



Crowe

**Crowe Transfer Pricing
Wednesday**

Transfer Pricing Compliance in Indonesia



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Preface

At the end of 2016, the Minister of Finance of the Republic of Indonesia issued a regulation no. PMK-213 in the year 2016 that enacted the types of documents and/ or additional Information that must be prepared by Taxpayers conducting related party transactions.

This regulation (i.e. PMK-213) become the legal basis for the preparation of Transfer Pricing Documentations (TPD), guidelines for the information that is required in the TPD and preparation timeline.

Relevant Laws, Regulations and Provisions

Article 18 paragraph 3 of the Income Tax Law mentioned that the Director General of Taxation (DGT) has the authority to re-determine the amount of income and deductions and determine debt as capital to calculate the amount of Taxable Income for Taxpayers who have special relationships with other Taxpayers in accordance with the arm's length principle that is not influenced by special relationships using the price comparison method between independent parties, the resale price method, the cost-plus method, or other methods.

Transfer Pricing Documentation Requirements

According to PMK-213, TPD shall consisted of the following reports:

- a. Local File;
- b. Master File; and
- c. Country by Country Report ("CbCR").

Local Files should contain Taxpayer information regarding:

- a. Identity and business activities conducted;
- b. Related parties' transactions and independent transactions;
- c. Arm's length principle applications;
- d. Financial information; and
- e. Non-financial events that influence pricing strategy or profit level.

If a Taxpayer has more than one business activity with different business characteristics, local files must be presented in a segmented basis according to the business characteristics.

Master Files should contain Taxpayer's Business Group information such as:

- a. Structure and ownership as well as country or jurisdiction of each company;
- b. Business activities;
- c. Intangible assets owned;
- d. Financial and financing activities; and
- e. Parent Entity consolidated financial statements and tax information related to related parties transactions

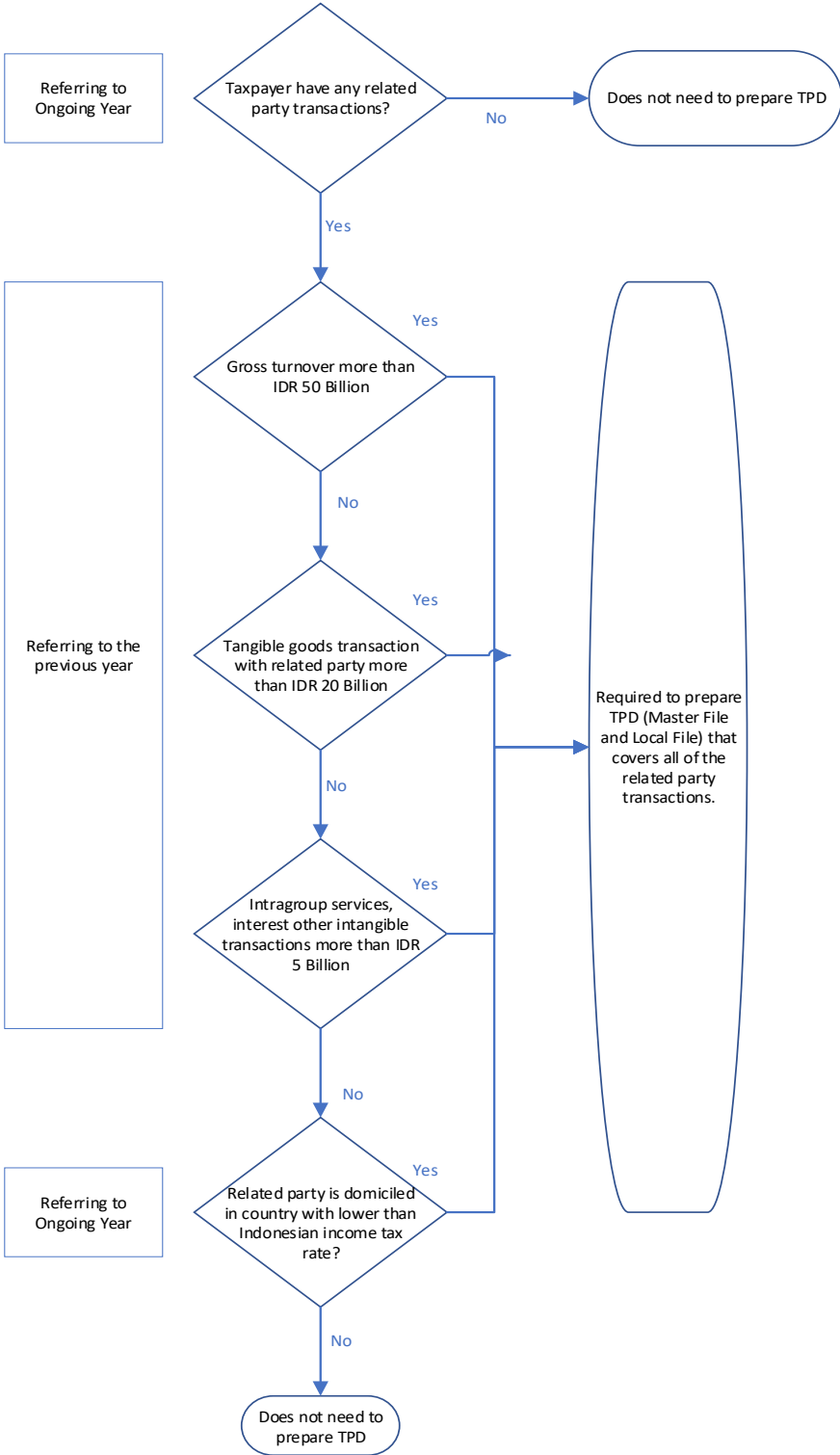
CbCR should contain information as follows:

- a. Income allocation, taxes paid, and business activities per country of all members of the Business Group both domestically and abroad, which includes the name of the country or jurisdiction, gross turnover, profit (loss) before tax, income tax that has been withheld/ collected/paid by themselves, income tax payable, capital, accumulated retained earnings, number of permanent employees, and tangible assets other than cash and cash equivalents.
- b. List of business group members and main business activities per country.

TPD must be prepared by the Taxpayer in Indonesian language.

If the Taxpayer has received permission from the Minister of Finance to carry out bookkeeping in a foreign language and in a currency other than rupiah, the TPD can be made in accordance with the foreign language stated in the permit for carrying out bookkeeping and accompanied by a translation in Indonesian language.

Flowchart of TPD Requirements



Conclusion

Similar with other Asia Pacific countries, the Indonesian Ministry of Finance have issued transfer pricing regulation in Indonesia to combat the base erosion and profit shifting practice via non-arm's length related party transactions. The Indonesian transfer pricing regulation is aligned and adopted many aspects from the international guidelines such as the OECD Transfer pricing Guidelines. For MNE group operating in Indonesia, ensuring full compliance with TPD requirements will be crucial to mitigate potential tax risks.

Contacts Crowe Indonesia

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