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TRANSFER PRICING MECHANISM WITHOUT INVOLVING FOREIGN AFFILIATES

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Abstrak: Selama ini, banyak yang berpendapat bahwa tindakan transfer pricing untuk tujuan penghematan pajak hanya bisa dilakukan oleh oleh suatu grup usaha yang memiliki perusahaan afiliasi di luar negeri terutama negara surga pajak atau negera yang tarif pajak penghasilan badannya lebih rendah dari tarif pajak negara Indonesia. Anggapan tersebut tidaklah benar, perusahaan sebagai wajib pajak dapat melakukan transfer pricing untuk meminimalkan pembayaran pajak walaupun tidak melibatkan transaksi dengan perusahaan afiliasi luar negeri. Bentuk penelitian ini merupakan penelitian kuantitatif deskriptif. Hasil kajian diperoleh dengan mempelajari peraturan perpajakan dan sejumlah riset yang terkait. Hasil kajian menyimpulkan suatu grup usaha dapat melakukan transfer pricing untuk tujuan penghematan pajak dengan cara membeli barang atau jasa dari perusahaan afiliasi sendiri dengan lebih mahal (mark up) atau lebih murah (mark down) karena lawan transaksi dikenakan PPh final UMKM 0,5%, dikenakan pph final jasa pelaksanaan konstruksi berizin yang maksimal tarif pajaknya 2,65%, jasa pelayaran 1,2%, mendapat fasilitas pasal 31E UU PPh, insentif WP masuk bursa, mendapat fasilitas tax holiday, dan masih memiliki kompensasi kerugian. Dalam riset ini semua skema transfer pricing juga akan disertai ilustrasi perhitungannya. Hasil riset menunjukkan dengan mark up dan mark down harga harga transfer negara berpotensi kehilangan pendapatan pajak sebesar 3% sampai dengan 22%.

Kata Kunci: *transfer pricing dalam negeri, pengehematan pajak, profit shifting, perusahaan afiliasi*

Abstract: *Transfer pricing for tax purposes has been widely understood to only be carried out by business groups with foreign subsidiaries, particularly in tax haven nations or countries where the corporate income tax rate is lower than the tax rate in Indonesia. However, the facts show the opposite; where firms as taxpayers can use the transfer pricing to reduce tax payments even if no transactions with foreign subsidiaries are involved. This study was done in a descriptive-quantitative manner. Findings were obtained by reviewing tax regulations and a variety of related studies. The review concludes that the business groups could use the transfer pricing for tax savings by purchasing goods or services from the subsidiaries at a higher (mark-up) or lower (mark-down) price, because the counterparty would be subject to a 0.5% of MSME final income tax, a maximum of 2.65% of registered construction service final income tax, a 1.2% of shipping service final income tax, the facility under Article 31E of the Income Tax Law, incentives of listed taxpayers, the facility of tax holiday, and loss compensation. In this study, all transfer pricing schemes are followed by simulations of the calculations. The results show that the state might lose 3% to 22% of its tax revenue by marking up and marking down the transfer prices.*

Keywords: *domestic transfer pricing, tax savings, profit shifting, affiliates.*

INTRODUCTION

Tax can be seen from two perspectives. From the government's perspective, it is the primary source of state revenue. Tax income is critical to Indonesia's development, as seen by the tax revenue target of the 2023 State Budget of IDR 1,783 trillion from IDR 2,463 trillion (72.39%) (Fitriani, 2023). Tax evasion could stymie the development and increase the government debt. On the other hand, for businesses, tax is such a burden and the amount of payment must be reduced. This purpose can be achieved through transfer pricing.

The transfer pricing can be defined as a particular transaction price used in transactions between specially connected companies. A unique tax connection can involve a business's relationship with related parties such as owners, family members, affiliates, or subsidiaries. Meanwhile, from a corporate perspective, the transfer pricing can be used to boost corporate earnings by saving tax payments that would otherwise have occurred. In general, the public associates transfer pricing practices with subsidiary transactions with foreign subsidiaries, such as the transfer pricing case involving KPC, in which sales that should have been carried out directly by KPC with overseas buyers were first diverted to PT Indocoal Resource Limited, a subsidiary of PT Bumi Resources Tbk., in Cayman Islands (Wijaya, 2010). Differences in tax rates between nations where Indonesian companies try to do profit shifting by exporting to countries with lower tax rates than Indonesia are the key driver of motivation to take advantage of transactions with the foreign subsidiaries.

Low tax ratio in Indonesia reflects tax collections that are not yet ideal. In 2022, tje tax ratio in Indonesia was only 10.4%, which should have been 15%; while the global average tax ratio was 13.5% (Damara, 2023). The tax ratio refers to a comparison of tax revenue and gross national income. The achievement in 2022 was significantly higher than in previous years, where it was only around 8% to 10% from 2017 to 2021 (Performance Report of Directorate General of Taxes, 2021).

Most previous studies have only concentrated on transfer pricing practices of companies with foreign subsidiaries. However, authors of this present study attempt to demonstrate that transfer pricing measures for tax savings purposes can be carried out by a business group without making transactions with the foreign subsidiaries. Associated tax regulations and simulations of the calculations are provided to help the readers comprehend the methods well.

LITTERATURE REVIEW

1. Transfer Pricing

According to (Kumar et al., 2021): the transfer pricing refers to a practice of fixing prices for transactions between subsidiaries that share ownership and control. The subsidiaries are closely related to special relationships in the context of taxation in Indonesia. According to Article 18(4) of the Income Tax Law, a special relationship exists if a) a taxpayer has direct or indirect capital participation of at least 25% in another taxpayer; there is a relationship between the taxpayers with participation of at least 25% in two or more taxpayers; or there is a relationship between two or more taxpayers explained in the latter; b) the taxpayer controls another taxpayer, or two or more taxpayers are directly or indirectly controlled by the same taxpayer; or c) there is a direct or indirect (one degree) blood or marriage relationship.

There are various methods for determining whether a transfer pricing is reasonable. According to Rossing et al., (2017), there are five methods to determine reasonable transfer pricing, including comparable uncontrolled price (CUP) method, resale price (RP) method, cost plus (CP) method, transactional net margin (TNMM) method, and profit split (PS) method. The use of these methods is also consistent with the adoption of tax regulations in

Indonesia, governed by the Director General of Taxes Regulation Number PER-32/PJ/2011 concerning Amendments to the Director General of Taxes Regulation Number PER-43/PJ/2010 concerning Application of the Principles of Fairness and Normal Business in Transactions between Taxpayers and Parties with Special Relations.

Considering the significant potential for tax avoidance through transfer pricing, the Indonesian government has developed transfer pricing governance that govern the procedures for recording the transfer pricing outlined in PMK-213/2016 applicable since 2016. Transfer pricing measures are designed to maximize revenues for the taxpayers. This is consistent with Wells (1968) who presented an essential perspective on how business organizations might optimize their profit management by utilizing profit centers and appropriate transfer pricing. Excessive transfer pricing activities can ultimately impede the government's poverty alleviation efforts due to the loss of potential state revenue that could be used for social spending (Malesky, 2015).

2. Corporate Income Tax Rate

Corporate income tax rate is 22%, and it has been in place from the tax year of 2020. The corporate income tax rate is imposed from fiscal profit for companies that are liable to income tax under general provisions. the fiscal profit refers to the profit determined in accordance with the terms of the tax regulations. It is obtained from commercial profits that have undergone positive and negative fiscal corrections. Positive fiscal corrections are those that enhance taxable profit, whilst negative fiscal corrections are those that decrease the taxable profit. The following Table 1 shows corporate income tax rates since 2010.

Table 1. Corporate Income Tax Rates

Tax Year	Rate	Legal Basis
2010 - 2019	25%	Article 7 Paragraph 1b of Income Tax Law No. 36 of 2008
2020	22%	Article 5 Paragraph 1a of Government Regulation in Lieu of Law No. 1 of 2020
2021	22%	Article 5 Paragraph 1a of Government Regulation in Lieu of Law No. 1 of 2020
2022	22%	Article 7 Paragraph 1b of Harmonization of Tax Regulations No. 7 of 2021

3. The Facility under Article 31 E of the Income Tax Law

The highest possible tax rate is 22%. Corporate taxpayers with a gross turnover of less than IDR 50,000,000,000 in the current fiscal year will benefit from a lower tax rate. The tax deduction is determined by the taxpayer's gross revenue, explained as follows:

1. The taxpayers having a maximum gross turnover of IDR 4,800,000,000 will receive a 50% tax reduction or an effective tax rate of 11% (50% multiplied by 22%); or
2. The taxpayers whose gross turnover exceeds IDR 4,800,000,000 but does not exceed IDR 50,000,000,000, a portion of their taxable income will be subject to a proportional of 50% or 11% tax reduction, resulting in the income tax payable being calculated as follows:

Table 2. Income Tax Payable for Gross Turnover of IDR 4.8 Billion to IDR 50 Billion

No.	Description		Total Rupiah
1	Taxable Income (Filled from Annual Tax Return, Form 1771, Part A No.3)		
	a.	Taxable Income from the share of gross turnover that obtains the facility: IDR 4,800,000,000 / Gross Turnover * Taxable Income	xxx
	b.	Taxable Income from the share of gross turnover that does not receive the facility: (Taxable Income - Taxable Income from the share of gross turnover that obtains the facility)	xxx
2	Income Tax Payable		
	a.	Income tax payable from taxable income from the share of gross turnover that obtains the facility: (50% x 22% x Taxable income from the share of gross turnover that obtains the facility)	xxx
	b.	Income tax payable from taxable income from the share of gross turnover that does not receive facilities: (22% x Taxable Income from the share of gross turnover that does not receive the facility)	xxx
	Total Of Income Tax Payable		xxx

Source: SE-02/PJ/2015

It should be noted that the gross turnover comprises not only the gross income from the business, but also the gross income from outside the business, such as from current account services, land and building leases, and non-taxable objects (SE-02/PJ/2015).

4. The Facility of Tax Holiday

   A tax holiday refers to a decreased or reduced corporate income tax rate provided to businesses that invest fresh capital in the country for a set period of time. It is intended to make conducting business easier and to boost the competitiveness of the strategic manufacturing sector. The provision of corporate income tax reduction facilities is now governed by the Regulation of the Minister of Finance of the Republic of Indonesia No. 130/PMK.010/2020. If specific conditions are met, the taxpayers can receive a 100% corporate income tax reduction for a period of 20 years (Article 2 of 130/PMK.010/2020). PT Oki Pulp and Paper was one among the enterprises receiving the tax holiday (Issetiabudi, 2015).

5. Final Income Tax
   The implementation of final income tax implies that at the end of the tax year, the tax paid is considered to have been finished and the fiscal profit is no longer calculated, or that there is no overpayment or underpayment of the income tax at the end of the year. One of the objectives of establishing a final income tax is to simplify tax collection and reduce administrative burdens on the taxpayers and the Directorate General of Taxes (explanation of Article 4 Paragraph 2 of the Income Tax Law). The following are a few examples of final income tax impositions that are prevalent in a business group:

Table 3. Income Subject to Final Income Tax

No.	Type of Income	Tax Rate	Legal Basis
1	MSME Final Income Tax	0.5% of revenue	Government Regulation (PP) No. 55 of 2022
2	Construction Service Final Income Tax	1.75% ; 2.65% or 4%	Government Regulation No. 9 of 2022
3	Domestic Shipping Service Income Tax	1.2%	KMK No 416/KMK.04/1996
4	Land or Building Rental Income Tax	10%	Government Regulation No. 34 of 2017

6. The Facility of Reduction for Listed Taxpayers
   The taxpayers who have listed their shares on the Indonesia Stock Exchange and met the relevant requirements are eligible for a 3% tax rate reduction (Law No. 7 of 2021), bringing the effective tax rate down to 19%. The prerequisites for seeking a reduction in corporate income tax are currently established in the Minister of Finance Regulation No. 40 of 2023. A minimum of 40% of paid-up shares traded on the stock exchange must be traded, and outstanding shares must be owned by at least 300 parties with no more than 5% ownership.
7. Loss Compensation
   Companies liable to the income tax under general provisions will pay taxes if they make taxable earnings, but they can be compensated if they make financial losses. Fiscal losses can be repaid by the following taxpayer in a sequence for up to five years (Article 6 Paragraph 2 of the Income Tax Law). The loss compensation enables the companies to not always essentially pay taxes if they have fiscal profits in the current year, and they will want to take advantage of this loss compensation so that it does not expire.

RESEARCH METHODOLOGY

This study was done in a descriptive-quantitative manner. According to Sugiyono (2019: 206), a descriptive study determines the existence of the value of an independent variable, whether it is one variable or numerous variables, without making comparisons or relationships with other variables. Meanwhile, the quantitative method was employed because this study relies on a vast amount of financial data to support the hypotheses. Library research was used to acquire data, which included the data obtained from library sources, tax laws, Ministry of Finance publications, and other sources.

To provide a more full explanation for the readers, the research results were acquired by examining the appropriate tax regulations and presenting the simulations of calculations of relevant tax savings owing to the transfer pricing.

RESULTS AND DISCUSSION

A business group could decrease the tax payments by exploiting gaps in the applicable rules as follows:

1. Making transactions with the subsidiaries whose income tax was subject to Micro, Small and Medium-sized Enterprise (MSME) final income tax.

A business group could reduce the tax payments by setting a higher transfer price for bill receipts because the service provider was only subject to 0.5% of the final income tax, while the recipient could reduce the tax by 22%, resulting in a potential loss of state revenue of 21.5% for the transfer pricing price difference that should not have occurred. For clarity purposes, it can be described as follows:

PT A and PT B are companies in the ABC business group. PT A is in the oil palm plantation business (subject to the corporate income tax rate of 22%), while PT B is a harvesting service company (subject to the MSME final income tax of 0.5%). It is assumed that a reasonable bill for harvest services is IDR 200,000,000, but the bill is increased to IDR 230,000,000 for group tax savings purposes. The savings that can be saved are as follows:

Table 4. ABC Business Group Tax Savings – MSME Final Income Tax Transaction Scheme

ABC Business Group Tax Savings	
# Tax Savings of PT A:	
Tax Deduction = IDR 30,000,000 x 22%	IDR 6,600,000
# Tax Addition of PT B:	
Tax Payment = IDR 30,000,000 x 0.5%	IDR 150,000
Net Group Tax Savings	**IDR 6,450,000**
% Tax Savings = IDR 6,450,000 / IDR 30,000,000	**21.50%**

Based on the simulation above, the state had the potential to lose tax revenue of 21.5% for any increase in unreasonable claims made between the business groups. Such large savings certainly provided more motivation for the business groups to carry out this kind of transfer pricing. The imposition of a very small final income tax did pose a dilemma. On the one hand, it had the potential to be utilized by the taxpayers who would save on paying the taxes, but on the other hand, this small income tax law also helped the MSME taxpayers. Before July 1, 2018, the MSME final income tax was subject to 1%. This facility of MSME taxes had proven to have a significant effect on MSME taxpayer compliance (Sianipar & Sitompul, 2022). In general, the MSMEs were not willing to pay taxes at high rates. The high tax rates would also lead to low taxpayer compliance in Nigeria (Atawodi & Ojeka, 2012).

2. Making transactions with the subsidiaries whose income tax was subject to construction service final income tax

Profits from a corporate group, particularly those involved in plantation and mining sector, could be transferred to the subsidiaries involved in construction services. Plantation or mining enterprises relied heavily on road infrastructure on job sites to carry crops or mining goods. Companies in a business group could save money on the taxes by utilizing the services of subsidiaries at a higher price than other independent enterprises. Road construction and maintenance were subject to construction service final income tax at a rate of 1.75% if the service provider company held a small qualification permit, or 2.65% if the qualification was a medium or large enterprise. For additional information, consider the following example: If the transfer price is increased to IDR 30,000,000, the business group's tax savings can be illustrated as follows:

Table 5. ABC Bsuiness Group Tax Savings – Construction Service Final Income Tax Transaction Scheme

ABC Business Group Tax Savings	
# Tax Savings of PT A:	
Tax Deduction = IDR 30,000,000 x 22%	IDR 6,600,000
# Tax Addition of PT B (If Income Tax Rate is 1.75%)	
Tax Payment = IDR 30,000,000 x 1.75%	IDR 525,000
Net Group Tax Savings	**IDR 6,075,000**
% Tax Savings = IDR 6,075,000 / IDR 30,000,000	**20.25%**

ABC Business Group Tax Savings	
# Tax Savings of PT A:	
Tax Deduction = IDR 30,000,000 x 22%	IDR 6,600,000
# Tax Addition of PT B (If Income Tax Rate is 2.65%)	
Tax Payment = IDR 30,000,000 x 2.65%	IDR 795,000
Net Group Tax Savings	**IDR 5,805,000**
% Tax Savings = IDR 5,805,000 / IDR 30,000,000	**19.35%**

Based on the simulation above, the state might lose 20.25% or 19.35% of its tax revenue for every increase in unreasonable claims made amongst business groupings for an increase in the selling price of construction services. The certificate of construction services granted by the appropriate authority demonstrated the qualification of a small, medium, or big enterprise. Despite the fact that the imposition of construction services had a high potential for tax savings from a business group, Indonesia, as a developing country that still needed to increase its physical growth, required a large number of construction entrepreneurs. According to Tjahjono (2016), the implementation of final income tax substantially simplified the tax administration of construction service entrepreneurs, particularly the application of taxes that were not based on the fiscal profit.

3. Making transactions with the subsidiaries whose income tax was subject to shipping service final income tax

The profits from a business group, particularly those involved in the plantation and mining sector, might be transferred to the subsidiaries involved in shipping services. The plantation or mining firms were typically located outside of Java island, and the plantation or mining goods were brought by ship for processing. Shipping businesses with an existing sea transportation company license (*Surat Ijin Perusahaan Angkatan Laut* (SIUPAL)) would be subject to a 1.2% of final income tax. For further explanation, consider the following example, in which the transfer price was increased to IDR 30,000,000, resulting in a tax savings scheme as follows:

Table 6. ABC Business Group Tax Savings – Shipping Service Final Income Tax Transaction Scheme

ABC Business Group Tax Savings	
# Tax Savings of PT A:	
Tax Deduction = IDR 30,000,000 x 22%	IDR 6,600,000
# Tax Addition of PT B (If Income Tax Rate is 1.2%)	
Tax Payment = IDR 30,000,000 x 1.2%	IDR 360,000
Net Group Tax Savings	**IDR 6,240,000**
% Tax Savings = IDR 6,240,000 / IDR 30,000,000	**20.80%**

According to the simulation, the state might lose 20.80% of its tax revenue for each increase in unreasonable claims made amongst the business groups for an increase in the selling price of shipping services. The final income tax rate of 1.2% was commonly seen as overly low, failing to reflect the true return of shipping businesses, resulting in poor state revenues. Pohan (2016) discovered that the imposition of a final income tax of 1.2% on the shipping businesses which went public on the IDX was significantly low compared to the companies subject to the income at the general rate.

4. Making transactions with the subsidiaries whose incoma tax received the facility under Article 31E of the Income Tax Law

A business group could transfer earnings to the subsidiaries with a turnover of less than IDR 50 billion to qualify for the facility of Article 31E, which allows the income tax rate to be decreased from 22% to a maximum of 11%. For further explanation, consider the following simulation by assuming that the turnover of PT B remains below IDR 4.8 billion, implying that the corporate income tax rate is only 11%. The following simulation follows the previous simulation where the marking up of transaction price is IDR 30,000,000.

Table 7. ABC Business Group Tax Savings – Article 31E of Income Tax Law Subsidiary Transaction Scheme

ABC Business Group Tax Savings	
# Tax Savings of PT A:	
Tax Deduction = IDR 30,000,000 x 22%	IDR 6,600,000
# Tax Addition of PT B (If Corporate Income Tax Rate is 11%)	
Tax Payment = IDR 30,000,000 x 11%	IDR 3,300,000
Net Group Tax Savings	**IDR 3,300,000**
% Tax Savings = IDR 3,300,000 / IDR 30,000,000	**11.00%**

According to the above simulation, the state might lose up to 11.00% of its tax revenue for each increase in unreasonable claims made between business groups for an increase in the selling price of services or goods. It was considered as the maximum because PT B might be subject to the tax rates ranging from 11% to 21.99%. This facility of article 31E of income tax law was one that could be accessed automatically without the need for prior submission. On the one hand, this facility could be used to lower the tax payments for a business group; nevertheless, several taxpayers did not use it due to ignorance (Putong et al., 2019).

5. Making transactions with the subsidiaries whose income tax received incentives for listed taxpayers

The business groups could benefit from the tax savings by applying transfer pricing by adding invoices from publicly traded firms to the subsidiaries subject to 22% of the corporate income tax. This action, in addition to the ability to shift profits, had the potential to improve the value of the company by raising the issuer's profit. As an example, PT C and PT D are members of the CEDE business group. PT C goes public and obtains a 19% reduction in the corporate income tax. PT C bills at a markup price of IDR 30,000,000, therefore the tax savings that the CEDE business group can save are as follows:

Table 8. CEDE Business Group Tax Savings – Listed Taxpayer Subsidiary Transaction Scheme

CEDE Business Group Tax Savings	
# Tax Savings of PT D:	
Tax Deduction = IDR 30,000,000 x 22%	IDR 6,600,000
# Tax Addition of PT C (If Corporate Income Tax Rate is 19 %)	
Tax Payment = IDR 30,000,000 x 19%	IDR 5,700,000
Net Group Tax Savings	**IDR 900,000**
% Tax Savings = IDR 900,000 / IDR 30,000,000	**3.00%**

Based on the above simulation, the state might lose 3.00% of its tax revenue for each increase in unreasonable claims made between the business groups for an increase in the selling price of services or goods from the publicly traded firms to non-TBK subsidiaries. Empirical studies also demonstrated that the ability to cut the corporate income tax rates for the listed taxpayers had a positive influence on the tax avoidance (Octavia & Sari, 2022).

6. Making transactions with the subsidiaries receiving the facility of tax holiday

The companies receiving the facility of tax holiday were exempt from paying the corporate income tax during the facility period. This facility could be used by the business groups to shift profits from the companies that did not receive the facility to the companies that did. For example, the subsidiaries reduced the bills for the goods and services to the companies that received the tax holiday, so that the subsidiaries could reduce the corporate income tax payments or through the companies which received a tax holiday marking up their expenses. For further explanation, consider the following examle, assuming that PT F is a pioneer firm that receives a tax holiday facility in the form of a decrease in the corporate income tax for a period of ten years, and PT G is a supplier of raw materials to PT F. PT F and PT G are subsidiaries that are part of GEEF business group. The price of raw materials sold by PT G is reduced by IDR 30,000,000, resulting in the following tax savings scheme for the GEEF business group:

Table 9**.** GEEF Business Group Tax Savings – Tax Holiday of Taxpayer Subsidiary Transaction Scheme

GEEF Business Group Tax Savings	
# Tax Savings of PT G:	
Tax Deduction = IDR 30,000,000 x 22%	IDR 6,600,000
# Tax Addition of PT F (If Corporate Income Tax Rate is 0%)	
Tax Payment = IDR 30,000,000 x 0%	-
Net Group Tax Savings	**IDR 6,600,000**
% Tax Savings = IDR 6,600,000 / IDR 30,000,000	**22.00%**

Based on the simulation, the state might lose 22.00% of its tax revenue for any unreasonable markdown bills made between the business groups for a decrease in the selling price of services or goods from the companies at the general income tax rate to the subsidiaries receiving the facility of tax holiday. Giving a tax holiday did not always promote foreign investment. According to the findings of a study conducted by (Dahliah & Tjan, 2022), the provision of the tax holiday facility did not promote the foreign investment in the province of South Sulawesi.

7. Making transactions with the subsidiaries which still had the loss compensation

The companies engaged in the plantations and industries typically incurred a fiscal loss from the outset because they had not been able to create income or, if the income was generated, it had not been sufficient to pay all costs. The fiscal loss could only be paid for 5 years from the year of loss, so a business group should make the most of it before the fiscal loss expired. One method that could be done was to mark up the price so that the counterparty of the transaction – a subsidiary – borne a bigger burden, which could minimize the tax payments from the group's perspective. For example, PT L and PT K are both members of LAKA business group. PT L still has the loss compensation that will expire shortly, therefore it sells at a markup price of IDR 30,000,000 to PT K. The simulation of tax savings scheme is as follows:

Table 10. LAKA Business Group Tax Savings – Taxpayer with Loss Compensation Subsidiary Transaction Scheme

LAKA Business Group Tax Savings	
# Tax Savings of PT K:	
Tax Deduction = IDR 30,000,000 x 22%	IDR 6,600,000
# Tax Addition of PT L: (There is Loss Compensation)	
Tax Payment = IDR 30,000,000 x 0%	-
Net Group Tax Savings	**IDR 6,600,000**
% Tax Savings = IDR 6,600,000 / IDR 30,000,000	**22.00%**

According to the above simulation, the state might lose 22.00% of its tax revenue if inappropriate mark-up bills were made between the business groups for sales from the companies that still had the loss compensation to other subsidiaries that were already profitable. The companies with loss compensation would often limit tax evasion actions by ignoring the subsidiary transactions. This was supported by the findings of Putriningsih et al., (2018) who discovered that the compensation for the fiscal loss had a negative influence on the tax evasion in the context of banking companies.

CONCLUSIONS

Based on the simulations provided, under the existing tax regulations, a business group in Indonesia could save the taxes through transfer pricing measures even without involving the foreign subsidiaries or making transactions outside of Indonesia. According to the research and calculations of the simulations, a business group's tax payment savings ranged from 3% to 22%, depending on the conditions and transfer pricing method adopted. The transfer pricing could be used to save the taxes by either marking up or marking down.

Aside from focusing on international transfer pricing transactions, the Directorate General of Taxes must begin monitoring and mapping the possibility for tax avoidance through domestic transfer pricing schemes. The Directorate General of Taxes should closely monitor taxpayer activities, especially if the transactions with the subsidiaries were liable to higher final income tax. Considering that there were many business groups whose subsidiaries were located across multiple Primary Tax Offices (*Kantor Pelayanan Pajak Pratama* (KPP)), supervision must be maximized at the regional office (*Kantor Wilayah* (Kanwil)) level, and different KPP suggested that the account representatives were also different people. Furthermore, the authors agreed with Sampurna et al., (2022) that the government should change the taxation of the 1.2% of shipping service final income tax to the imposition of income tax at a general rate in order to prevent the tax evasion through a transfer pricing scheme for the business groups.

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