JRSSEM 2025, Vol. 04, No. 10, 1275 – 1287
E-ISSN: 2807 - 6311, P-ISSN: 2807 - 6494

JRSSEM
JOURNAL RESEARCH OF SOCIAL SCIENCE, ECONOMICS, AND MANAGEMENT

ANALYSIS OF THE MOST SUITABLE TRANSFER PRICING METHOD IN MAKING CORRESPONDING ADJUSTMENTS

Nur M Ikhwanudin*, Ning Rahayu
Universitas Indonesia
Email: nur.m21@ui.ac.id, ning.rahayu09@ui.ac.id
**Correspondent:* nur.m21@ui.ac.id

Abstract
The implementation of corresponding adjustments in Indonesia has become a pressing issue amid growing concerns over cross-border tax avoidance and transfer pricing manipulation. Corresponding adjustments are designed to prevent double taxation resulting from primary adjustments made by partner countries in international affiliated transactions. However, their practical application in Indonesia remains limited. This study aims to identify the most appropriate transfer pricing method for conducting corresponding adjustments through qualitative analysis based on a literature review. The findings reveal that transfer pricing methods involving both parties as a single entity in affiliated transactions—specifically, the Comparable Uncontrolled Price (CUP) method, the Cost Plus Method (CPM), and the Profit Split Method (PSM)—are the most suitable. These methods assess prices recorded by both transaction parties, ensuring that the arm’s length principle is tested consistently using a two-sided approach. Furthermore, these methods conduct transaction-by-transaction testing, resulting in higher comparability and greater accuracy in evaluation. The study recommends the application of two-sided methods for corresponding adjustments in Indonesia due to their superior accuracy and comparability, which can strengthen tax compliance and minimize transfer pricing disputes.

Keywords:
Special Relationship; Transfer Pricing; Transfer Pricing Methods for Determining the Arm's Length Price; Corresponding Adjustment.

DOI: 10.59141/jrssem.v4i10.829

INTRODUCTION

The realm of transfer pricing cannot be separated from the context of the behavior of multinational companies (Multinational Enterprises / MNEs) that conduct cross-border transactions (Irawan et al., 2020). The behavior of the multinational company is motivated by economic motives such as establishing companies in several jurisdictions with the aim of efficiency by internalizing costs. This aligns with the trend of economic liberalization, which motivates multinational corporations to broaden their operations internationally. These corporations may pursue business growth through cross-border trade, foreign investments, and offering services to overseas customers (Dangkeng et al., 2023). The rise of this phenomenon corresponds with the increasing presence and influence of multinational enterprises (Hennart, 2012; Papanastassiou et al., 2020).

The growth of multinational companies is accompanied by the emergence of increasingly complex tax-related problems, especially in the countries where they operate on a large scale (Solilová, 2013). The government faces significant challenges in regulating the taxation of multinational corporations, particularly because most transactions conducted by these companies occur between related parties, also known as associated enterprises. Intra-group or affiliate transactions raise complex transfer pricing issues, as companies operating in high-tax jurisdictions may manipulate prices and shift profits or costs to affiliates in low-tax countries or jurisdictions, with the intention of avoiding or evading taxes (Barker et al., 2016).

Both tax avoidance and tax evasion are often challenging for authorities to identify and monitor (Sikka & Willmott, 2010). The implementation of transfer pricing can lead to base erosion and profit shifting, which ultimately diminishes government tax revenues. Responding to this potential, the government has set specific anti-avoidance rules (SAAR) such as the obligation to prepare transfer pricing documentation, supervision, and examination of parties who conduct transactions influenced by special relationships. The objective of such arrangements is to protect the sovereignty of the state in terms of taxing tax subjects and tax objects protected by the constitution. In addition, to ensure the harmony of bilateral and multilateral relations, the countries where multinational companies operate have agreed on a mechanism for allocating taxes on cross-border transactions known as the P3B agreements. These various instruments often cause differences in interpretations between fellow partner countries and cause tax disputes.

This is considering that affiliate transactions are considered to have the potential to reduce state revenue from the tax sector, so the government feels the need to take actions ranging from making arrangements to supervising and auditing taxpayers' business activities in accordance with applicable regulations. This is also inseparable from the right to impose taxes, which is part of the sovereignty of each country, and is regulated in a legal apparatus or the provisions of laws and regulations. Therefore, it is not uncommon for tax rules to lead to differences in interpretation between tax authorities and companies, resulting in tax disputes.

One of the primary objectives for multinational corporations when setting up entities in a country is to obtain legal certainty. To this end, these groups strive to minimize tax disputes, which typically require a lengthy resolution process. In Indonesia, resolving a tax dispute case takes an average duration of 36 months, measured from the issuance of the tax assessment letter (SKP) by the Tax Office until the final ruling is delivered by the tax court (Hidayah, 2018). Transfer pricing represents a type of corporate tax strategy that frequently leads to tax disputes. Essentially, it involves setting prices for transactions conducted between companies operating under the same management (OECD, 2022). Taxpayers implement transfer pricing to enhance operational efficiency, enabling management to optimize the company's profitability (Schön, 2012). Nevertheless, because of its inherent flexibility, transfer pricing is susceptible to misuse as a tool for tax avoidance and evasion. Consequently, developing countries have collectively lost potential tax revenues amounting to as much as USD 200 billion due to transfer pricing-related tax avoidance schemes (Anggarsari, 2023). Therefore, in addition to being the prima donna, the Government of Indonesia is committed to keeping the issue of profit shifts growing through supervision.

Table 1. Number of Dispute Files in 2019-2023

No	Appellant/Defendant	Year					Total
		2019	2020	2021	2022	2023	
1	Director General of Taxes	12.882	14.660	12.317	11.602	10.038	61.499
2	Director General of Customs and Excise	2.142	1.830	2.804	2.889	2.615	12.280
3	Government	24	144	67	218	61	514
	Total	15.048	16.634	15.188	14.709	12.714	74.293

Source: Secretariat of the Tax Court of the Ministry of Finance, 2024

Based on the supervision carried out, especially related to tax audits and tax objections, it is not uncommon for the results in the process to still provide inappropriate results for taxpayers; this can be reflected in the table above, which shows that there are further efforts made to annul the corrections made by the tax authorities. In general, the number of dispute files that have been entered in the last five years can be concluded to be constant and still relatively large.

Table 2. Tax Dispute Resolution in 2019-2023

No	Results of the Decision	Year					Total
		2019	2020	2021	2022	2023	
1	Revocation and designation	240	141	232	507	339	1.459
2	Unacceptable	621	573	1.381	959	1.174	4.708
3	Refuse	2.388	2.507	3.297	4.634	4.574	17.400
4	Increase the amount of taxes payable	1	6	9	1	2	19
5	Grant part of the	1.903	2.282	2.590	3.004	2.769	12.548
6	Grant in full	4.937	4.598	5.338	6.374	7.399	28.646
7	Annul	76	21	112	82	21	213
	Total	10.166	10.128	12.959	15.561	16.278	65.092

Source: Secretariat of the Tax Court of the Ministry of Finance, 2024

According to data from the Tax Court Secretariat, the number of tax dispute cases in Indonesia has shown an upward trend over the past five years. The table above illustrates taxpayers' efforts to reduce their tax liabilities. However, the Directorate General of Taxes (DGT) has maintained a relatively low success rate in these disputes, winning only about 29% of cases (Zulfiqar et al., 2023). This situation is believed to contribute to inefficiencies within the tax administration conducted by the DGT (Nugroho, 2012).

Disputes in transfer pricing may arise from discrepancies in the selection of comparable data, choice of methodologies, processes for calculating fair value, and the outcomes of functional analyses (Irawan et al., 2020). This is largely due to transfer pricing not being regarded as an exact science (OECD, 2022). In Indonesia, current transfer pricing regulations still contain many ambiguous aspects, making them susceptible to disputes (Gunawan & Surjandari, 2022). Furthermore, variations in accounting standards and tax laws can lead to differences in the calculation of income tax amounts (Ulhaq, 2021).

The supervision and audit procedures conducted by the Indonesian tax authorities can be traced through the examination of transfer pricing transactions. According to the Regulation of the Director General of Taxes Number PER-22/PJ/2013 dated May 30, 2013, concerning Audit Guidelines for Taxpayers with Special Relationships (PER-22/PJ/2013), the audit outcomes may include corrections categorized as primary adjustment, secondary adjustment, and related adjustment (also known as corresponding adjustment). Primary Adjustment is detailed in Attachment I Chapter II of the Circular Letter of the Director General of Taxes Number SE-50/PJ/2013 dated October 24, 2013, which provides Technical Instructions for Auditing Taxpayers with Special Relationships (SE-50/PJ/2013) namely: "The difference between the price or profit of the affiliate transaction and the price or fair profit is a *primary adjustment*..." (Directorate General of Taxes, 2013). Meanwhile, *Secondary adjustment* is a positive correction of the difference in transaction value that is influenced by a special relationship but not in accordance with the prevalence and fairness of the business, which is then considered as a disguised dividend. For the imposition of *this Secondary adjustment*, the Taxpayer is subject to Article 26 Income Tax. It is stated in Appendix I, Chapter II SE-50/PJ/2013, namely: "... primary correction made by the Tax Auditor can result in a *secondary adjustment*" (Directorate General of Taxes, 2013). One of the reasons for the imposition *of Secondary Adjustment* is the economic impact in the form of financial benefits that are still enjoyed by counterparties to transactions from Taxpayers who have been subject *to primary adjustment* (Falendysh, 2021). The *corresponding adjustment* is the adjustment of the income of taxpayers in other countries due to primary corrections made in one country (Doly, 2017). A corresponding adjustment refers to a modification carried out by tax authorities in a different country to prevent double taxation resulting from a primary adjustment. For instance, when one country's tax authority amends a company's profits, the tax authority in the other country must implement a suitable adjustment to ensure that the income is not subject to taxation twice.

This study aims to identify the most suitable transfer pricing method to accommodate corresponding adjustments for taxpayers. The research is intended to enhance taxpayers' understanding of managing corrections imposed by tax authorities in the future, thereby preventing double taxation. The increasing trend of tax disputes over the past five years highlights the importance of this research. A desired outcome within Indonesia's tax system is the reduction of tax disputes and the expansion of regulations that support taxpayers in achieving fairness and transparency. Therefore, conducting a thorough analysis of past cases is crucial to improving the effectiveness of tax authorities.

MATERIALS AND METHODS

This study employs a qualitative research approach to obtain an in-depth understanding of the issues surrounding corresponding adjustments and transfer pricing methods in Indonesia (Creswell & Creswell, 2018). Qualitative methods are suitable for exploring complex regulatory and procedural topics by analyzing existing literature and documented information. This approach enables the researcher to gather comprehensive insights into theoretical frameworks, practical challenges, and policy implications related to the study topic.

The data population consists of various sources relevant to the research focus, including academic journals, books, scientific articles, tax regulations, and credible news media covering transfer pricing and tax adjustment practices. The data sample was selected purposively, focusing on sources that specifically discuss corresponding adjustments, transfer pricing methods such as CUP, CUT, and PSM, and their applications in Indonesia. The purposive sampling technique ensures that the study utilizes the most pertinent and authoritative materials to support the analysis. The primary research instrument is a literature review protocol designed to systematically collect, evaluate, and synthesize information from the selected sources. Validity and reliability are maintained by selecting peer-reviewed articles, official government documents, and recognized expert analyses to minimize bias and enhance the credibility of the findings.

Data collection was conducted through systematic literature studies, compiling relevant texts and documents from electronic databases and institutional repositories. The analysis employed content analysis techniques to interpret the data, focusing on the characteristics and suitability of different transfer pricing methods in the context of corresponding adjustments. This methodical approach allows for a clear understanding of best practices and challenges, providing a solid foundation for the study's conclusions and recommendations.

RESULTS AND DISCUSSION

Legal Basis and Supporting Guidance

The foundation for implementing corresponding adjustments in accordance with international standards is stipulated in Article 9 of the UN Model Tax Convention. This article outlines two key elements: (1) the fundamental principles of the arm's length and the definition of associated enterprises, and (2) the provisions concerning corresponding adjustments, as detailed below.

1. *Where :*
   a) *an enterprise of a Contracting State participates directly or indirectly in the management, control, or capital of an enterprise of the other Contracting State, or*
   b) *the same persons participate directly or indirectly in the management, control or capital of an enterprise of a Contracting State and an enterprise of the other Contracting State, and in either case conditions are made or imposed between the two enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which would, but for those conditions, have accrued to one of the enterprises, but, by reason of those conditions, have not so accrued, may be included in the profits of that enterprise and taxed accordingly.*
2. *Where a Contracting State includes in the profits of an enterprise of that State –and taxes accordingly– profits on which an enterprise of the other Contracting State has been charged to tax in that other State and the profits so included are profits which would have accrued to the enterprise of the first-mentioned State if the conditions made between the two enterprises had been those which would have been made between*

independent enterprises, then that other State shall make an appropriate adjustment to the amount of the taxes charged therein on those profits. In determining such adjustment, due regard shall be had to the other provisions of this Convention and the competent authorities of the Contracting States shall, if necessary, consult each other".

The formulation of Article 9 of the OECD Model does not directly disclose the intent and purpose of this provision. However, in the OECD Commentary in Darussalam and Ngantung (2022), it can be seen that the purpose and purpose of Article 9 paragraph (1) of the OECD Model is to avoid economic double taxation. Unlike most articles in the OECD Model, which allocate distributive rules, Article 9 of the OECD Model is more intended to prevent economic double taxation (Darussalam et al., 2022). According to Vogel in Darussalam and Ngantung (2022)Article 9 of the OECD Model is closely related to other articles in the OECD Model, especially Article 7 regarding business profits.

Articles 7 and 9 of the OECD Model Convention generally assert that business profits should be subject to taxation in the jurisdiction where the economic activity generating those profits takes place. Consequently, the objective of Article 9 aligns with that of Article 7, which is to prevent instances of double taxation. A jurisdiction may only apply its domestic rules to adjust transactions between related parties if two conditions are met: (i) the existence of associated enterprises, and (ii) the transactions deviate from the arm's length principle. Nonetheless, it is important to emphasize that the authority to conduct transfer pricing adjustments must originate from each country's national legislation. Therefore, Article 9 does not grant new powers to tax authorities to carry out such adjustments beyond what is already permitted domestically.

Article 9 (1) of the OECD Model contains two essential components: the existence of associated enterprises and transactions that do not conform to the arm's length principle. When both of these criteria are met, tax authorities in one of the treaty partner countries are permitted to make profit adjustments, referred to as primary adjustments. To address the potential for double taxation resulting from such primary adjustments, Article 9 (2) of the OECD Model mandates that the corresponding country involved in the transaction must make an appropriate adjustment. This subsequent correction is known as a corresponding adjustment (also referred to as a correlative, matching, or reciprocal adjustment).

As stated in Paragraph 6 of the Commentary on Article 9 of the OECD Model, a corresponding adjustment should be carried out only when the country on the other side of the transaction agrees that the primary adjustment made by the first country aligns with the arm's length principle. In essence, the implementation of a corresponding adjustment requires mutual agreement between the tax authorities involved (Darussalam et al., 2022) is needed between the countries that hold the P3B. According to Mittal in Darussalam and Ngantung (2022), the burden of proof for the adjustment lies with the country that submitted the primary adjustment.

The method and time period related to the corresponding adjustment are not regulated in the P3B or OECD Commentary, but are left to the domestic provisions of the countries that hold the P3B. However, in the OECD Commentary, it is stated that corresponding adjustments can be made by revising tax provisions or providing additional tax credits as referred to in Article 23 of the OECD Model (Darussalam et al., 2022).

In order to eliminate the effect of double taxation caused by the primary adjustment, the counterparty country must, in principle, make appropriate corrections, also referred to as corresponding adjustments (Vogel, 2015). However, a corresponding adjustment is not an obligation for the opposing country. Corresponding adjustment requires a consensus among the countries that hold the P3B. While such an agreement can be reached through the MAP procedure, in practice, reaching a consensus is not easy.

According to Article 9 (2) of the OECD Model and Paragraph 4.35 of the 2022 OECD Guidelines, a tax authority in one country will only undertake a corresponding adjustment if the primary adjustment imposed by another country's tax authority satisfies two cumulative criteria: first, that it aligns with the arm's length principle, and second, that the amount of the adjustment is deemed accurate. This reflects the notion that the arm's length principle is not an exact science but rather an interpretative framework open to debate. As highlighted in the OECD Guidelines, "*transfer pricing is not an exact science.*" (Darussalam et al., 2022).

Turning to the domestic legal provisions that govern corresponding adjustments, Article 18 paragraph (3) of Law No. 7 of 1983 on Income Tax, as most recently amended by Law No. 7 of 2021 on the Harmonization of Tax Regulations, stipulates that in reassessing the income amount of taxpayers with special relationships, the determination must adhere to the principle of fairness and reflect business practices that are unaffected by such special relationships:

> *The Director General of Taxes has the authority to re-determine the amounts of income and deduction as well as to determine the debt as capital to calculate the amount of Taxable Income for Taxpayer who has special relationship with other Taxpayers in accordance with the arm's length principle that are not affected by special relationships by using the price comparison method among independent parties, the resale price method, the cost-plus method, or other methods;*

This regulation grants the Directorate General of Taxes (DGT) the authority to revise the pricing of transactions conducted between related parties, ensuring compliance with the arm's length principle and standard business practices. Moreover, this provision serves as the fundamental legal basis for enforcing both primary adjustments and the application of corresponding adjustments within the Indonesian tax system.

In accordance with these legal provisions, the implementation is further elaborated in the Regulation of the Minister of Finance of the Republic of Indonesia Number 172 of 2023, dated December 29, 2023, which provides guidance on the application of the arm's length principle and sound business practices in transactions affected by special relationships (hereinafter referred to as PMK 172 of 2023). This regulation reinforces the obligation for taxpayers engaged in affiliated transactions to adhere to the arm's length principle as stipulated in Article 18, paragraph (3) of the Income Tax Law. Although Minister of Finance Regulation (PMK) No. 172 of 2023 does not explicitly address the mechanism of corresponding adjustments, the enforcement of fairness and sound business practices under this regulation inherently implies the necessity of consistent interjurisdictional adjustments to prevent double taxation. This approach aligns with Indonesia's Double Tax Avoidance Agreements (DTAs), particularly Article 9, which generally governs appropriate adjustments in cases involving special relationships. Accordingly, the regulation's emphasis on arm's length and fair business conduct in related-party transactions underscores the importance of mutual adjustments to mitigate the risk of double taxation, consistent with both DTAs and other applicable tax provisions.

Selection of Appropriate Methods in Accommodating Corresponding Adjustment

Establishing the fairness of affiliated transactions for tax purposes necessitates the use of a standardized framework that aligns with the arm's length principle. This framework is reflected in the transfer pricing methods applied (Irawan et al., 2020). There are five methods that are recognized by the OECD and the US and used in transfer pricing analysis. The five methods have also been implemented in regulations in Indonesia. In general, the five transfer pricing methods consist of:

(i) Comparable Uncontrolled Price (CUP) Method – This approach evaluates the price applied in a controlled transaction by comparing it with the price used in a similar transaction between independent entities under comparable conditions. (ii)
(ii) Resale Price Method (RPM) – This method determines transfer pricing fairness by analyzing the gross margin earned from reselling goods purchased from related parties to unrelated parties, and comparing it with gross margins from comparable independent transactions.
(iii) Cost Plus Method – This approach assesses whether the profit margin added to costs in a related-party transaction is consistent with the margins typically observed in similar transactions between independent parties.
(iv) Transactional Net Margin Method (TNMM) / Comparable Profit Method (CPM) – This method evaluates the arm's length nature of transactions by comparing the operating profit margins achieved in related-party dealings with those in comparable independent transactions.
(v) Profit Split Method (PSM) – This method aims to assess the fairness of the profit allocation among related entities within a multinational group, based on each party's functional contributions to the value creation process.

Beyond the five primary methods mentioned earlier, Taxpayers may also utilize additional approaches to establish an arm's length transfer price. These alternative methods have been recognized under the Harmonization of Tax Regulations Law, specifically within the provisions governing Income Tax, such as:

(i) The Comparable Uncontrolled Transaction (CUT) Method – This approach involves comparing prices or profit margins based on specific benchmarks between transactions influenced by special relationships and those conducted independently. It is particularly suitable for transactions that are commercially benchmarked using indicators such as interest rates, discounts, fees, commissions, or royalty rates on sales or operating income.
(ii) Valuation Methods for Tangible and/or Intangible Assets – These techniques are applicable in a variety of transaction types, including:
    a. Transfers of tangible or intangible assets;
    b. leases of tangible property;
    c. arrangements involving the use or rights to intangible assets;
    d. Financial asset transfers;
    e. transfers of rights related to mining concessions or equivalent rights;
    f. Transfers of rights related to plantations, forestry, or similar entitlements.
(iii) Business Valuation Methods – This approach may be utilized in transactions such as:
    a. Corporate restructuring involving the transfer of functions, assets, or risks among affiliated parties;
    b. non-cash contributions of assets to companies or entities in exchange for shares or equity (inbreng);
    c. Transfers of non-cash assets to shareholders, affiliated parties, or members of the company, partnership, or other entity.

Furthermore, if viewed from the analytical side, the transfer pricing method can be divided into two (Taxman, 2012) in (Irawan et al., 2020), namely the one-sided method (one-sided method) and the two-sided method (two-sided method). In the one-sided method, the analysis only includes the perspective of the party that is the tested party. This means that the one-sided method only analyzes the fairness of the price or profit of one of the parties in a transaction that has a special relationship. The analyzed party is referred to as the tested party, while the other party is not a direct subject in the analysis. The characteristics of the one-sided method are: (1) Focusing on parties who have simpler functions, less risk, or more limited contributions to the transaction; (2) It is easier to implement because it only requires financial data or comparative information for the tested party; and (3) Does not consider the advantages or conditions of the other party in the transaction.

Among the advantages of the one-sided method is that external comparative data is easier to obtain, and the simplicity of analysis makes it easier to implement. Meanwhile, the one-sided method is considered to have disadvantages; among others, it does not provide a comprehensive view of the fairness of transactions on both sides and is susceptible to inconsistencies if the functions of both parties in the transaction have large interdependent contributions. The application of the one-sided method included in this category is the RPM, Cost Plus, and TNMM methods.

Meanwhile, the two-sided method is a method that, in its analysis, includes all parties involved in the affiliate transaction that is being tested. This means that the two-sided method analyzes the fairness of the price or profit of both parties in a transaction at the same time. The focus is to ensure that the distribution of profits or economic outcomes between the two parties is proportional to the contribution of each other's functions, assets, and risks. The characteristics of the two-sided method are: (1) Considering information from both parties in the transaction; (2) Usually used when both parties in the transaction have significant and interdependent functions in value creation; and (3) More complex because it requires data from both parties and more in-depth analysis.

Among the advantages of the two-sided method is that it is fairer in determining the allocation of profits because it takes into account the contributions of both parties and is suitable for complex transactions involving intangible assets or strategic collaborations. While the two-sided method is considered to have disadvantages, among others, it requires data from both parties, which is often difficult to obtain, especially for affiliates in other jurisdictions, and the analysis process is more complicated and time-consuming. The methods included in the two-sided method are the CUP and PSM methods. This method requires information about all the companies involved in the transaction.

Table 3. Differences in the Application of the One-Sided Method and the Two-Sided Method

No	Aspect	One-Sided Method	Two-Sided Method
1	Analysis Focus	Only on one party (the tested party)	Both parties to the transaction
2	Complexity	Simpler	More complex
3	Data required	Data from one party (the tested party)	Data from both parties involved
4	Appropriateness of Use	Transactions with parties whose role is simple (less	Transactions with significant contributions from both

No	Aspect	One-Sided Method	Two-Sided Method
		complex)	parties

Source: Data processed by the author from Kristiaji, Irawan, and Febby, 2022

Based on the explanation and table above, the one-sided method is more widely used because it is practical and data is easier to obtain, suitable for transactions involving one party with simpler functions. The two-sided method is more relevant for complex transactions, especially those involving close collaboration between two parties or intangible assets.

Corresponding Adjustment Mechanism and Procedure

The requirements and provisions governing the implementation of corresponding adjustments are categorized into two main aspects. *First,* in the domestic context, it includes Taxpayers applying the arm's length principles carried out by the Indonesian tax authorities and not taking legal action against the Tax Determination Letter that has been issued. *Second,* in the context of cross-border, the terms and conditions are carried out through the Mutual Agreement Procedure (MAP). The following are the mechanisms and procedures for submitting *corresponding adjustments* in domestic and cross-border contexts.

1. Application of *Corresponding Adjustment* in the Domestic Context

Submission of the *corresponding adjustment* refers to PMK 172 of 2023, as a domestic adjustment can be made through:

a. Correction of the Corporate Income Tax Return (CITR);
In cases where a tax audit has not yet commenced, the Taxpayer may revise their Corporate Income Tax Return (CITR) to reflect the transfer price as determined by the Director General of Taxes. Such revision must be accompanied by a formal written notification submitted to the Director General of Taxes via the relevant Tax Office (KPP);

b. The Issuance of a Tax Assessment Letter (SKP) by the Tax Authority
If a tax audit is in progress, the Director General of Taxes may issue a Tax Assessment Letter (SKP) that incorporates adjustments to the transfer price. This action can be taken if the Taxpayer has either submitted a notification to the Director General of Taxes or has revealed discrepancies in the initial disclosure; or

c. Correction of the Tax Assessment Letter (SKP)
If a Tax Assessment Letter (SKP) has already been issued and the Taxpayer has not filed an objection, the Director General of Taxes may revise the letter to reflect the transfer pricing adjustment. This correction is made ex officio by the Director General of Taxes, and the counterparty Taxpayer involved in the transaction must submit a written notification. The procedure aims to rectify the calculation of taxable income by adjusting the transfer price in accordance with the arm's length principle and sound business practices, thereby preventing double taxation.

Accordingly, the procedure for submitting a corresponding adjustment as stipulated in Minister of Finance Regulation (PMK) Number 172 of 2023 is as follows:

a. Initiated by a written notice submitted by the domestic taxpayer involved in the transaction to the Director General of Taxes via the Tax Office (KPP) where the taxpayer is registered, providing details on the determination of the transfer price; and

b. Written notification and disclosure of incorrect filing of the Annual Income Tax Return can be submitted directly, by post, expedition service company, or courier service with proof of mailing, or electronically.

2. **Application of *Corresponding Adjustment* in the Context of Cross-Border Transactions**

Meanwhile, in the context of cross-border transactions, the procedure will be carried out through MAP. MAP is the result of an agreement in the implementation of P3B approval by authorized officials from the Government of Indonesia and the Government of partner countries or partner jurisdictions. The procedure for applying for a MAP in PMK 172 of 2023 is:

a. Submitted in writing in Indonesian;
b. Stating the inconsistency in the implementation of the P3B provisions according to the Taxpayer;
c. Must be submitted within the timeframe specified in the tax treaty (P3B), or within a maximum of three years if not specifically regulated by the P3B, calculated from the date of the tax assessment (SKP); the date of proof of payment, withholding, or collection of income tax (PPh); or when the tax treatment deviates from the provisions of the P3B;
d. The application must be signed by the applicant or the authorized representative of the Taxpayer as referred to in Article 32, paragraph (1) of the General Provisions and Tax Procedures Law (KUP), and must be accompanied by:
   d.1. A certificate of domicile or alternative documentation that includes the identification details of the domestic taxpayer from the treaty partner country involved in the MAP request;
   d.2. A list of information and/or evidence or information owned by the applicant that shows that the tax treatment by the tax authorities of the P3B partner or the discriminatory treatment of the P3B partner is not in accordance with the provisions; and
   d.3. Declare the applicant's willingness to submit information and/or evidence or information completely and on time.

CONCLUSIONS

Based on the literature review and analysis, it is concluded that the most appropriate transfer pricing methods to support the implementation of corresponding adjustments are those that treat both parties in an affiliated transaction as a single unit of analysis. Specifically, the Comparable Uncontrolled Price (CUP) method, the Comparable Uncontrolled Transaction (CUT) method, and the Profit Split Method (PSM) fulfill this criterion by testing prices recorded by both transaction parties. This two-sided approach ensures consistent application of the arm’s length principle through transaction-by-transaction testing, resulting in higher comparability and accuracy. Therefore, the use of these methods is highly recommended for corresponding adjustments. Conversely, one-sided methods are less ideal because they often include a broader range of transactions, including unrelated parties, which may not accurately reflect the corrections needed for specific affiliated transactions. However, one-sided methods may be applicable under certain conditions, such as when a taxpayer transacts with only one affiliate or when transaction segmentation and individual testing are conducted to align correction values with corresponding adjustments. Future research could investigate the practical challenges and effectiveness of implementing these recommended methods within Indonesia’s tax regulatory framework, as well as explore the impact of emerging digital transaction complexities on transfer pricing adjustments.

REFERENCES

Anggarsari, M. (2023). Transfer Pricing Pada Perusahaan Multinasional: Pengaruh Pajak, Tunneling Incentive, dan Mekanisme Bonus. *Jurnal Riset Akuntansi Tirtayasa*, *8*(1), 34–46.

Barker, J., Asare, K., & Brickman, S. (2016). Transfer Pricing As A Vehicle In Corporate Tax Avoidance. *Journal of Applied Business Research (JABR)*, *33*(1), 9–16. https://doi.org/10.19030/jabr.v33i1.9863

Creswell, J. W., & Creswell, J. D. (2018). *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches* (5th ed.). Sage Publications.

Dangkeng, A., Ramli, M., & Wijaya, H. (2023). *Pengantar perdagangan bisnis internasional*. Azka Pustaka.

Darussalam, Septriadi, D., & Kristiaji, B. B. (2022). *Transfer Pricing: Ide, Strategi, dan Panduan Praktis dalam Perspektif Pajak Internasional* (Edisi Kedua (Volume I)). Danny Darussalam Tax Center.

Doly, T. (2017). *Pertanyaan Dasar Seputar Pajak Internasional (Part III)*. https://nusahati.com/2017/07/pertanyaandasar-seputar-pajak-internasionalend

Falendysh, A. (2021). *Secondary Transfer Pricing Adjustments: Interpretation Challenges within the EU and International Perspectives*.

Gunawan, C. T., & Surjandari, D. A. (2022). Pengaruh penetapan harga transfer, intensitas modal dan manajemen laba terhadap penghindaran pajak. *Jurnal Ekonomi, Keuangan dan Studi Akuntansi*, *4*(2), 184–190. https://doi.org/10.32996/jefas.2022.4.2.14

Hennart, J. (2012). Emerging market multinationals and the theory of the multinational enterprise. *Global Strategy Journal*, *2*(3), 168–187.

Hidayah, K. (2018). Penyelesaian sengketa pajak Indonesia dalam koperasi. paradigma dibandingkan dengan Inggris dan Australia. *Seri Konferensi IOP: Ilmu Bumi dan Lingkungan*, *175*, 12203. https://doi.org/10.1088/1755-1315/175/1/012203

Irawan, F., Rahayu, B. R., & Nadjibah, E. M. (2020). *Pajak internasional: Menghadirkan sengketa pajak dengan safe harbourAdab*.

Nugroho, R. A. (2012). Faktor–Faktor Yang Mempengaruhi Kemauan Untuk Membayar Pajak Dengan Kesadaran Membayar Pajak Sebagai Variabel Intervening. *Diponegoro Journal Of Accounting*, *1*(2), 1–11.

OECD. (2022). *OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administration*. OECD Publishing.

Papanastassiou, M., Pearce, R., & Zanfei, A. (2020). Changing perspectives on the internationalization of R&D and innovation by multinational enterprises: A review of the literature. *Journal of International Business Studies*, *51*, 623–664.

Schön, W. (2012). Penetapan harga transfer–Insentif bisnis, persaingan internasional perpajakan dan hukum perusahaan. In *Dasar-Dasar Penetapan Harga Transfer Internasional dalam Hukum dan Ekonomi* (hal. 47–67). https://doi.org/10.1007/978-3-642-25980-7_4

Sikka, P., & Willmott, H. (2010). The dark side of transfer pricing: Its role in tax avoidance and wealth retentiveness. *Critical Perspectives on Accounting*, *21*(4), 342–356. https://doi.org/10.1016/j.cpa.2010.02.004

Solilová, V. (2013). Transfer pricing and safe harbours. *Acta Universitatis Agriculturae et Silviculturae Mendelianae Brunensis*, *61*(7), 2757–2768.

https://doi.org/10.11118/actaun201361072757

Ulhaq, A. R. D. (2021). Studi Literatur Mengenai Dampak Penerapan PSAK 73 Terhadap Koreksi Fiskal Dan Perpajakan Badan Di Indonesia Dari Sisi Penyewa. *Jurnal Ilmiah Bidang Keuangan Negara dan Kebijakan Publik*, *1*(2).

Vogel, K. (2015). *Double taxation conventions* (3rd ed.). Wolters Kluwer.

Zulfiqar, F. L., Ulupui, I. G. K. A., & Respati, D. K. (2023). Sebuah kualitatif analisis kinerja audit pajak penetapan harga transfer di Indonesia. *Akurasi: Jurnal Riset Akuntansi Dan Keuangan*, *5*(1), 73–84. https://doi.org/10.36407/akurasi.v5i1.805