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Evaluation of Lease Pricing with Affiliates: Case Study of PT ABC

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Abstract: This research aims to evaluate the related-party rent pricing of PT ABC by applying procedures outlined in Tax Regulations, Minister of Finance Regulations, and the OECD Transfer Pricing Guidelines (TPG). This study is an evaluation using a qualitative approach through semi-structured interviews with respondents from the research object. The research demonstrates that the rent transactions conducted by PT ABC comply with the arm's length principle, supported by a substantial amount of comparable data. PT ABC has also adopted the Comparable Uncontrolled Price (CUP) method as a transfer pricing method for lease transactions with affiliates. This research also explains the use of the CUP method in testing affiliate transaction pricing carried out by PT ABC.

Keywords: Affiliated Lease Transaction, Transfer Pricing, Arm's Length Principle, CUP Method, TNMM Method

INTRODUCTION

International trade is one of the important pillars of the Indonesian economy. In 2023, Indonesia faced various dynamics in the trade sector that were influenced by many factors. Globalisation is one of the factors affecting international trade because its rapid growth has changed the mindset of business actors and made cross-border transactions very easy to carry out (Sebele-Mpofu et al., 2021). The influence of globalisation can be seen in Indonesia's trade balance, which recorded a surplus of USD36.93 billion amid the global economic slowdown (Kacaribu, 2024). In 2022, world trade in goods was worth about USD25 trillion, while trade in services contributed about USD6.5 trillion; global trade was severely affected by the COVID-19 pandemic in 2020 but recovered strongly in 2021 and continued to increase in 2022 (UNCTAD, 2023). The total value of Indonesian trade reached IDR1,621.97 trillion, with the largest contribution from DKI Jakarta at IDR377.71 trillion (Badan Pusat Statistik, 2024). The largest commodity group contributed by DKI Jakarta came from the motor vehicle manufacturing industry, reflecting increasing global competitiveness and continuously improving production efficiency.

Efficiency is the key to improving the competitiveness of Indonesia's manufacturing industry in the global market. High efficiency in production and distribution can increase the competitiveness of Indonesian products in the international market, reduce production costs, and increase profitability (Badan Pusat Statistik, 2019). To improve efficiency, companies can optimise their supply chains so that goods are distributed faster and optimise the transportation of their products. The same applies to PT ABC, an automotive distributor with the status of a limited risk distributor operating in Indonesia's traditional automotive trade. PT ABC has an extensive network of local and international transactions with affiliated and independent parties. As a distributor, PT ABC plays a crucial role in the supply chain that connects the manufacturer to end consumers efficiently and effectively. To increase its efficiency and productivity, PT ABC has used social media in its marketing and expanded to several locations in Jakarta through a lease system.

In 2019, the management of PT ABC leased eight buildings owned by PT XYZ, the parent company of PT ABC. This step was taken to facilitate the distribution of the products manufactured by PT XYZ so that they could reach end consumers quickly. The lease allows the distributor to adjust quickly to changes in market demand, reduce the risks of asset ownership, and focus on its core business. Because the lease involves the parent company, which is considered an affiliated company, there are various regulations on the recording of lease transactions in related-party transactions that PT ABC must comply with. The recording of lease transactions in transfer pricing is very important to ensure that the transactions comply with the arm's length principle.

Guidance on transfer pricing in lease transactions is regulated in Director General of Taxes Regulation Number PER-09/PJ/2021, which plays an important role in maintaining consistency and fairness in setting lease prices between affiliates in Indonesia (Direktorat Jenderal Pajak, 2021). The arm's length principle affirmed in PER-09/PJ/2021 requires companies to set lease prices that are the same as or equivalent to those that independent parties would choose in similar situations. This is intended to prevent unfair profit shifting through the adjustment of lease prices between affiliates, which can be used to manipulate tax liabilities. By applying this principle, the Directorate General of Taxes aims to ensure that companies pay taxes in accordance with the real profits generated from their business activities in Indonesia, without shifting profits to jurisdictions with low or no tax rates.

Taxpayers may manipulate transactions by exploiting loopholes in tax regulations to reduce the amount of tax paid (Irawan & Safitri, 2021). Director General of Taxes Regulation Number PER-32/PJ/2011 on the arm's length principle in related-party transactions requires entities to apply the arm's length principle when affiliated parties conduct transactions with the entity (Direktorat Jenderal Pajak, 2011). Minister of Finance Regulation Number 22/PMK.03/2020 regulates how to prevent illegitimate tax avoidance practices, such as by requiring companies to prepare transfer pricing documentation, determine the appropriate transfer pricing method, and analyse market data (Kementerian Keuangan Republik Indonesia, 2020). The arm's length principle is the standard used to ensure that the price used in intra-group transactions is consistent with the price that would be used between independent parties in comparable conditions (OECD, 2022).

Several previous studies are relevant to this research, as summarised in Table 1. Irawan and Safitri (2021) assessed the fairness of a related-party lease using an income approach with investment feasibility criteria. Solikhah et al. (2021) examined the factors that influence transfer pricing decisions in manufacturing companies in Indonesia. Januariza and Retnani (2020) and Suryana (2021) analysed the application of transfer pricing methods to affiliated transactions in case studies of PT X Indonesia and PT RB, while Steens et al. (2022) analysed the selection of transfer pricing comparables based on the geographical proximity of the affiliated parties.

Table 1. Relevant Research

Author (Year)	Object and Method	Main Findings
Irawan & Safitri (2021)	Assessment of the fairness of related-party lease transactions; income approach	A lease price is considered fair if it yields NPV > 0, IRR > WACC, and does not exceed the lessee's maximum rate of return; the main challenge is the lack of information disclosure by taxpayers and affiliates
Solikhah et al. (2021)	Determinants of transfer pricing decisions in Indonesian manufacturing firms; quantitative	Model 1 uses related-party transactions and assets and liabilities to explain inbound and outbound transfer pricing potential; Model 2 uses transfer pricing intensity as a proxy for outbound transfer pricing
Januariza & Retnani (2020)	Transfer pricing method for footwear sales of PT X Indonesia; qualitative case study	The transactional net margin method was the most appropriate; the net cost plus of 2.97% was within the range of comparables, so the transactions met the arm's length principle
Suryana (2021)	Evaluation of transfer pricing at PT RB; qualitative descriptive case study	Prices were based on negotiation with the affiliate; the profit level indicator was within the interquartile range of comparables, so the arm's length principle was met
Steens et al. (2022)	Selection of transfer pricing comparables based on geographical proximity; quantitative	The search for comparables can be improved by increasing the number of comparable companies, and accuracy can be increased by expanding observations to the global level while controlling for country risk

Source: Processed by the Authors (2024)

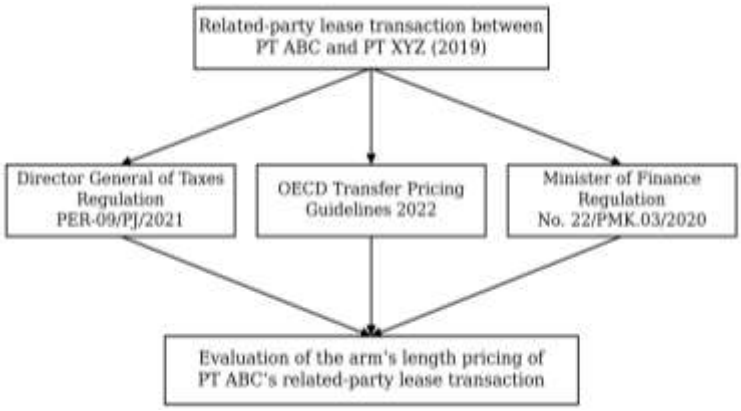
Based on this explanation, this study aims to evaluate the lease pricing between PT ABC and PT XYZ as its parent company based on the regulation of the Director General of Taxes, the regulation of the Minister of Finance, and the OECD Transfer Pricing Guidelines. The research question of this study is how the arm's length pricing of the lease transaction with an affiliated company at PT ABC has complied with the provisions of the tax regulations and the arm's length principle based on the OECD Guidelines.

METHODS

This study is an evaluative analysis with a qualitative approach based on a case study. An evaluative analysis is an explanation of a case that describes a situation in depth about a subject, such as people, teams, products or services, companies, countries, strategies, or policies, that is needed before decisions are made (Ellet, 2018). The case study approach aims to present a report on direct participation in an event and the results of an in-depth analysis of the event examined. This method was chosen to compare theory and regulations with the practice that actually occurs in the field regarding the arm's length pricing of the lease transactions applied by the company.

The data were primary data obtained and collected directly by the researcher through interviews with the parties responsible as informants who were related to the research problem. The informants were the Finance Director of PT XYZ, the Tax Manager of PT ABC, and the Head of Accounting and Finance of PT ABC. The interviews were semi-structured, which allowed the informants to develop their answers more freely than in structured interviews so that the problems could be explained more openly. The researcher prepared the interview questions in advance, while additional questions outside the prepared questions were also possible. The research protocol consisted of making appointments with the research object before the interviews, requesting permission to document the entire interview process, preparing the interview questions based on the tax regulations, keeping the profiles of the informants and the name of the company confidential, and not disseminating the data obtained except for academic purposes.

The data were analysed with qualitative data analysis techniques. Miles and Huberman (1984) explain that qualitative data analysis is carried out interactively and continuously until the data are saturated. The analysis consisted of data collection, data reduction, data display, and conclusion drawing. Data reduction means summarising, selecting, and sorting important information, while data display presents the data in the form of brief descriptions, charts, relationships between categories, and flowcharts (Sugiyono, 2021). The research framework is presented in Figure 1. The lease transaction between PT ABC and its affiliate in 2019 was analysed and then examined for its compliance with Director General of Taxes Regulation Number PER-09/PJ/2021, Minister of Finance Regulation Number 22/PMK.03/2020, and the OECD Transfer Pricing Guidelines 2022.



Source: processed by the authors (2024)

Figure 1. Research Framework

RESULTS AND DISCUSSION

Profile of PT ABC

PT ABC is a distributor of brand X vehicles and spare parts based in Indonesia. PT ABC acts as the main dealer of PT XYZ, the sole brand holder (*Agen Tunggal Pemegang Merek*) of brand X vehicles in Indonesia. PT ABC is a subsidiary of PT XYZ, which is owned by the automotive company XN Corp domiciled abroad. The XN Corp group currently has 127 subsidiaries and 28 affiliated companies worldwide. PT ABC is owned by two parties, namely PT XYZ with 99% and PT ISI with 1%, as presented in Table 2.

Table 2. Ownership Structure

Shareholder	Number of Shares	Ownership Percentage
PT XYZ	36,135	99%
PT ISI	365	1%
Total	**36,500**	**100%**

Source: Processed by the authors (2023)

PT ABC is a distributor of four-wheel vehicles, where all of its purchases of merchandise (cars and spare parts) are made with affiliated parties, while independent transactions occur only in sales to sub-dealers. In the 2019 fiscal year, PT ABC marketed a total of 12 four-wheel vehicle models across various segments and sold spare parts for all the four-wheel vehicles it marketed. Revenue from the sale of vehicles and spare parts in the 2019 tax year was IDR2,031,542,554,000. The affiliated transactions of PT ABC consisted of purchases of vehicles and spare parts, lease expenses, management service expenses, loan interest expenses, cost reimbursements, and bonus income.

Based on the official statistical report of Statistics Indonesia, Indonesia's economic growth in 2019 reached 5.02 percent, lower than the 5.17 percent achieved in 2018. The decline

occurred mainly in the industrial, trade, and construction sectors. The automotive industry, one of the sectors that declined, recorded wholesale car sales of 1,030,126 units in January to December 2019, a decrease of about 10.6 percent compared with 1,151,413 units in 2018. The decline was caused by several factors. The slowdown in economic growth reduced consumers' purchasing power, so consumers were more careful in spending money on luxury goods such as cars. In addition, increasing competition from global and local automotive manufacturers saturated the market, and the many choices of cars with competitive features and prices confused consumers, who eventually delayed their purchasing decisions. Marketing strategy is therefore an important factor for companies to sustain their operations.

Lease Transactions of PT ABC

In 2019, PT ABC leased eight buildings of PT XYZ to support its business operations. The eight buildings leased by PT ABC are owned by PT XYZ, the parent company of PT ABC. The lease transactions had a total value of IDR8.3 billion in the 2019 fiscal year and were carried out to support PT ABC's operations in distributing motor vehicles in Jakarta and the surrounding area. The Finance Director of PT XYZ explained:

"The buildings leased by PT ABC are indeed owned by PT XYZ and are used to support ABC's operations. This transaction is also one of our strategies to expand the dealer network of brand X vehicles in Jakarta so that customer satisfaction increases." (Interview with the Finance Director of PT XYZ, 10 January 2024)

Table 3. Details of the Building Lease of PT ABC

Code	Land Area (m²)	Showroom and Office (m²)	Workshop and Facilities (m²)	Rent/m²/Month Showroom and Office	Rent/m²/Month Workshop and Facilities	Proposed Rent (IDR)
DS	2,570	1,194	1,101	28,378	10,000	538,720,000
GS	2,844	1,654	1,046	35,850	14,500	1,004,920,000
HI	3,226	1,603	626	29,914	11,500	721,574,999
Ck	5,054	1,747	1,600	74,594	25,000	2,644,390,000
Pg	3,814	960	2,554	36,332	12,000	786,324,000
PI	3,375	2,327	1,183	69,953	20,700	2,693,600,000
Total						**8,389,528,000**

Source: Lease price data of PT XYZ to PT ABC (2019). DS = Dewi Sartika; GS = Gading Serpong; HI = Harapan Indah; Ck = Cikarang; Pg = Pulogadung; PI = Puri Indah

Arm's Length Assessment Procedure for the Building Lease

Based on the interviews with PT ABC, the procedure for assessing the arm's length nature of the building lease included problem identification, data collection and selection, and data analysis. The rent of PT ABC is calculated based on the land and building areas in square metres. After PT ABC and PT XYZ agree on the land and building areas to be leased, PT XYZ calculates the rent based on the negotiated rate per square metre. The negotiation usually involves discussions of the factors affecting the rent, such as the location of the property, the condition of the building, the facilities provided, and the lease period desired by PT ABC. After an agreement on the rate per square metre is reached, PT XYZ calculates the total rent by multiplying the rate by the total land and building area leased. The rent then becomes part of the lease contract signed by both parties, which includes details such as the payment schedule, the lease period, and other relevant conditions. The lease of PT ABC is for 5 years, with payments made every month. The contract aims to provide legal certainty and protection for both parties during the lease period.

For PT ABC, leasing buildings has its own advantages in helping the expansion of the dealer network compared with buying buildings. By leasing, the company can allocate more capital to operational and marketing needs and has the flexibility to adjust dealer locations

according to market trends and consumer demand. Leasing also allows the company to avoid high maintenance costs and property taxes so that it can focus on improving services and vehicle sales. This was supported by the Head of Accounting and Finance of PT ABC:

"Our company prefers to lease buildings rather than buy them because leasing provides greater location flexibility, allowing us to adjust to changes in the market and consumer demand. In addition, leasing allows more efficient resource allocation, so that capital can be focused on business development and service improvement without being burdened by high maintenance costs and property taxes." (Interview with the Head of Accounting and Finance of PT ABC, 10 January 2024).

From the side of PT XYZ, the Finance Director explained that the positive response given by PT XYZ as the parent company was based on a thorough analysis of the subsidiary's needs and the market potential at the lease locations proposed by PT ABC. From the supervisory side, PT XYZ can monitor the development of PT ABC more easily, and vehicles from the parent company can be delivered quickly to PT ABC before being distributed to affiliated and independent parties throughout DKI Jakarta.

Director General of Taxes Regulation Number PER-09/PJ/2021 explains how lease prices between affiliates are set so that they meet the arm's length principle, which requires companies to set lease prices that are the same as or equivalent to those that independent parties would choose in similar situations. In searching for comparable data, PT ABC used the rents of shophouses around the locations, obtained through property and shophouse marketplace applications and direct surveys around the locations, as explained by the Head of Accounting:

"In searching for comparable data, we collect building and shophouse rents using property and shophouse marketplace applications and direct surveys around the targeted locations. We also use the selling prices of land and houses around the location as comparables. We then justify our findings with the condition of the buildings we have." (Interview with the Head of Accounting of PT ABC, 17 January 2024).

The criteria used by PT ABC for comparable data include the size, facilities, and condition of the building; the location of the property; the condition and age of the building; the size and layout; and the condition of the property market. After the comparable data were obtained, PT ABC analysed them by comparing average rents, assessing the facilities and physical condition of the shophouses, evaluating the locations by looking at potential customer traffic, analysing local market conditions, and assessing the potential for business growth in the area. However, the data collected could not describe truly comparable conditions because the buildings leased by PT ABC differed from the shophouses around the locations. PT ABC also negotiated the price with PT XYZ as the owner of the buildings. The Tax Manager of PT ABC explained:

"We negotiated the rent of the buildings we lease from PT XYZ as the owner. Let us say the market price for a building is 1 billion per month; our deal price is 528 million. The gap of around 400 million is because at several locations there are differences in facilities, number of floors, and building conditions that can be the basis for our negotiation." (Interview with the Tax Manager of PT ABC, 10 January 2024).

The search for comparable data using the rents of buildings around the locations could not describe similar transactions because the rent of each building differs. Each building offered has differences in the number of floors, the availability of basement parking, building facilities, and the condition of the building itself. PT ABC also does not have an adequate database of building rents in Indonesia. In addition, building rents agreed with customers are often not recorded because they are confidential, and building owners usually do not want to lease their buildings at uniform prices to prospective customers. The Head of Accounting and Finance of PT ABC explained:

"We try to find equivalent comparable data, although it is very difficult because the availability of comparable data is limited. PT ABC still uses the rents of buildings around the location as a reference value for the lease transaction. Let us say the rents of buildings around the location are in the range of 700 million to 1 billion. This price range can vary depending on the area where the building is located. As long as the rent of PT XYZ's buildings is within the average range (in this case within the range of 700 million to 1 billion) and PT ABC can prove where its margin comes from, we consider our deal price appropriate." (Interview with the Head of Accounting of PT ABC, 17 January 2024)

The opinion of the Head of Accounting shows that PT ABC still tried to find comparable data using the rents of buildings around PT XYZ's buildings. The management of PT ABC considers the price difference reasonable and in line with the differences in facilities and conditions obtained by the company. PT XYZ had no problem with a rent below the market price, as it considered that a lower rent helps its affiliate reduce operating expenses so that it can focus on business development and performance improvement. The Finance Director of PT XYZ stated:

"PT XYZ set the rent below the market price because we want to support their growth and financial stability. Moreover, in 2019 sales of brand X vehicles in Indonesia declined due to various external factors such as high operating expenses and increasing competition with competitors. Therefore, a lower rent allows the affiliate to allocate more funds to business development and service improvement, which will ultimately provide long-term benefits for the group as a whole." (Interview with the Finance Director of PT XYZ)

Management considers the difference of around 400 million between the rent of the building in the Dewi Sartika area and the market price to be reasonable and in accordance with the arm's length principle. The price difference arises from the facilities and the number of floors compared with the comparable data. The buildings used as comparables are entirely intended as office buildings, while the buildings leased by PT ABC have three types of rooms, namely offices, showrooms, and workshops. The rents of showrooms and workshops have different values, so that when added up, the rent is lower than that of the comparable buildings. The transaction with PT XYZ is therefore considered to have met the arm's length principle.

Based on these results, PT XYZ determined that the most appropriate transfer pricing method for the lease transaction is the CUP method. The data used as comparables are external comparable price data, namely the prices of transactions between independent entities for similar goods or services under the same conditions as the transactions between related entities. PT XYZ obtained comparable data in the form of the deal prices of building leases by similar companies and the market prices offered by building lessors. Thus, the CUP method can be used in testing the building lease transaction.

Lease Pricing Based on Tax Regulations

Director General of Taxes Regulation Number PER-09/PJ/2021 on guidance for transfer pricing in lease transactions explains that lease pricing between affiliates is based on the arm's length principle, which means that the lease price used between affiliates must be comparable with the price that independent parties would choose under comparable conditions. In the context of leases, PER-09/PJ/2021 instructs companies to conduct a comprehensive analysis of the characteristics of the lease between affiliates, including the identification of the type of lease, the lease duration, the physical location, and the condition of the building.

The building lease of PT ABC covers the lease of land and buildings together with all the equipment in them, such as furniture, office equipment, and other facilities. The lease duration is set at one year, with payments made monthly. The leased buildings are located in eight different places spread across various areas of Jakarta. Although the buildings are

generally in good condition, some of them require minor renovation on the exterior as well as repairs and improvements to the equipment inside to meet the company's operational standards.

The method used by PT ABC to set an arm's length lease price is the market price comparison method (Comparable Uncontrolled Price Method/CUP Method). Referring to PER-09/PJ/2021, the company compares the lease price applied in the affiliated transaction with similar transactions of independent parties. In practice, PT ABC uses comparable data in the form of the rents of buildings and shophouses around the buildings to be leased. PT ABC also broadens the scope of the comparable data by including the purchase prices of shophouses, land, and houses around the locations to obtain a more comprehensive picture of property values in the area. By collecting this information, PT ABC can estimate the price of land per metre more accurately, thereby ensuring that the lease price set is reasonable and in accordance with local market conditions.

Minister of Finance Regulation Number 22/PMK.03/2020 on the Advance Pricing Agreement provides guidance for taxpayers in preparing transfer pricing documents and reports for transactions between parties with a special relationship. PMK 22/2020 is intended to increase transparency and the disclosure of information related to affiliated transactions, and it aims to control and ensure that affiliated transactions are carried out at prices that correspond to actual market values in order to prevent illegitimate tax avoidance.

Evaluation of PT ABC's Transfer Pricing Method Based on the OECD Guidelines

Comparability analysis is the core of the evaluation of a company's transfer pricing method in applying the arm's length principle. It involves determining whether controlled transactions between related parties can be compared with transactions between unrelated parties (Leng & Parlar, 2012). Director General of Taxes Regulation Number PER-32/PJ/2011 requires entities to conduct a comparability analysis before determining the transfer pricing method, considering the characteristics of goods and services, the functional analysis, the contractual terms, the economic conditions, and the business strategy (Feinschreiber, 2004). Article 12 paragraph (3) of PMK-22/PMK.03/2020 sets out the steps of comparability analysis, which shows that the guidance issued in the OECD TPG has been fully adopted in Indonesian transfer pricing regulations. PT ABC conducted its comparability analysis by considering all available transfer pricing regulations. Table 4 presents the nine steps of comparability analysis in the OECD TPG and their application by PT ABC.

Table 4. Comparability Analysis of PT ABC Based on the OECD Transfer Pricing Guidelines

Step	Comparability Analysis Process (OECD TPG)	Application by PT ABC
1	Determination of the years to be analysed	Uses multiple year data to reduce differences between years and reflect the business cycle
2	In-depth analysis of the taxpayer's circumstances	2019 was a difficult year for the automotive industry with increasing competition; consumer-oriented marketing strategy
3	Understanding the affiliated transaction examined	Building lease agreement to support operations, priced by searching for reliable comparables through location surveys and marketplaces
4	Review of internal comparables	Internal comparable data were not available
5	Determination of the availability of information on external comparables	External comparables in the form of rents of similar buildings leased between independent parties at the same or similar locations
6	Determination of the most appropriate transfer pricing method	Market price comparison method (CUP)
7	Identification of potential comparables	Rents of similar buildings in the same area, rents of shophouses, offices, and houses, land prices per square metre, and purchase prices of each type of property

Step	Comparability Analysis Process (OECD TPG)	Application by PT ABC
8	Comparability adjustments where necessary	Adjustments for the showroom and workshop areas, which have different rents
9	Interpretation of the data collected to determine the arm's length aspect	Analysis of comparable data, data adjustment, consistency with OECD principles, and conclusions and recommendations

Source: OECD Transfer Pricing Guidelines 2022, processed by the authors (2024)

In the first step, comparability analysis often uses multiple year data in practice. Paragraph 3.7 of the OECD TPG explains that multiple year data are very useful in providing information about the business cycle and the relevant product cycle of the comparables. This was confirmed by PT ABC:

"To reduce differences each year, PT ABC uses multiple year data. For example, our products have a product life; the price should not be too expensive in the first year it enters the market. However, because the product begins to be accepted by the market in the second year, the price can increase. In the third year, the price may return to its starting point. We try to reduce differences in the product's useful life. Therefore, the multiple year data technique can describe our company's business cycle." (Interview with the Tax Manager of PT ABC, 10 January 2024)

In the context of the building lease, the use of multiple year data is important to ensure that the lease price applied is reasonable and in accordance with market conditions. Data from previous years can be used to analyse whether the lease rate set in the transaction is comparable with the market lease rates in the same period. If lease rates in the area fluctuated in recent years due to changes in economic conditions, these data must be taken into account in setting the lease price, so that the lease is not influenced by non-economic factors such as the affiliation between the subsidiary and the parent company. This also helps to avoid lease prices that are too high or too low, which could create tax problems or compliance issues with transfer pricing regulations.

In the second step, 2019 was a difficult year for the Indonesian automotive industry because the industry developed very rapidly and competition increased, so that consumers had the freedom to choose the goods they would buy. In the lease transaction between PT ABC and PT XYZ, both entities considered aspects similar to marketing strategy in the automotive industry. Just as a consumer-oriented marketing strategy creates products that meet market demand, the building lease must be oriented to the operational needs of the subsidiary to ensure smooth operations and optimal productivity. Through in-depth market research, the subsidiary and the parent company can determine a reasonable and competitive lease price that is in line with the market rents of buildings with similar specifications. This is in line with the statement of the Finance Director of PT XYZ, who strongly supported PT ABC's decision to lease the buildings because PT XYZ wanted to support the growth and financial stability of PT ABC.

In the third step, the affiliated transaction between PT ABC and PT XYZ is a building lease agreement to support the company's operations. The lease price was set by searching for reliable comparable data through location surveys and searches for comparables on marketplaces. PT ABC leased the buildings because the economic conditions at that time declined due to external factors such as increasing business competition, rising operating expenses, and an increasingly saturated automotive market, which required PT ABC to adopt a new business strategy to survive in the Indonesian automotive market.

In the fourth step, the company must consider internal comparables if they are available, in accordance with the OECD TPG, which states that external comparable data are not needed when internal comparable data are available. The reliability of internal comparables must be determined by five comparability factors: the characteristics of goods or services, the analysis

of functions, assets, and risks, the contractual terms, the business strategy, and the economic circumstances (Kurniawan, 2015). Internal comparable data were not available for setting the lease price with the affiliate, so PT ABC had to use external comparable data.

In the fifth step, external comparables are comparisons of transactions between independent parties that are used as a reference to ensure that transactions with affiliates are in accordance with arm's length market conditions. External comparables can be used only if adequate data are available, such as information on market prices or relevant financial data. By comparing the rents of similar buildings leased between independent parties at the same or similar locations, the company can determine whether the rent charged to the subsidiary is within the market price range.

In the sixth step, the method applied by PT ABC in setting an arm's length lease price is the market price comparison method. Based on PER-09/PJ/2021, the company compares the lease price in the affiliated transaction with similar transactions between independent parties, using the rents of buildings and shophouses around the buildings to be leased, and broadens the comparable data by including the purchase prices of shophouses, land, and houses around the locations. In the seventh step, the comparable data used to determine the rent between the parent company and the subsidiary include the rents of similar buildings in the same area, the rents of properties (shophouses, offices, and houses), the price of land per square metre, and the purchase prices of each type of property.

In the eighth step, the OECD explains that data can be considered comparable if there are no differences between the situations compared that could materially affect the conditions examined, and that comparability adjustments should be considered if they can increase the reliability of the results. PT ABC made adjustments in determining the lease price because there were significant differences in the leased buildings, namely the presence of showroom and workshop areas. These differences are reflected in the different rents for the showroom and workshop areas, so adjustments were made so that the lease price could still reflect the actual market value and comply with the arm's length principle. In the ninth step, the data collected were analysed and evaluated in depth to ensure that the transaction was in accordance with arm's length market conditions. This process included the analysis of comparable data to understand market trends and the prevailing price range, the adjustment of the data to address material differences such as differences in facilities, location, and economic conditions, ensuring consistency with the OECD principles, and preparing conclusions and recommendations on the reasonableness of the lease price applied.

Discussion

The use of leases in the operations of a distribution company has several important aspects that can affect its operational efficiency and effectiveness. Companies can use leases to support business expansion that reaches wider customers and to increase distribution efficiency. In addition, leasing can maintain the company's cash flow because no large capital outlay is needed at the beginning. This allows the company to allocate its resources to other areas that support business growth and development, such as marketing, reducing operating costs, reducing high maintenance costs and property taxes, and adjusting dealer locations to market trends and consumer demand.

The close cooperation between PT ABC as the subsidiary and PT XYZ as the parent company allows both parties to increase their overall revenue. This cooperation can take the form of strengthening the distribution network to reduce costs and increase delivery speed, as well as increasing financial efficiency through more effective fund allocation and better risk management. From the supervisory side, PT XYZ can monitor the development of PT ABC more easily because PT XYZ understands what its affiliate needs.

The most important thing in a lease transaction with an affiliate is to set a reasonable lease rate so that the transaction continues to comply with the tax regulations in force in Indonesia. Director General of Taxes Regulation Number PER-09/PJ/2021 explains that companies must set lease prices that are the same as or equivalent to those that independent parties would choose in similar situations. Searching for appropriate comparable data can help companies determine lease rates by considering criteria such as comparing the rents of shophouses around the location, checking rents on marketplace applications, the location of the property, the size and condition of the building, the age of the building, and the condition of the property market at the time of the affiliated transaction. If the lease rate is set below the market price, the company must be able to justify the cause of the difference. In the case of PT ABC, the company set the price below the market because of differences in the facilities and conditions obtained by the company, including differences in the number of floors, the availability of basement parking, and building facilities. The building leased by PT ABC has three types of rooms, namely offices, showrooms, and workshops; compared with the comparable buildings, the rent of PT ABC's buildings is lower because the rents of showrooms and workshops are lower than those of the comparable buildings. In addition, PT ABC had the opportunity to negotiate the lease rate with PT XYZ, so the lease transaction is considered to have met the arm's length principle.

Lease pricing based on tax regulations is governed by PER-09/PJ/2021, which requires companies to analyse the characteristics of leases between affiliates, including the type of lease, duration, location, and condition of the building, and which emphasises the arm's length principle and provides guidance on the methodology for assessing lease prices. PT ABC uses the market price comparison method (CUP method) to set an arm's length lease price because the company compares the rent of the buildings with leased buildings around the locations. PT ABC also includes comparable data such as the purchase prices of shophouses, land, and houses around the locations to estimate the price of land per metre accurately, ensuring that the lease price is reasonable and in accordance with market conditions.

The testing of PT ABC's transfer pricing method used the guidance of the OECD Transfer Pricing Guidelines, which contain nine steps of comparability analysis. Based on this testing, PT ABC uses multiple year data to ensure that the lease price applied is reasonable and in accordance with market conditions. The increasing business competition experienced by PT ABC was a strong reason for the company to expand through a lease system with its parent company to support its operations. The lease price was set using the market price comparison method with external comparable data in the form of the rents of buildings in the same area, and after the data were collected, adjustments were made to address material differences that could affect the arm's length nature of the transaction. Based on this analysis, the lease pricing between PT ABC and PT XYZ has met the arm's length principle by considering the guidance of the OECD TPG, the tax regulations, and the regulation of the Minister of Finance. The steps taken by PT ABC reflect the company's efforts to keep its lease rates in accordance with the regulations in force in Indonesia.

CONCLUSION AND SUGGESTIONS

Conclusion

Based on the analysis, discussion, and results of the study, the results show that the lease pricing conducted by PT ABC has followed the applicable tax guidance, namely Director General of Taxes Regulation Number PER-09/PJ/2021 and Minister of Finance Regulation Number 22/PMK.03/2020. This process involved searching for comparable data that considered differences in facilities and location with the surrounding shophouses, so that the lease price set is within a reasonable range and in accordance with market conditions, meeting the arm's length principle expected in transfer pricing practice. PT ABC uses the Comparable

Uncontrolled Price (CUP) method and the Transactional Net Margin Method (TNMM) to assess the arm's length nature of the lease price with its affiliate. The use of multiple year comparable data in accordance with the OECD Transfer Pricing Guidelines 2022 confirms PT ABC's commitment to ensuring consistency and accuracy in its transfer pricing practice, thereby supporting the stability and sustainability of its business amid changing market dynamics.

Limitations

This study has limitations in the analysis of the transfer pricing method, namely the willingness of the company to provide the latest information and data. PT ABC only allowed the author to use data from before the COVID-19 pandemic, namely the 2019 period. This affects the relevance of the topic to the current situation after the COVID-19 pandemic. In addition, the COVID-19 pandemic resulted in various new tax regulations governing companies in conducting affiliated transactions because of its significant impact on internal and external transactions and the bankruptcy of many companies.

Recommendations

Several short-term recommendations can be implemented by the company as follow-up steps to improve the performance of its affiliated transactions: conducting periodic analysis of financial statements to assess whether affiliated transactions remain at arm's length, searching for comparable data for every transaction to facilitate the company in the event of future audits of affiliated transactions, and compiling a comparable database to facilitate transfer pricing testing of affiliated transactions. The long-term recommendations are to create an integrated recording system for the company's affiliated transactions to make it easier for management to work and conduct comprehensive monitoring, and to review every new tax regulation issued by the government or the tax authority to ensure that every affiliated transaction complies with the tax provisions. Future research is suggested to select a research period that covers the period during and after the COVID-19 pandemic to assess the differences before, during, and after the pandemic, and to implement the latest tax regulations on transfer pricing.

Author Contributions

The first author was responsible for the research conceptualisation, data collection, data analysis, and drafting of the manuscript. The second author contributed to the development of the research framework, the interpretation of the results, and the critical review and revision of the manuscript. Both authors have read and approved the final version of the article.

AI Disclosure Statement

The author declares that this research manuscript was prepared, researched, written, and edited independently without the use of artificial intelligence (AI) technology or techniques

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