was previously difficult to obtain. This information and data enhance capabilities regarding risk analysis and tax audits (pajak.go.id, 2023).
c. Enhanced international cooperation through Advance Pricing Agreement (APA) and Mutual Agreement Procedure (MAP) mechanisms enables more efficient and effective resolution of cross-border tax disputes, while providing greater legal certainty for investors acting as taxpayers (Team Tax, 2024).

Inhibiting Factors

However, obstacles still have to be faced in monitoring transfer pricing, including:

a. The availability of comparable data for comparability analysis remains limited, particularly for related-party transactions involving intangible assets or unique business models, making it difficult to find truly comparable transactions.
b. Multinational enterprises with complex organizational structures complicate the process of identifying profit flows; companies may utilize various intermediary entities within the group to shift profits.
c. The expanding digital economy means that many economic activities do not require a physical presence, thereby creating unique challenges in determining a country's taxing rights.

Critical Analysis

The policies implemented by the Directorate General of Taxes (DGT) demonstrate a promising direction in safeguarding the national tax base. Research by Barokah and Sari (2024) indicates that the strengthening of transfer pricing regulations has contributed to reducing the impact of related-party transactions as an instrument for tax avoidance.

Nevertheless, effective regulation is determined not only by the quality of the rules themselves but also by the capacity to implement them. Research by Aulia (2024) highlights the growing importance of leveraging technology, strengthening corporate benchmarking databases, and enhancing the human resource capabilities of tax authorities to address the challenges posed by complex multinational corporate transactions (Aulia, 2024). Other research concerning the implementation of Advance Pricing Agreements (APAs) and Mutual Agreement Procedures (MAPs) indicates that strengthening the capacity of tax institutions and optimizing

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cooperation among the government, taxpayers, and the tax authorities of treaty partner countries are key to maximizing the role of MAPs and APAs in minimizing future transfer pricing disputes. (Heilbron, 2026).

Thus, the success of transfer pricing oversight activities requires a combination of robust regulations, advanced information technology, easy access to international data, and the continuous competence of tax authority personnel.

CONCLUSION

In the current era of globalization, cross-border trade and investment are on the rise, leading to an increase in affiliate transactions by multinational corporations. Transfer pricing is a legitimate mechanism for managing transactions between entities within the same business group. However, if these practices do not adhere to the Arm's Length Principle, transfer pricing can be used to shift profits to countries with low or very low tax rates (tax havens). This contributes to Base Erosion and Profit Shifting (BEPS)—the erosion of a country's tax base resulting from the transfer of profits to jurisdictions that are more advantageous from a tax perspective.

Indonesia faces significant challenges in monitoring transfer pricing transactions due to rising foreign investment, the growth of digital transactions and international trade, and the complex structures of multinational enterprises. To address the risks associated with non-arm's length transfer pricing, the government—through the Directorate General of Taxes—continues to strengthen regulations by mandating the preparation of transfer pricing documentation, specifically the Master File, Local File, and Country-by-Country Report (CbCR). This policy, which aligns with the OECD recommendations under BEPS Action 13, aims to enhance tax transparency and provide tax authorities with extensive access to data regarding the business structures, economic activities, and profit allocation of multinational enterprises across various jurisdictions.

The Indonesian government continues to strengthen transfer pricing oversight through regulatory reforms, such as Law Number 7 of 2021 Concerning the Harmonization of Tax Regulations (HPP Law), Minister of Finance Regulation Number 172 of 2023 Concerning the Application of the Arm's Length Principle in Transactions Affected by Special Relationships, and Government Regulation (PP) Number 20 of 2026 Concerning Amendments to Government Regulation Number 55 of 2022 Concerning the Adjustment of Regulations in the Field of Income Tax.. Minister of Finance Regulation (PMK) 172 of 2023 serves as a crucial regulation, as it comprehensively covers provisions regarding the arm's length principle, transfer pricing

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documentation, Advance Pricing Agreements (APAs), and Mutual Agreement Procedures (MAPs).

In addition to regulatory measures, the Directorate General of Taxes (DGT) is working to enhance tax cooperation with partner countries, supporting mechanisms such as AEoI, APA, and MAP. These efforts aim to make transfer pricing oversight activities more targeted and efficient. Within the international landscape, as a member of the OECD/G20 Inclusive Framework, Indonesia has implemented the Global Minimum Tax.

In terms of policy effectiveness, the strengthening of transfer pricing regulations and administration has yielded positive results; however, significant challenges remain, including a lack of comparable data, the complexity of intangible assets, increasingly complex corporate structures, and the digital economy—with its novel business models—which falls outside the scope of conventional taxation.

Overall, this study concludes that the Directorate General of Taxes (DGT) has demonstrated a strong commitment to safeguarding the national tax base through regulatory reforms, enhanced administrative capacity, the use of technology, and international cooperation. While future challenges will inevitably arise, these measures indicate that Indonesia is on the right track toward a more transparent, equitable, and sustainable tax system.

Recommendation

Based on the analysis, the following are several recommendations that can be considered to strengthen transfer pricing supervision in Indonesia:

1. The Directorate General of Taxes must continuously improve the availability and quality of domestic and regional comparable databases to enhance the quality of comparability analyses. Access to reliable comparable data will improve the accuracy of transfer pricing audits. Collaboration with international database providers and research institutions is necessary to expand the database of comparables.
2. The utilization of international information exchange data and Country-by-Country Reporting (CbCR) needs to be optimized through the use of analytics technology or artificial intelligence (AI) to detect tax risk patterns more quickly and accurately (pajak.go.id, 2023; Yanuar, 2023).
3. Encourage greater use of Advance Pricing Agreements (APAs) to prevent tax disputes. The APA approach is more efficient than resolving disputes after tax adjustments have been made (Heilbron, 2026; Team Tax, 2024).

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4. Prioritize enhancing the competence of tax officials regarding transfer pricing, intangible asset valuation, the digital economy, and international taxation. This recommendation is also supported by transfer pricing research across various countries (Aulia, 2024).
5. Strengthen participation in the OECD/G20 Inclusive Framework agenda—including the implementation of the global minimum tax—to ensure that developments in international taxation continue to safeguard the national tax base (Annisa, 2024).

Limitations

This study employs a literature review approach; consequently, there are limitations in empirically measuring the policy's effectiveness. Therefore, future research could utilize quantitative or mixed-methods approaches—leveraging data on transfer pricing audit disputes or tax revenue figures—to measure the direct impact of the policy's implementation on state revenue and tax compliance.

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