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ANALYSIS THE FAIRNESS OF LOAN INTEREST RATES TO AFFILIATED PARTIES BASED ON THE ARM'S LENGTH PRINCIPLE USING THE CUTM AT PT X

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Abstract

This study aims to analyze the fairness of the loan interest rate applied between PT X and its affiliated party, YZ Ltd., based on the Arm's Length Principle using the Comparable Uncontrolled Transaction Method (CUTM), in accordance with Minister of Finance Regulation (PMK) No. 172 of 2023. This research is motivated by the increasing complexity of transfer pricing practices in intercompany financial transactions, particularly thin capitalization schemes that may be used as a means of profit shifting through the setting of unreasonable loan interest rates. This study employs a qualitative approach with a descriptive-analytical technique through a case study design. Data were obtained from Transfer Pricing Documentation, interviews with six informants representing the company's internal parties, tax consultants, and the tax authority, and were processed using NVivo software. The results show that PT X did not have a comparable internal transaction, so external comparables were used, namely the benchmark interest rates of Bank Indonesia and the Bank of Japan, adjusted with a Country Risk Spread. The fairness test on three loan agreements shows that the interest rates applied by PT X (5.40% for the Rupiah loan, and 2.50% and 2.00% for the Yen loans) fall within or below the interquartile range of the comparable interest rates, thereby satisfying the arm's length principle. This study concludes that the selection and application of the CUTM method by PT X was appropriate and does not indicate any potential loss to state tax revenue.
Keywords: Affiliated Party; Arm's Length Principle; Comparable Uncontrolled Transaction Method; Loan Interest Rate; Transfer Pricing

INTRODUCTION

Transfer pricing practices in intercompany financial transactions among affiliated enterprises have become increasingly complex alongside the development of intra-group financing schemes, including thin capitalization schemes that may potentially be used as a means of profit shifting through the determination of unreasonable loan interest rates. Transactions between related parties have the potential to not reflect actual market conditions, thereby requiring tax authorities to mandate the application of the Arm's Length Principle in determining the pricing of transactions between affiliated parties, including loan interest rates (OECD, 2022).

Provisions concerning transfer pricing in Indonesia are regulated under Article 18 paragraph (3) of the Income Tax Law, which grants authority to the Director General of Taxes to redetermine the amount of income of taxpayers having a related party relationship in accordance with the arm's length principle unaffected by such related party relationship. These provisions are further strengthened by Minister of Finance Regulation (PMK) Number 172 of 2023, which explicitly introduces the Comparable Uncontrolled Transaction Method (CUTM) as one of the methods for testing the reasonableness of financial transactions, particularly loan interest rates between related parties. CUTM represents a development of the Comparable Uncontrolled Price (CUP) method adapted to the characteristics of financial transactions, focusing on the transaction's overall return, such as interest rates, instead of a limited comparison of price similarity for goods.

The traditional CUP method is viewed as overly inflexible, since it demands the presence of comparable data in the financial market that is identical in nature, which makes it hard to use for intricate intra-group financing transactions. The move to CUTM offers analytical flexibility via a yield-based approach with a wider comparable market basis that can be tailored to the credit risk profile of the company under review. However, transfer pricing disputes concerning affiliated loan transactions still occur often, owing to differences in how Taxpayers and tax authorities evaluate the reasonableness of interest rates, as shown in Tax Court Decision No. PUT.46740/PP/M.XI/12/2013, which underscores the need for sufficient documentation and comparable analysis to support the reasonableness of affiliated loan interest rates.

PT X is a Japanese foreign direct investment (PMA) company operating in the secondary manufacturing sector, specifically in the design and manufacture of high-precision metal tooling/molds for the automotive industry, located in Karawang, West Java. PT X is a subsidiary of YZ Ltd., which holds 95% ownership of PT X's shares, thereby fulfilling the criteria for a related party relationship as referred to in Article 18 paragraph (4) letter a of the Income Tax Law. To support its operational working capital needs, PT X obtained three loan facilities from YZ Ltd., namely a loan of Rp6,500,000,000 at an interest rate of 5.40% in July 2023, a loan of JPY50,500,000 at an interest rate of 2.50% in June 2024, and a loan of JPY50,140,000 at an interest rate of 2.00% in November 2024. All three loan facilities require reasonableness testing as they were conducted between parties having a related party relationship. In the regulatory context, PMK Number 172 of 2023 positions the Comparable Uncontrolled Transaction Method (CUTM) as one of the appropriate methods for transactions that are commercially assessed based on interest rate levels.

Prior research on transfer pricing has largely discussed transactions involving goods and services as well as the use of profit-based methods, whereas studies specifically addressing the reasonableness of affiliated loan interest rates using CUTM following the enactment of PMK Number 172 of 2023 remain relatively limited. This research fills that gap by positioning the comparability analysis of loan transactions—particularly tenor, currency, creditworthiness, collateral, seniority, contractual conditions, and country risk—as the basis for comparable selection, as well as evaluating its fiscal implications from the perspective of PT X as the borrower.(Ardika et al., 2025; Iriyadi et al., 2024; Nuraini & Jacfar, 2025)

Based on the foregoing description, this research aims to identify the factors influencing the reasonableness of loan interest rates to related parties at PT X, to evaluate the application of CUTM as the most appropriate method, to assess the reasonableness of the three loan transactions based on available comparables, and to analyze the implications of interest rate selection on state tax revenue by distinguishing PT X's position as a borrower and its potential position as a lender.

LITERATURE REVIEW

Transfer Pricing and the Arm's Length Principle

Transfer pricing constitutes the determination of prices for transactions occurring between entities having a related party relationship, whether in the form of goods, services, or financial transactions (OECD, 2022). From a managerial perspective, transfer pricing is regarded as a neutral instrument for enhancing the efficiency of resource allocation (Darussalam & Kristiaji, 2022), however, from a taxation perspective, pricing policies have the potential to be misused through profit shifting schemes to transfer profits to jurisdictions with lower tax rates. Therefore, OECD (2022) affirms that price determination in affiliated transactions must refer to the Arm's Length Principle, namely a condition in which the price applied is comparable to the price that would be agreed upon by independent parties in comparable circumstances. In the context of loans, transfer pricing is understood as the determination of an interest rate that must reflect the interest rate that would be agreed upon by independent parties with comparable risk characteristics, taking into account the financial function, risk profile, and economic capacity of the borrowing party (Arnold, 2023).

The legal basis for transfer pricing in Indonesia is regulated under Article 18 paragraph (3) of the Income Tax Law and Article 3 paragraph (1) of PMK Number 172 of 2023, which require Taxpayers to apply the Arm's Length Principle in exercising their rights and fulfilling their tax obligations related to transactions affected by a related party relationship. The application of this principle aims to minimize tax avoidance practices that could be detrimental to state revenue and to prevent distortions in profit reporting.

Transfer Pricing Determination Method

Article 9 of PMK Number 172 of 2023 governs the methods used to determine transfer prices and confirms that the choice of method is evaluated on the basis of accuracy and reliability, which includes its fit with the transaction's characteristics, the presence of dependable comparables, the level of comparability, and the precision of adjustments. Where transactions are commercially evaluated according to interest rate levels, the Comparable Uncontrolled Transaction Method (CUTM) is expressly listed among the methods that may be applied. Therefore, the choice of CUTM for PT X's loan transactions rests on how well the transaction object, specifically the interest rate, suits the method, and not simply on the fact that it is described as the most recent one. (Handayani & Kurniawan, 2021)

Comparability Analysis and Loan Comparability Factors

A comparability analysis is an essential step when applying the Arm's Length Principle, specifically the process of assessing a Taxpayer's transaction with a related party against the terms that would apply in transactions between independent parties. Under PMK Number 172 of 2023, five comparability factors are assessed, specifically: (1) the characteristics of the product or service, including the purpose of the loan, currency, term, loan amount, interest rate, and borrower's risk profile; (2) the contractual terms and conditions, which describe the allocation of rights, obligations, costs, and risks among the parties; (3) functional analysis (functions, assets, and risks/FAR), which identifies the functions performed, assets employed, and risks assumed by each party; (4) business strategy, which assesses the economic objectives underlying an affiliated transaction; and (5) economic circumstances, encompassing the geographic market conditions in which the transaction takes place, including credit risk and country risk. In addition, loan risk is generally reflected in the borrower's creditworthiness and the existence of collateral; unsecured loans are generally subject to higher interest rates due to the greater risk of default compared to secured loans. (Siregar et al., 2024)

In comparability analysis, sources of comparable data may come from internal comparables, which are transactions carried out by the company or its affiliates with independent parties, or from external comparables, which are arm's length price or profit data drawn from comparable transactions made by other Taxpayers with parties that are not related. Internal comparables are usually favored; nevertheless, if they are not available, resorting to external comparables becomes a methodological outcome that aligns with transfer pricing rules.(Taylor & Richardson, 2022)

Comparable Uncontrolled Transaction Method (CUTM) and Implementation Stages

CUTM essentially represents an extension of the CUP application into the domain of financial transactions, in which the concept of "price" does not always take the form of a price for goods, but may instead take the form of a financial return such as an interest rate (Eden, 2019).). As a direct method, CUTM possesses a high level of reliability when supported by comparable data, and does not rely on profitability indicators but rather on direct comparison of the price or return of independent transactions, such as bank loan interest rates, bonds, or other financial instruments. The application of CUTM is carried out through six systematic stages, namely: (1) identification of the affiliated transaction; (2) analysis of the transaction's characteristics; (3) search for comparable data, both internal and external; (4) comparability analysis based on the factors established by PMK Number 172 of 2023 and OECD (2022); (5)

adjustment where material differences exist, for example with respect to credit risk, tenor, or market conditions; and (6) determination of the arm's length range based on the adjusted comparable data, serving as the basis for assessing whether the interest rate of the affiliated transaction falls within a reasonable range.

Previous Research and Research Positioning

Study by Natama & Irawan (2023) examined how the arm's length principle is applied to loan transactions and stressed how important it is to ensure comparability of credit risk. Wuryaningsih & Nuryanah (2024) found that the application of the arm's length principle to intra-group financing in Indonesia faces challenges in the form of the credibility of comparable data, credit exchange rates, and the technical understanding of tax officials Siregar et al. (2024) showed that shareholder loan interest rates are often corrected by tax authorities when they surpass reasonable limits, which makes transfer pricing documentation and economic justification indispensable. Putra & Farida (2024) examined Indonesian Tax Court rulings from 2020 to 2024 involving disputes over affiliated loan transactions and determined that the primary considerations of the panel of judges were the availability of documentation, the structure of the Debt-to-Equity Ratio, and the use of comparables consistent with the arm's length principle. These earlier studies have largely concentrated on assessing the reasonableness of interest rates in general and have not thoroughly explored the application of CUTM while taking into account credit risk factors, tenor, currency, and a yield-based approach following the issuance of PMK Number 172 of 2023. This research is positioned to address that gap by examining the reasonableness of loan interest rates to related parties at PT X through CUTM, while at the same time strengthening the application of the Arm's Length Principle in the context of cross-border financial transactions.

METHODS

This study adopts a qualitative approach using descriptive-analytical techniques through a case study design to obtain an in-depth understanding of the reasonableness of loan interest rates to related parties at PT X. The research was conducted at MBC Consulting and PT X, located in Karawang, West Java, with the research object being the reasonableness of the loan interest rate between PT X and YZ Ltd. using the Comparable Uncontrolled Transaction Method (CUTM) for the 2023–2024 transaction period. (Aspers & Corte, 2021)

The data used consist of primary and secondary data. Primary data were obtained through interviews and participant observation with six informants selected purposively, namely two Senior Tax Consultants including the PIC from PT X, two representatives from the Directorate General of Taxes (DJP), the Tax Supervisor of PT X, and Tax Staff of PT X. The selection of informants was based on their knowledge, experience, and direct involvement in the preparation of Transfer Pricing Documentation and the application of CUTM to PT X's loan transactions. Secondary data were obtained from Transfer Pricing Documentation (Master File and Local File), the loan agreement, PT X's 2024 financial statements, and relevant literature.

The analysis of data was carried out using the Miles and Huberman interactive model, consisting of data reduction, data display, and conclusion drawing and verification, supported by the NVivo application to enable systematic coding of the interview data, including Word Frequency Query analysis to determine the key terminology that appeared most dominantly in the interview data. To strengthen the validity of the data, this study employed source triangulation, which involved comparing the interview results from the six informants with the findings of participant observation and PT X's Transfer Pricing Documentation, along with method triangulation, which combined participant observation and interview techniques to test the consistency of the findings. (Aspers & Corte, 2021; Taylor & Richardson, 2022)

The research stages began with the collection of loan agreement data and supporting documents to identify the characteristics of the loan, followed by a benchmarking process using CUTM in the form of searching for and determining comparable independent transactions, comparability analysis, and calculation of the interest rate arm's length range based on market data. The final stage was the reasonableness analysis, comparing the affiliated loan interest rate against the arm's length range resulting from the benchmarking to draw conclusions regarding compliance with the Arm's Length Principle. This research is limited to MBC Consulting clients who requested assistance in preparing transfer pricing documentation, and thus the research findings are contextual to the case of PT X and cannot be broadly generalized.

RESULTS AND DISCUSSION

Overview of PT X

PT X is a Japanese foreign direct investment (PMA) company operating in the secondary manufacturing sector, specifically in the provision of high-precision production tooling. The company specializes in the design and manufacture of high-quality metal molds for aluminum die-casting and casting mold techniques, in response to the growth of the automotive and electronics industries in Indonesia. PT X is a subsidiary of YZ Ltd., domiciled in Japan, with 95% of PT X's shares held by YZ Ltd., thereby fulfilling the criteria for a related party relationship as referred to in Article 18 paragraph (4) letter a of the Income Tax Law. To support its working capital needs and business development, PT X received loan facilities as a borrower from YZ Ltd. as the lender, through a loan agreement that stipulates the loan amount, term, and interest rate

Loan Characteristics of PT X with Related Parties

The fund provision transactions by YZ Ltd. to PT X are set out in three intercompany loan agreements. All three agreements exhibit different characteristics in terms of currency, loan amount, term, and interest rate, as presented in Table 1.

Table 1. Summary of PT X's Loan Transactions with Related Parties

Lender	Date of the Aggrement	Due Date	Interest Rate (p.a)	Loan Value
YZ Ltd.	10 July 2023	10 July 2033	5,40%	Rp6.500.000.000
YZ Ltd.	10 June 2024	10 June 2034	2,50%	JPY50.500.000
YZ Ltd.	4 November 2024	31 July 2025	2,00%	JPY50.140.000

Source: Document of Loan Agreement PT X, 2023-2024 (processed)

All loan facilities were granted without collateral or security and were intended entirely for the company's operational working capital needs, with the interest payment mechanism carried out periodically at the end of each tax year, while repayment of the principal debt was made in full at maturity. This unsecured condition increases the level of credit risk compared to secured loans, making it an important variable in the search for comparable transactions. The differences in characteristics across each loan facility—whether in terms of currency, amount, term, or interest rate—constitute the primary basis for PT X's selection of the CUTM method, as this method directly evaluates the transaction price in the form of the interest rate while taking into account similarities in tenor, currency, and risk profile, as stated by the Tax Staff of PT X that the use of CUTM "is far more precise for proving that the interest rate we use is indeed arm's length or reasonable in the eyes of tax authorities" (Tax Staff of PT X, Interview, July 20, 2026).

Comparability Factors of PT X with Related Parties and Independent Parties

Comparability analysis was conducted on five comparability factors based on PMK Number 172 of 2023. However, since the object being tested is a loan transaction, each factor was translated into financial characteristics that genuinely influence the loan price, namely the purpose and amount of the loan, currency, tenor, creditworthiness, collateral, seniority, payment terms, FAR, business strategy, and economic conditions and country risk.

Table 2. Summary of PT X's Comparability Factor Analysis

Comparability Factor	Characteristics of PT X's Loan Transactions	Required Comparative Characteristics	Analysis Results
Loan Characteristics	- For working capital - Uses IDR and JPY currencies - Loan Value; Rp6,5 billion, JPY50,5 million, JPY50,14 million; - Tenor; 10 years, 10 years dan 8 month	Purpose of use, currency, loan amount, tenor, and identical or similar market conditions.	Comparable internal benchmark is not available.
Credit Profile	PT X as borrower; external credit rating is not available; the risk of payment obligation is borne by PT X	Comparable credit profile; repayment capacity and default risk.	Credit comparability cannot yet be fully tested quantitatively; it is assessed qualitatively.
Collateral or Guarantee	All loans are unsecured and no guarantee from YZ Ltd.	The existence and quality of identical or adaptable collateral/guarantees.	No collateral; comparables with the same collateral status are required
Contract terms	Interest is paid periodically; principal is repaid at maturity; tenors different; seniority is not specified in the available data.	Tenor, payment schedule, seniority, covenants, fixed/floating rates, and comparable material clauses.	Not all elements of the comparable contract are available
FAR	PT X, as borrower, uses the funds for operations; YZ Ltd., as lender, provides the financing	FAR borrower and lender are comparable	Functionally comparable at the level of role, but not an internal loan transaction

Comparability Factor	**Characteristics of PT X's Loan Transactions**	**Required Comparative Characteristics**	**Analysis Results**
Businnes purpose	The loan is used for working capital and operational continuity.	Simillar funding purpose with a clearly defined business strategy.	Economically relevant; not serve as a direct price comparable
Economic situation and country risk	IDR transactions in Indonesia; JPY transactions related to funding from Japan and operations in Indonesia	Comparable or adjusted market, currency, transaction date, and country risk	Requires external comparables and country risk adjustment for JPY

Source: Transfer Pricing Documentation PT X, 2024 (processed)

The analysis results show that PT X has no loan transactions with independent parties that share characteristics similar to its affiliated transactions, which means internal comparables are not available. This finding aligns with the statement from PT X's Tax Staff that the company does not have similar loan transactions with independent parties. Therefore, the analysis moved to external comparables, while still clearly testing the comparability of the loan characteristics.

"PT X has no similar loan transactions at all with independent parties. As required by the transfer pricing comparability analysis, reliable external comparable data from the open market must be used when internal comparables are not available." (Adit, Interview, July 20, 2026)

Regarding contractual terms and conditions, the analysis concentrated on tenor, currency, schedules for interest and principal payments, whether collateral or guarantees existed, and debt seniority. The data available indicate that every loan held by PT X is unsecured and applies a bullet repayment structure for the principal at maturity. Details on seniority and covenants were not sufficiently captured in the data analyzed, so no assumptions were made about them; this represents a limitation that would require verification through the loan agreement if the analysis were expanded. As a result, differences between CIF and FOB Incoterms are no longer applied when testing loan transactions, since Incoterms are a feature of goods transactions rather than of loan pricing. The FAR indicates that PT X, as the borrower, uses the funds for operations and bears the risk of the payment obligation, while YZ Ltd., as the lender, provides the financing and bears the credit

Application of the Comparable Uncontrolled Transaction Method (CUTM)

According to the comparability analysis results, PT X applied CUTM using external comparables. Under the regulations, PMK Number 172 of 2023 Article 9 paragraph (2) mandates that method selection be grounded in accuracy and reliability, which includes whether the method suits the transaction's characteristics, whether reliable comparables are available, the level of comparability, and how precise the adjustments are. Article 9 paragraph (8) specifically places CUTM as the suitable method for transactions that are commercially evaluated on the basis of interest rate levels. Thus, CUTM may be considered the most appropriate method for the subject of this research, though the quality of the conclusions still hinges on the quality of the comparables employed.

> "Choosing a transfer pricing method cannot be done at random; instead, it has to rest on the most appropriate method principle. In other words, the method chosen must be the one best suited to creating conditions that come closest to the Arm's Length Principle. PMK Number 172 of 2023 provides that a number of transfer pricing methods may be

used, and each one has distinct features, requirements, and degrees of suitability depending on the type of transaction under analysis." (Raden, Interview, July 14, 2026)

CUTM compares the price or return of a transaction with that of an independent transaction. In the case of PT X, this concept was implemented using external comparables, since no comparable internal transactions were available. Nevertheless, a distinction must be drawn between the use of aggregate market references and comparables of independent loan transactions that are truly of the same type. This distinction matters when evaluating how reliable the benchmarking results are.

The comparable data source was established according to the transaction currency. For the Rupiah loan, the BI-Rate served as the monetary policy benchmark, while the 8.52%–8.97% range in the Transfer Pricing Documentation came from aggregated domestic market loan interest rate data. Therefore, the BI-Rate was not regarded as an independent loan transaction identical to PT X's loan, but instead as a macro reference that assists in interpreting market conditions. For the Yen loans, the Average Contract Interest Rates on Loans from the Bank of Japan for the relevant period before the agreement date were used. A Country Risk Spread adjustment was applied to the Yen data to account for the risk differential between Indonesia and Japan.

In order to maintain replicability, this study adopts the operational definition of CRS as specified in the Transfer Pricing Documentation, that is, the gap in credit risk spread between Indonesia and Japan during the transaction year: CRS_t = Indonesia Spread_t − Japan Spread_t. For the 2024 Yen transactions, the value used was 2.33% − 0.86% = 1.47%. The documentation that is available has not clearly identified the specific Moody's publication series, nor whether the spread values reflect a rating-based default spread or a sovereign credit spread; as a result, this research makes no assertion about the type of spread and openly acknowledges the limitation concerning the replicability of its secondary source.

The Country Risk Spread adjustment was carried out by adding the risk difference between Indonesia and Japan to each Bank of Japan comparable interest rate observation. In mathematical terms, the adjustment is written as: adjusted comparable interest rate = Bank of Japan interest rate + CRS. Based on the data used in the Transfer Pricing Documentation, the 2024 CRS was 1.47%, derived from 2.33% for Indonesia minus 0.86% for Japan. Using this formula, the adjustment process can be reproduced from the source figures that are available.

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Tabel 3. Sebaran Risiko Kredit Indonesia dan Jepang (%) Berdasarkan Moody's Investors Service

Component	2024	Formula
Indonesia’s credit risk spread	2,33%	Figures used in PT X's TP Doc
Japan’s credit risk spread	0,86%	Figures used in PT X's TP Doc
Country Risk Spread	1,47%	CRS = 2,33% - 0,86% = 1,47%

Source: Transfer Pricing Documentation PT X, 2024; CRS calculation processed by the researcher based on the figures set out in the TP Doc

After adjusted comparable interest rates were obtained, PT X calculated the arm's length range using an interquartile approach. This approach was used to reduce the influence of extreme observations. In interpreting these results, the research distinguishes between direct independent transaction comparables and aggregate market references used as a proxy. (Putra & Farida, 2024)

Analysis of the Reasonableness of PT X's Loan Interest Rates

The loan interest rates of PT X were subsequently benchmarked against the arm's length range obtained from the benchmarking process. In the case of the Yen transactions, the comparables were sourced from the Bank of Japan's Average Contract Interest Rates on Loans, with adjustments made for the Country Risk Spread. As for the Rupiah transaction, the range was obtained from aggregated data on domestic market loan interest rates, using the BI-Rate as a policy reference. Consequently, the findings for the Rupiah transaction should be interpreted with greater caution, since these data do not reflect a single independent loan transaction with identical characteristics.

"A loan interest rate is regarded as reasonable when, following adjustment, it falls within or below the specified range. (Raden, Interview, July 14, 2026)

The results of the testing conducted on the three loan transactions are presented in Table 4.

Tabel 4. Table 4. Results of the Reasonableness Testing of PT X's Loan Interest Rates

Loan Transaction	Comparable Data Source	Interquartile Range	Median	PT X’s Interest Rate	Conclusion
IDR - 10 July 2023 (Rp6.500.000.000)	BI-Rate & Indonesia Financial Market	8,52% - 8,97%	8,70%	5,40%	Below range – reasonable

Loan Transaction	Comparable Data Source	Interquartile Range	Median	PT X's Interest Rate	Conclusion
JPY - 10 June 2024 (JPY50.500.000)	Bank of Japan (Country Risk Spread)	2,33% - 2,65%	2,43%	2,50%	Below range – reasonable
JPY - 4 November 2024 (JPY50.140.000)	Bank of Japan (Country Risk Spread)	2,42% - 2,72%	2,53%	2,00%	Below range – reasonable

Sumber: Transfer Pricing Documentation PT X, 2024 (processed).
Notes: BI-Rate is used as a policy rate reference, whereas the range of 8.52%–8.97% represents aggregate loan market data used as a market proxy and is not the BI-Rate

For the Rupiah loan transaction dated 10 July 2023, the range of 8.52%–8.97% in the Transfer Pricing Documentation represents aggregate domestic loan market data used alongside the BI-Rate as a reference, rather than the BI-Rate itself. The BI-Rate is a policy rate and not the price of an individual loan transaction; therefore, its use cannot be equated with a comparable of similar loan transactions. Although PT X's interest rate of 5.40% falls below this range, this result is more accurately described as satisfying the market-reference-based test used in the TP Doc, rather than as evidence that an independent transaction identical in nature exists with an interest rate of 8.52%–8.97%. For the Yen transaction dated 10 June 2024, the Bank of Japan's Average Contract Interest Rates on Loans data, adjusted with a CRS of 1.47%, yielded a range of 2.33%–2.65% with a median of 2.43%, while PT X's interest rate of 2.50% fell within the range. For the Yen transaction dated 4 November 2024, the range was 2.42%–2.72% with a median of 2.53%, while PT X's interest rate of 2.00% fell below the range. Accordingly, the benchmarking results support the reasonableness of PT X's interest rates, although the level of reliability differs across transactions due to the non-identical characteristics of the comparable data used.

Overall, the results of the three tests do not indicate that PT X set interest rates above the comparable ranges used. This finding supports the conclusion that there is no indication of under-taxation arising from excessive interest charges. However, conclusions regarding reasonableness must be limited by the quality and type of comparables available. The interview results also affirm that the success of CUTM is highly dependent on the accuracy of the comparability analysis and on adjustments that can be justified.

> "If the comparability analysis is accurate, and the comparables used are also relevant with adjustments made correctly, then the results of the CUT method will be very robust in demonstrating whether the interest rate is arm's length or not." (Salsabila, Interview, July 15, 2026)

Evaluation of the Appropriateness of the CUTM Method Selection and Its Impact on the Potential Loss of State Tax Revenue

The selection of CUTM for PT X's transactions is methodologically consistent with the characteristics of the loan transaction and the provisions of PMK Number 172 of 2023. However, the evaluation of the impact on tax revenue needs to be distinguished based on the position of the party in the transaction. PT X in this research holds the position of borrower. If PT X's interest rate falls below the comparable range, the interest expense paid is lower, resulting in higher pre-tax profit and taxable income for PT X. From the perspective of Indonesian tax revenue on the side of PT X as borrower, this condition does not indicate a loss of state revenue arising from excessive interest deduction. Conversely, if PT X were in the position of lender, an interest rate below the range could reduce the interest income received and potentially lower taxable income; in that position, an interest rate below the range would require further evaluation. Accordingly, the conclusion that there is no loss to the state in this research is specific to PT X's position as borrower and must not be generalized to a lender position.

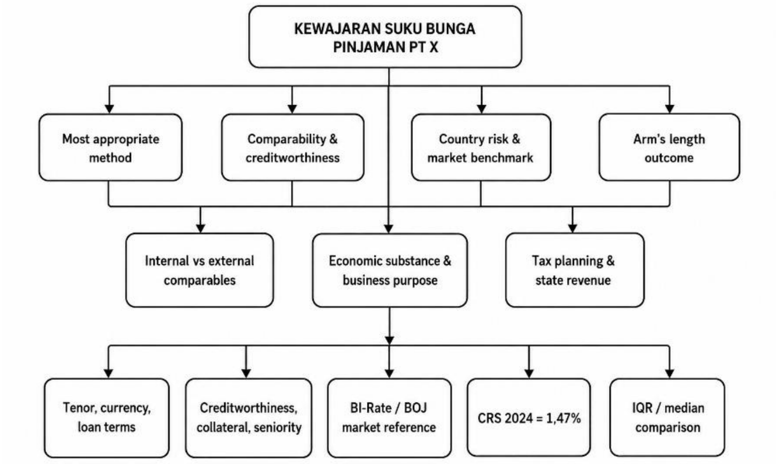
> "Yes, it is fully compliant. The entire testing process, starting from the evaluation of the five comparability factors, the FAR analysis, the determination of the CUTM method as suitable for loan transactions, the use of interquartile range analysis, through to the application of comparability adjustments, has referred to the procedures stipulated in PMK Number 172 of 2023." (Mr. Adit, Interview, July 20, 2026)

The research findings indicate that the potential loss of tax revenue does not arise from the use of CUTM alone, but may instead arise from the selection of inappropriate comparables, adjustments that cannot be justified, or the determination of an interest rate that deviates from arm's length conditions. In PT X's case as borrower, an interest rate below the range in fact reduces interest expense and increases taxable income. Therefore, tax planning analysis must take into account the direction of the interest rate's effect on the tax base as well as the position of the party being tested.

The Country Risk Spread adjustment in this research is positioned as an adjustment to enhance the comparability of Japanese data with Indonesia's economic risk. This adjustment must not be regarded as a tool for steering the results to benefit the company. Its limitation lies in the fact that the source of the CRS figures available in the TP Doc does not specifically explain the Moody's series; therefore, this research presents the calculation formula used and recommends that the source series, publication date, and Moody's methodology be attached to the TP Doc so that the results can be audited and replicated.

Interview Data Analysis Using NVivo

Figure 1. Coding Tree of Thematic Interview Analysis Results Using NVivo



The thematic coding results indicate that the interviews yielded not only frequently occurring terminology but also substantive patterns supporting the transfer pricing decision-making process. Coding was conducted on the substantive responses of the six informants and produced seven main themes: (1) most appropriate method; (2) comparability and creditworthiness; (3) internal versus external comparables; (4) country risk and market benchmark; (5) arm's length outcome; (6) economic substance and business purpose; and (7) tax planning and state revenue. The most extensively occurring themes were comparability and creditworthiness and arm's length outcome, each of which appeared across all six informants. Most appropriate method appeared among five informants, while country risk and market benchmark appeared among all informants. These findings indicate that the informants focused not only on method selection, but also on the quality of comparables, the borrower's risk profile, economic conditions, and fiscal consequences. The coding results further reinforce that PT X's position as borrower is important in interpreting the implications of an interest rate below the arm's length range. Accordingly, NVivo was used as a tool for substantive thematic analysis, rather than merely for word frequency querying. Details of the coding tree, node definitions, source-theme matrix, and coded quotations are presented in the tables and NVivo analysis appendices accompanying this research.

Main theme	**Coded references**	**Informant (n=6)**	**Substantive interpretation**
Most appropriate method	10	5/6	CUTM was selected because it directly tests the interest rate; method selection must nonetheless remain based on accuracy and reliability.
Comparability & creditworthiness	33	6/6	Tenor, currency, amount, contract, FAR, collateral, and risk profile form the core of the analysis; creditworthiness cannot yet be tested fully quantitatively, as external ratings are unavailable.
Internal vs external comparables	7	5/6	Comparable internal independent loan is not available, so the analysis shifted to external comparables.
Country risk & market benchmark	13	6/6	Differences between the Indonesian and Japanese markets and currencies necessitated the use of different data sources as well as a country risk adjustment.
Arm’s length outcome	32	6/6	Informants assessed that the test results fell within or below the range; the results nonetheless remain dependent on the quality of the comparables and the adjustments made.
Economic substance & business purpose	8	4/6	The loan has a working capital purpose and supports operational activities; economic substance forms part of the reasonableness evaluation.
Tax planning & state revenue	4	2/6	Tax authorities emphasize that the risk to state revenue arises from an improper method/application. For PT X as borrower, an interest rate below the range increases taxable profit.

Analytical Meaning
Reinforces that the method is selected based on transaction characteristics, comparable data, and reliability.
Creditworthiness is an explicit factor in the tax authorities' evaluation.
Country risk is used as an adjustment to the Japanese benchmark.

	Market benchmarks need to be tested for their methodological reliability; the BI-Rate is not automatically a comparable transaction.
	Supports the evaluation criteria for benchmarking results.
	Demonstrates economic substance and business objectives.
	Assigns fiscal risk to the quality of the method and its application.

CONCLUSION

Based on the results of the research and discussion regarding the reasonableness of the loan interest rates between PT X and its related party, YZ Ltd., it can be concluded that loan characteristics—namely currency, tenor, loan amount, purpose of fund use, risk profile, existence of collateral, and payment terms—constitute the primary basis for comparability analysis. PT X does not have any comparable loan transactions with independent parties, meaning that internal comparables are unavailable. The analysis therefore employed external comparables, with differences in comparable data quality between aggregate domestic market data for the Rupiah transaction and the Bank of Japan's Average Contract Interest Rates on Loans data for the Yen transactions.

Second, CUTM is an appropriate method for loan transactions because the object being tested is the interest rate, and PMK Number 172 of 2023 specifically includes transactions assessed based on interest rate levels within the characteristics of CUTM. Method selection must nevertheless remain grounded in the accuracy and reliability of the comparables. Third, PT X's interest rates of 5.40% for the Rupiah loan, 2.50% for the June 2024 Yen loan, and 2.00% for the November 2024 Yen loan fall within or below the comparable ranges used. However, the results for the Rupiah transaction should be read as a market-proxy-based test, since the BI-Rate is a policy rate and the lending rate data used is aggregate in nature, rather than an identical individual independent loan transaction. Fourth, the 2024 Country Risk Spread of 1.47% was calculated as 2.33% minus 0.86% and was applied to both 2024 Yen transactions. Fifth, from the perspective of PT X as borrower, an interest rate below the range reduces interest expense and increases taxable profit, and thus does not indicate a loss of Indonesian tax revenue from excessive interest deduction. This conclusion is specific to the borrower position; were PT X to hold the position of lender, an interest rate below the range could potentially reduce taxable income and would require a different evaluation. Sixth, the NVivo thematic coding reinforces the themes of most appropriate method, creditworthiness, country risk, external comparables, arm's length outcome, business purpose, and tax planning/state revenue as substantive factors in the reasonableness assessment.

Recommendations

For PT X, an update to the Transfer Pricing Documentation is needed to ensure that loan characteristics are recorded completely, particularly tenor, currency, credit profile or creditworthiness, collateral, seniority, payment schedule, and covenants. For the Rupiah transaction, the BI-Rate should be positioned as a monetary policy reference rather than being referred to as an individual loan transaction comparable; where available, loan-level or lending-rate data more closely aligned with the loan's characteristics should be used instead. For the Yen transactions, the Bank of Japan data series and the source of the Country Risk Spread need to be documented in full, including the series name, publication date, formula, and Moody's source. For tax authorities, the research findings highlight the importance of distinguishing a market proxy from an uncontrolled transaction comparable when evaluating CUTM. For future researchers, subsequent research could employ individual loan transaction data with more comparable credit profiles and tenors, and could conduct a sensitivity analysis on the Country Risk Spread.

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