

Transfer Pricing Documentation Rebuild

For businesses with two or more related entities that transact with each other. Run this worksheet once per year to confirm every inter-entity transaction has an arm's length price reference and a supporting document.



What This Is For

When two entities with a common owner transact with each other — loans, rentals, management fees, inter-entity goods sales — those transactions are not internal movements from DJP's perspective. Each entity is a separate taxpayer. The price set on the transaction determines each entity's taxable income. If the price is not arm's length, the tax authority can correct it and reassess both entities.

Most multi-entity SME owners are aware of this in principle but have never checked whether documentation actually exists for every transaction in the group. This worksheet forces a systematic pass through every inter-entity flow and produces a documentation status for each. Any row showing "Missing" is the first target in an audit — and identifying it now, before an audit begins, is what separates a manageable correction from a contested one.

Benefits

What you get when you actually run this worksheet on a real situation:

- Surfaces every inter-entity transaction in the group with a single-page status view — often the first time the owner has seen all of them side by side.
- Identifies documentation gaps before the annual return is filed, when there is still time to create missing documents with current-year dates.
- Establishes the arm's length price reference for each transaction type, preventing DJP from setting the reference unilaterally during an audit.
- Builds the foundation for the TP Doc (Master File + Local File) required under PMK 172/2023 for groups whose affiliated transaction values cross the regulatory thresholds.
- Creates a year-on-year comparison showing whether documentation quality is improving — useful for pre-IPO due diligence where investors review all inter-entity transactions.

Framework To Use

— Affiliated Transaction Audit Grid

Map every inter-entity transaction against four columns: price reference, source document, current-year update, and status. Any cell left blank is a gap.

Transaction Type	Arm's Length Reference	Required Document	Audit Risk if Missing
Inter-entity loan	BI / OJK working capital lending rate for the month	Written loan agreement with principal, term, rate	Interest income not reported by lending entity — correctable
Asset rental	Market rate for comparable asset, same location	Lease contract + comparable market survey	Rental income understated — correctable at market rate
Management service fee	Actual costs incurred + reasonable margin	Service contract + activity reports	Entire fee disallowed if no activity evidence
Inter-entity goods sale	Price to independent buyers for same goods	Invoices + comparable third-party transaction records	Price correction to market level on both sides

How To Use

Follow these steps in order. Each one builds on the previous.

- 1** Step 1: List every entity in the group in the header row — include entities where one owner holds 25% or more, or where two entities share common shareholders.
- 2** Step 2: For each transaction type (loan, rental, service fee, goods sale, cost allocation), identify the entities involved and estimate the annual transaction value.
- 3** Step 3: Write the arm's length reference used for each transaction. For loans: the BI or OJK working capital rate for the month the loan was created. For rentals: a comparable market survey. For service fees: actual costs plus a margin.
- 4** Step 4: Write the reference document name and its status (Complete, Incomplete, or Missing). A loan agreement from five years ago that does not reflect current principal is Incomplete.
- 5** Step 5: Flag any transaction where the arm's length reference has not been updated in the current year. A rental price set three years ago without a market survey update is not defensible at today's market.
- 6** Step 6: For every row showing Incomplete or Missing, write the action needed and a deadline. Agreements created before year-end are stronger than agreements created after an audit begins.
- 7** Step 7: After all rows are complete, assess total annual value of affiliated transactions. If above the PMK 172/2023 thresholds, a formal TP Doc (Master File + Local File) is required.

Example Use

A manufacturer (PT A) has a related distribution entity (PT B) that shares a common owner. PT A extends a working capital loan to PT B, leases warehouse space to PT B, and charges a monthly management fee. The owner runs the annual documentation rebuild.

Row 1 — Inter-entity loan, PT A to PT B: Principal \$125,000. Annual interest: \$6,250 (5% per year). The arm's length reference is the BI working capital lending rate at the time the loan was created — 7.5% per year. The current rate is 5%. The loan agreement exists but was written at 5% with no reference to the market rate benchmark. Status: Incomplete. Action: add a one-page addendum to the agreement referencing the OJK working capital rate publication for the origination month. Deadline: before year-end.

Row 2 — Warehouse rental, PT A to PT B: \$1,500/month, \$18,000/year. Arm's length reference: a comparable industrial warehouse in the same district rents for \$1,800–\$2,200/month per listings pulled from a commercial property platform. The lease contract exists and was signed two years ago. The market reference survey was done at signing but has not been updated. Status: Incomplete. Action: pull a fresh market survey for the current year and attach it to the lease file.

Row 3 — Management service fee, PT A to PT B: \$2,500/month, \$30,000/year. Arm's length reference: PT A's direct costs for the services (shared finance staff, IT systems, strategic planning) plus 10% margin. No service contract exists. No activity reports on file. Status: Missing. Action: draft a service contract describing the specific activities, the cost allocation method, and the pricing formula. Create monthly activity reports retroactively for the current year to the extent records allow.

The owner now has a prioritized action list: three transactions, two Incomplete, one Missing. The Missing item is the highest risk — the entire \$30,000 management fee is vulnerable to disallowance without evidence. The Incomplete items are correctable with documentation updates.

The Worksheet

Tear this out, copy it onto a fresh sheet, or fill it in directly.

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TRANSACTION	ENTITIES INVOLVED	AMOUNT (\$/YR)	ARM'S LENGTH REFERENCE USED	REFERENCE DOCUMENT	DOCUMENTATION STATUS
Inter-entity loan – interest			Central bank / regulator working capital rate for [month]		Complete / Incomplete / Missing
Inter-entity loan – principal			Written agreement on file		Complete / Incomplete / Missing
Warehouse / office rental			Market rental survey – comparable property [location]		Complete / Incomplete / Missing
Management service fee			Activity log + cost breakdown + margin		Complete / Incomplete / Missing
Asset sale / transfer			Appraisal or comparable market transaction		Complete / Incomplete / Missing
Shared employee cost allocation			Documented allocation method (time / headcount / revenue split)		Complete / Incomplete / Missing

Reflection Prompts

After filling in the worksheet on the previous page, work through these.

1. Which row shows 'Missing' documentation? That transaction is the first one the tax authority will challenge in an audit. What needs to be created, and by when?
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2. For any loan row without a written agreement: is the current year still open for correction? A written agreement created before year-end is stronger than one created after an audit begins.
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3. Has the arm's length reference for management fees been updated this year? A reference from three years ago no longer accurately reflects current market conditions.
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Tips and Traps

TIPS

- Run this worksheet in October or November, not in December or at the time of the annual return. An October gap gives two months to create documents in the same tax year. A December gap gives two weeks.
- For the management service fee row, the activity report is more important than the contract. A contract without activity records is legal form without substance. An auditor can accept a modest fee if activity records show the services occurred.
- Keep the market rental survey as a PDF with a date stamp. A screenshot of a property listing taken on the day of the annual review is weak evidence. A PDF downloaded from a real estate platform with a visible date is stronger.
- If the group's total affiliated transaction value is approaching the PMK 172/2023 threshold for mandatory TP Doc, start the Master File and Local File before the deadline, not at it. Both documents take several weeks of professional time to prepare properly.

TRAPS

- Treating a zero-interest loan between related entities as 'no transaction.' A zero-interest loan is a transaction with an implicit below-market price. The entity that should have earned interest income has under-reported income. Document it or convert it to a capital contribution.
- Using a management fee that is the same amount every month without an underlying cost calculation. A flat fee without a cost analysis has no defensible arm's length reference. Fees should reflect actual costs plus margin, and costs change year to year.
- Creating contracts with current-year dates for transactions that have been running for years without documentation. Backdating is not an option. What can be done is to document the ongoing arrangement correctly from the current period forward and explain the historical gap honestly.

Appendixes

Appendix A – Arm's Length Reference Sources

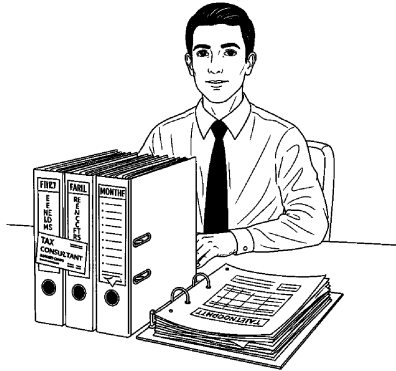
Transaction type	Reference source	Update frequency
Inter-entity loans	Central bank working capital rate published monthly (bank rates page)	At loan origination; review annually
Warehouse / office rent	Commercial property listings, same area (download PDF with date stamp)	Annual (attached to lease file)
Management service fees	Internal cost build-up: staff time + system costs + overhead + 10-15% margin	Annual (cost recalculation)
Inter-entity goods sales	Price list to independent buyers for equivalent product, equivalent volume	Per transaction or annually

Appendix B – PMK 172/2023 TP Doc Threshold Reference

Document required	Threshold condition
Local File	Any affiliated relationship transaction value crosses the annual threshold in PMK 172/2023 – verify exact amount at pajak.go.id or with a registered consultant
Master File	Same conditions as Local File (required together with Local File)
Country-by-Country Report (CbCR)	Group consolidated gross revenue above the CbCR threshold (Rp 11 trillion equiv.) – most SME groups do not reach this level

Submission deadline:

Master File + Local File : within 4 months of end of tax year
CbCR : within 12 months of end of tax year



WHERE THIS WORKSHEET COMES FROM

Tax Optimization for SMEs

Paying Tax Correctly Is the Kind of Business That Sleeps at Night

by Ibrahim Anwar

This worksheet is one of nine in the *Tax Optimization for SMEs* companion worksheet pack. The full pack is grouped into three categories: high-volume worksheets you can run weekly, niche-search worksheets for rare but high-value situations, and specific-case worksheets that walk you through a single concrete scenario.

Every framework, decision filter, and figure used in these worksheets is drawn from the chapters of the source book. The book sets the diagnosis, the worksheets give you the form to act on it.

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