

# Root Causes of Secondary Adjustment Tax Disputes in Transfer Pricing: Analysis and Solutions for Indonesia

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## ABSTRACT

Tax disputes related to secondary adjustments in transfer pricing at the Indonesian Tax Court have increased, despite a decline in cases filed by the Directorate General of Taxes between 2021 and 2023. This study analyzes the root causes of these disputes using Root Cause Analysis (RCA) and Fishbone Diagrams. Data includes 358 court rulings, literature reviews, and semi-structured interviews with eight stakeholders, including judges, tax auditors, tax objection officer, and tax consultants. Findings reveal that unclear definitions of disguised dividends – adopted as a consequence of secondary adjustments under Indonesian regulations – differing interpretations of Ministry of Finance Regulation No. 22/2020, limited tax auditor competence, and aggressive tax audit targets are key causes. The study recommends clarifying regulations, enhancing tax auditor training, and prioritizing quality over quantity in tax audits. These measures are expected to improve legal certainty, reduce disputes, and strengthen Indonesia's tax administration system.

Keywords: Secondary Adjustment; Transfer Pricing; Tax Disputes; Indonesian Tax Court; Root Cause Analysis.

## *Akar Masalah Sengketa Pajak Penyesuaian Sekunder dalam Penetapan Harga Transfer: Analisis dan Solusi untuk Indonesia*

### ABSTRAK

Sengketa pajak terkait secondary adjustment dalam transfer pricing di Pengadilan Pajak Indonesia meningkat, meskipun jumlah total kasus yang diajukan oleh Direktorat Jenderal Pajak menurun antara 2021 dan 2023. Penelitian ini menganalisis akar penyebab sengketa menggunakan Root Cause Analysis (RCA) dan Fishbone Diagram. Data mencakup 358 putusan pengadilan, tinjauan literatur, dan wawancara semi-terstruktur dengan delapan narasumber, termasuk hakim, pemeriksa pajak, penelaah keberatan, dan konsultan pajak. Temuan menunjukkan bahwa definisi dividen terselubung yang tidak jelas – yang diadopsi sebagai konsekuensi dari secondary adjustment menurut regulasi Indonesia – perbedaan interpretasi Peraturan Menteri Keuangan No. 22/2020, keterbatasan kompetensi pemeriksa pajak, dan target audit yang agresif menjadi penyebab utama sengketa. Penelitian ini merekomendasikan klarifikasi regulasi, peningkatan pelatihan pemeriksa pajak, dan fokus audit pada kualitas daripada kuantitas. Langkah-langkah ini diharapkan dapat meningkatkan kepastian hukum, mengurangi sengketa, dan memperkuat sistem administrasi perpajakan di Indonesia.

Kata Kunci: Secondary Adjustment; Transfer Pricing; Sengketa Pajak; Pengadilan Pajak; Root Cause Analysis.

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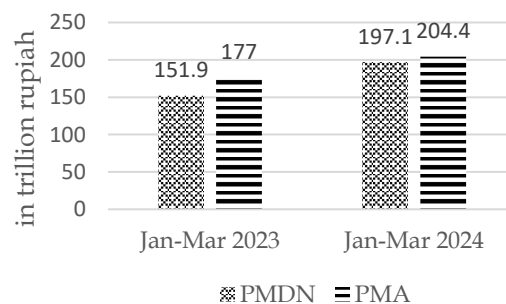
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## INTRODUCTION

Globalization powered by the digital revolution, has created ever closer connectivity between countries, erasing geographical boundaries and accelerating the exchange of information, trade, culture and economy (Hermawanto & Anggraini, 2020). The rapid development of technology and its widespread application are key drivers of this process (Daniels, Radebaugh, & Sullivan, 2013). Multinational corporations or Multinational Entity (MNE) are becoming key actors in this landscape, expanding their operations into multiple jurisdictions and leveraging cross-border transactions to optimize business strategies (Singh, 1998). MNEs frequently engage in intercompany transactions with transfer pricing for goods, services, and intangibles (Hejazi, 2009). However, this phenomenon presents challenges, particularly in international taxation.

Companies no longer limit their operations to their home country but rather expand their business overseas through the establishment of subsidiaries and branches in various emerging and growth markets (Santoso, 2004). Companies that do business in multiple countries with a control center usually located in one country are known as Multinational Enterprises (Darussalam, Septriadi, & Kristiaji, 2013). This growth was driven by a significant increase in investment, as shown by data from the Ministry of Investment/Investment Coordinating Board (BKPM) in the first quarter of 2024 in Figure 1. Investment realization experienced a year-on-year (YoY) increase of 22.1%. This shows that globalization has created a conducive climate for international economic integration and significant growth in cross-border investment.



**Figure 1. Investment Realization in the First Quarter of 2024**

Source: Research Data, 2024

Transfer pricing is the price value for the delivery of goods or services that have been agreed by both parties in financial and other business transactions (Gunadi, 2007). Transfer pricing schemes are commonly used by MNEs for managerial purposes, enhancing efficiency and synergy among companies (Schön & Konrad, 2011). A special relationship means that there is a relationship between the two companies conducting the transaction. Affiliated entities of multinational companies conduct cross-border transactions with pricing that can affect the tax base in various jurisdictions. In practice, these transfer pricing arrangements often lead to disagreements between tax authorities and companies. This issue has become more complex with the emergence of the concept of secondary adjustment, which aims to correct transfer price discrepancies based on the arm's length principle.

The growth of MNEs is accompanied by increasing tax issues, particularly concerning the countries in which they operate on a large scale (Solilová, 2013). Unfair transfer pricing can shift profits to jurisdictions with low or zero tax rates, reducing national tax revenue and increasing economic inequality (Sikka & Willmott, 2010). Many transfer pricing-related disputes involve debates over whether transactions between related companies have been conducted in accordance with the arm's length principle, as well as over the validity of secondary adjustments made by tax authorities (Chambers and Partners, 2024). The Directorate General of Taxes (DGT) in Indonesia regulates the arm's length principle through Minister of Finance Regulation No. 172/2023, which replaces several previous regulations and comes into effect for the 2024 tax year. This MoF Regulation introduces transfer pricing analysis measures that include transaction identification, industry analysis, comparability, and application of arm's length pricing methods, aiming to improve tax compliance and transparency.

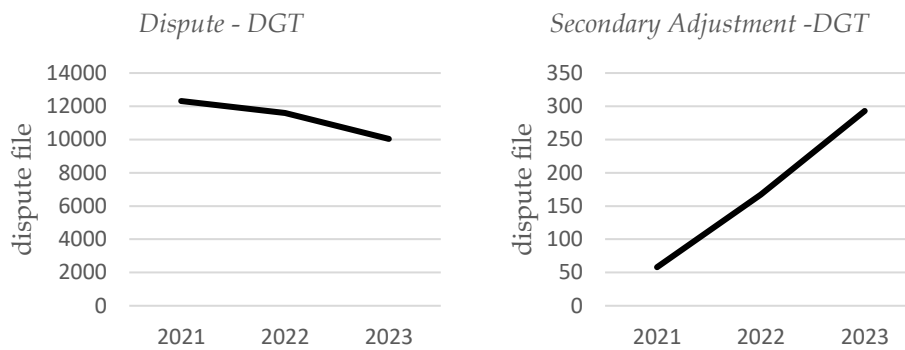
In the Indonesian context, disputes related to transfer pricing, especially secondary adjustment, show a unique and worrying trend. Tax disputes related to secondary adjustment have increased sharply, especially in recent years, the handling of which is protracted and creates new uncertainty for business actors and often leads to disputes between taxpayers and the Directorate General of Taxes to the Tax Court (MUCGlobal, 2022). This phenomenon is caused by various factors, discrepancies in interpretation and procedures between tax authorities and taxpayers encourage more disputes that lead to court settlements (Baker McKenzie, 2022). This includes vagueness of tax regulations and ambiguity in the application of regulations (Defi & Hapsari, 2024). The increase in disputes that impact legal uncertainty and affect the business climate needs to be considered by the government.

**Table 1. Number of Dispute Files by Appellant/Defendant 2021-2023**

No	Appellant/Defendant	2021	2022	2023
1.	Directorate General of Taxes	12.317	11.602	10.038

Source: Tax Court Secretariat website, 2024, 2024

Based on the website of the Tax Court Secretariat, it is known that the total number of disputes filed by the Directorate General of Taxes (DGT) has decreased overall, as can be seen in Table 1. However, upon further confirmation to the Directorate of Objections and Appeals of the Directorate General of Taxes, the number of disputes involving secondary adjustment shows an increasing trend in the 2021-2023 period. The anomaly can be seen in Figure 2.



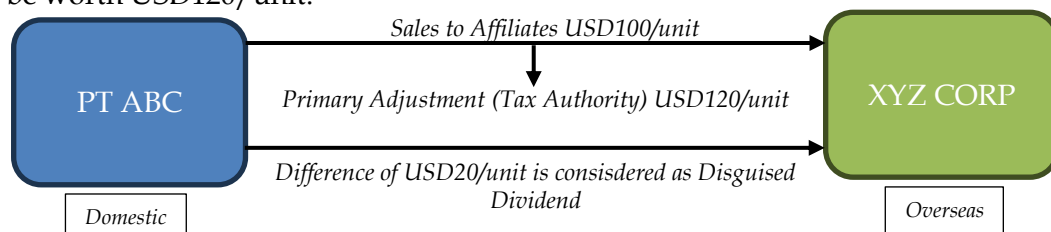
**Figure 2. Anomalies in DGT Dispute Statistics with Secondary Adjustment Issue**

Source: Research Data, 2024

This condition raises an important question: what causes the increase in the number of tax disputes with secondary adjustment issues, even though DGT has issued various regulations to regulate it? Furthermore, what steps can be taken to prevent similar disputes in the future? This study aims to answer these questions by conducting an in-depth analysis of Tax Court decisions during the increase in dispute files from 2021 to 2023 with issues related to secondary adjustment, as well as examining the applicable regulations and solution steps that can be taken by the tax authorities.

Primary Adjustment is an adjustment made by the tax authority in the first jurisdiction to the company's profit subject to tax, which is caused by the application of the principles of reasonableness and norms of transactions between affiliated companies in the second tax jurisdiction (OECD, 2022). The difference between the value of the transaction affected by the special relationship and the value that should apply without the relationship is considered as an indirect distribution of profits to the affiliate, which is then treated as a dividend according to the applicable tax regulations in Indonesia based on the Minister of Finance Regulation Number 22 of 2020. This is referred to as a secondary adjustment in OECD TPG (2022), which is an adjustment derived from the application of tax to additional transactions.

The illustration in Figure 3 shows a simulation of the application of secondary adjustment in a related party transaction between PT ABC (domestic company) and XYZ Corp (overseas company). In the initial transaction, PT ABC sold goods to XYZ Corp at a price of USD100/unit. After an audit, the tax authority found that the price is not in accordance with the arm's length principle and should be worth USD120/unit.



**Figure 3. Secondary Adjustment Simulation**

Source: Research Data, 2024.

As a first step, the tax authority conducted a primary adjustment by correcting the transaction price to USD120/unit. The difference of USD20/unit is considered as a hidden profit that is still economically enjoyed by XYZ Corp. This difference is then treated as a constructive dividend or disguised dividend that is subject to income tax in accordance with applicable regulations.

Several previous studies have analyzed the main causes of tax disputes in general that continue with the Tax Court. Based on research by Defi and Hapsari (2024), Aisya (2024), Palupiningrum (2024), Prasetyo (2023), and Sari (2023), common factors causing disputes include regulatory vagueness, differences in interpretation between taxpayers and tax authorities, and weaknesses in evidence. These disputes are often triggered by inconsistent application of the Fairness and Usuality Principle (PKKU), accompanied by a lack of adequate documentation, leading to legal uncertainty.

Clear and effective regulations can support economic growth by aiding restructuring and better resource allocation, whereas poor regulations can hinder this process (Karkalakos, 2024). In an increasingly globalized economic climate, unclear tax regulations can create uncertainty, which in turn can damage the relationship between the government and the business sector, especially multinational companies (Aisya, 2024). This research is relevant because transfer pricing-related tax disputes have a significant impact, not only on the country's fiscal, but also on legal certainty and taxpayer compliance.

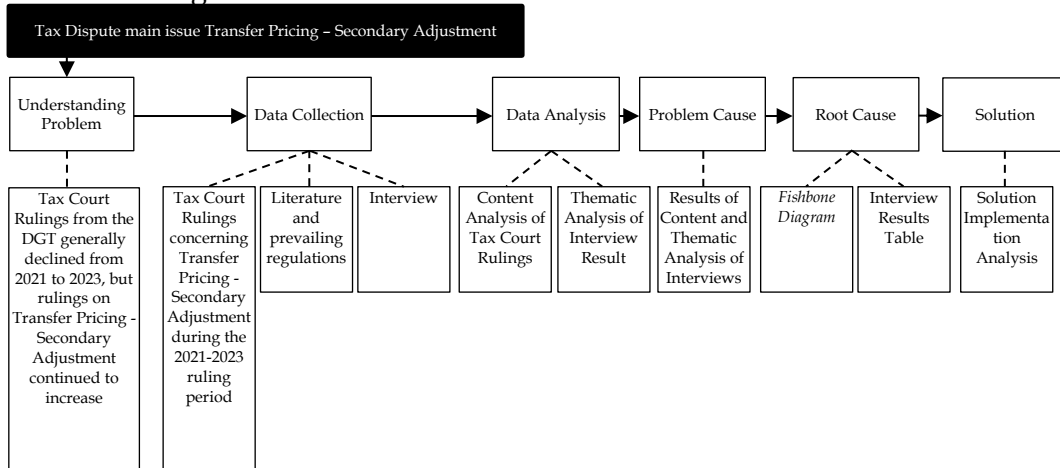
## RESEARCH METHOD

The qualitative method was chosen because it is effective in exploring the experiences, attitudes, and beliefs of actors in depth, recognizing that facts are perceived subjectively and vary between individuals (Creswell, 2014). This research was conducted with a qualitative approach through a case study method to analyze tax disputes related to Secondary Adjustment in Transfer Pricing based on tax court Appeal Decisions in 2021-2023. Case studies provide flexibility in exploring complex issues that cannot be answered through quantitative analysis, especially in the context of tax disputes involving regulatory interpretation, litigation, and tax policy (Yin, 2017). This approach is designed to answer research questions regarding the root causes of disputes and solution measures that can be implemented to reduce future disputes.

Andersen and Fagerhaug (2006) introduced Root Cause Analysis (RCA) as a tool to analyze the main causes of a problem or event, with the aim of understanding the root causes, correcting, and preventing the recurrence of similar events in the future. In this study, RCA is used to facilitate the process of systematically identifying the root causes of the emergence of tax disputes related to the issue of secondary adjustment in transfer pricing, which has increased from 2021 to 2023. The RCA process involves several stages: 1) Problem Identification; 2) Data Collection; 3) Data Analysis; 4) Problem Cause Identification; 5) Root Cause Identification, and 6) Solution Implementation. An illustration of the conceptual framework is shown in Figure 4.

To analyze the root causes of these problems, a Fishbone (or Ishikawa) diagram is used which can analyze the various factors that contribute to the problem. Fishbone diagrams are useful in breaking down complex root causes into

clearer categories, making it easier to find appropriate solutions (Tague, 2005). Fishbone diagrams make it easy to analyze the main root causes that trigger tax disputes with secondary adjustment issues in transfer pricing and focus on recommending solutions to these root causes.



**Figure 4. Research Conceptual Framework**

Source: Research Data, 2024.

The data used in this study came from various sources, including a literature review, court decisions, and relevant source interviews. The literature review involved academic sources such as journals, articles, and applicable tax regulations. A recapitulation of Tax Court Decisions with secondary adjustment issues was obtained from the Directorate of Objections and Appeals, Directorate General of Taxes. Tax Court Appeal Decisions were collected from the official website of the Tax Court Secretariat, which includes decisions with secondary adjustment issues in transfer pricing from 2021 to 2023.

The interview technique used a semi-structured method to gain deeper insight into the issues being researched (Stake, 2010). With this technique, information can be extracted flexibly from the interviewees. An overview of the interviews can be seen in Table 2.

**Table 2. Source**

No.	Kode	Pihak	Jabatan	Jumlah	Media
1	HK	Tax Court	Judge	1	Face to Face
2	FP	Directorate General of Taxes	Functional-Tax Auditor	3	Zoom
3	PK	Directorate General of Taxes	Objection Reviewer	3	Zoom
4	KP	Taxpayer/Tax Consultant	Tax Consultant	1	Google Meet

Source: Research Data, 2024

This research combines two main analytical techniques, namely content analysis and thematic analysis of interviews. Content analysis was used to analyze tax court decisions, focusing on identifying patterns in tax court decisions with secondary adjustment issues. After the data from the appeal decisions were collected, the data were grouped based on certain aspects, such as the value of the dispute, the parties' opinions, and the type of dispute. The purpose of this

grouping is to find common patterns and arguments from each party in the court decisions, so that the root causes that triggered the dispute can be identified.

The results of the content analysis showed that from a total population of 507 decisions, after analysis to saturation point, the number of relevant decisions decreased to 358 decisions or 70.61% of the total decisions. This clustering helped to find patterns and trends related to the type of verdict.

**Table 3. Population After Reaching Saturation**

No.	Verdict	Initial Population	After Reaching Saturation	%
1.	Increase tax payable	1	1	100.00%
2.	Partially Granting the Appeal	51	47	92.16%
3.	Granting the Appeal in its entirety	379	246	64.91%
4.	Reject the Appeal	68	57	83.82%
5.	Unacceptable	8	7	87.50%
<b>Total</b>		<b>507</b>	<b>358</b>	<b>70.61%</b>

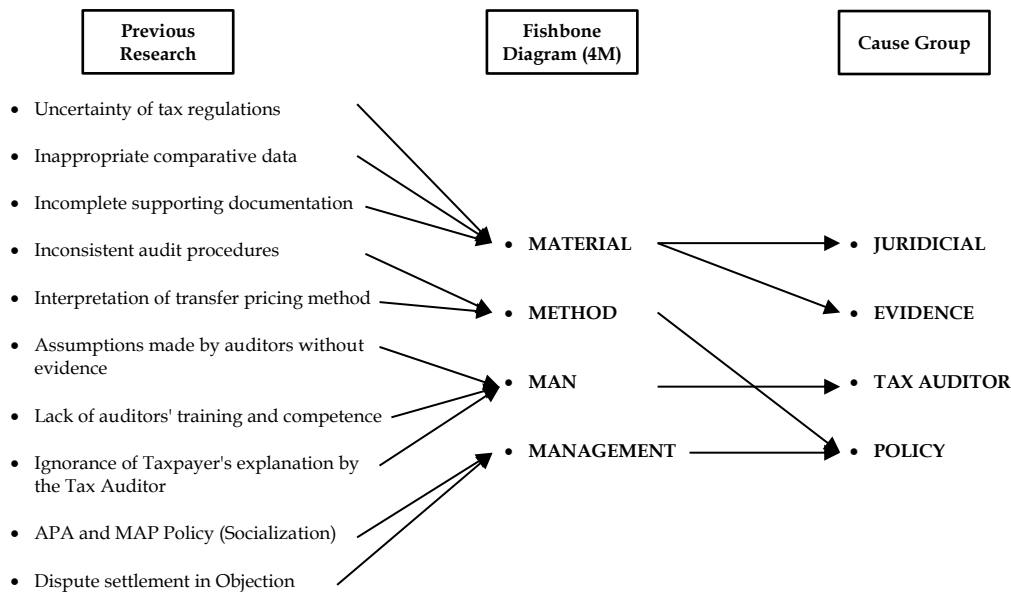
Source: Research Data, 2024

Interviews conducted with interviewees were processed using thematic analysis, which aims to identify key themes relevant to the research questions. The process began with the transcription of the interviews, then each answer was grouped and analyzed for patterns or themes that frequently emerged. Irrelevant information was eliminated to increase the precision of the analysis results. This technique allowed the researcher to gain a deeper understanding of the examination, objection, and appeal processes related to secondary adjustment disputes.

Yin (2017) also highlights the importance of validity and reliability in qualitative research. Data validity in this study was ensured through triangulation, by comparing the results of the decision analysis, interviews, and literature review. Data reliability was enhanced by applying a systematic analysis procedure and the application of saturation testing to the interview data, which ensured that the information obtained covered all relevant dimensions. With this approach, the study was able to answer research questions regarding the main causes of disputes and how solutions can be effectively implemented.

## RESULT AND DISCUSSION

Based on previous research, there are several causes of tax disputes that continue with the Tax Court. To facilitate analysis, based on the various causes of tax disputes, the causes were grouped into 4M categories, Material, Method, Man, and Management according to the Fishbone Diagram model, as shown in Figure 4. Furthermore, categories that are more relevant to the results of the content analysis and the results of the interviews are arranged, so that they can describe the causes of disputes in a more precise and focused manner. The categories that will be used in the research include Juridical, Evidence, Tax Auditor and Policy.



**Figure 5. Tax Dispute Causal Diagram**

Source: Research Data, 2024

*"Previous court decisions, although not binding, have persuasive value. Judges are free to follow or not, but these decisions must be considered, especially if the cases are similar and involve the same taxpayer." (KP)*

The same thing is expressed by the tax authority, from the tax examiner that previous court decisions are often used as a reference in the process of examining tax disputes.

*"Examiners use them to understand the reasoning behind judges' decisions, evaluate arguments used in similar cases, and focus attention on key issues. Although their use is situational, past decisions have proven helpful in strategizing the examination and improving the quality of the arguments presented." (FPP1, FPP2, and FPP3)*

Based on the content analysis, it is known that there are several different judge decisions with the same dispute basis. This creates legal uncertainty for taxpayers. For the content analysis, interviews with relevant resource people have been conducted to strengthen the analysis results.

*"Decisions between judges can differ due to differences in interpretation. Some judges consider direct ownership of shares, while others interpret that ownership can be both direct and indirect. This difference in understanding leads to a variety of views, where some judges may consider a party to have ownership, while others do not, even though the party is indirectly used as a vehicle for equity participation. This shows the diversity of perspectives in deciding cases." (HKM)*

The non-standard consideration of the judge can have an impact on legal uncertainty for taxpayers so that it can cause doubts for taxpayers to fight for their rights.

The lack of adequate documentation and transparency in financial reports complicates tax authorities' assessment of transfer pricing fairness, leading to primary adjustments (Kamei, 2022). Secondary adjustment is a consequence or authority of the tax authority to continue the main correction in the primary adjustment. Therefore, the emergence of secondary adjustment must be based on the primary adjustment. Based on the content analysis of tax court decisions, the



panel's consideration of secondary adjustment disputes is often associated with the consideration of other disputes in the Corporate Income Tax as the primary adjustment. In fact, the consideration in the secondary adjustment decision is without a more detailed explanation regarding the proof of the secondary adjustment dispute. The tax court judge provided a statement supporting this.

*"Disputes usually arise from the beginning of corrections made at the primary adjustment stage. In fact, tax auditors sometimes make corrections, but other times they do not. As a judicial institution, the Tax Court is independent and does not have the authority to make new corrections if the auditor did not do so previously. The dispute starts with the auditor's decision whether to make a correction or not, and then whether or not the taxpayer as the applicant agrees with the correction. This is the origin of the dispute."* (HKM)

The Tax Consultant explained that the primary adjustment in Corporate Income Tax Correction is the initial cause of the emergence of Secondary Adjustment, and it is impossible for Secondary Adjustment to stand alone.

*"Usually, the decision tends to follow the decision related to Corporate Income Tax, which is part of the primary adjustment. If the primary adjustment is proven and granted by the panel of judges, then the decision related to Income Tax Article 26 will usually follow. In other words, decisions between primary adjustment and Income Tax Article 26 are almost always consistent, and differences are rare."* (KP)

In the decision on the issue of secondary adjustment Put-001022.35/2021/PP/M.XIVB/Year 2022, the panel of judges did not clearly explain the juridical or evidentiary basis. So that the evidentiary factor in primary adjustment is very strong as a reason for the emergence of secondary adjustment.

Other interviews with tax authorities (FPP1, FPP2, FPP3) also corroborate the direct relationship between primary adjustment and the emergence of secondary adjustment corrections.

*"The main focus in tax disputes is primary adjustment, which is the correction of transactions with the greatest tax avoidance potential to ensure the fairness of the transaction value. This correction is often followed by a secondary adjustment, especially related to corporate income tax, provided that only transactions that meet certain criteria, such as disguised dividends, can be subject to additional adjustments."* (FPP1, FPP2, FPP3)

The objection reviewers (PK1, PK2, PK3) also supported the answers from the previous tax auditors.

*"The resolution of secondary adjustment disputes depends entirely on the clarity of the primary adjustment. If the primary adjustment is approved or rejected, then the resolution of the secondary adjustment becomes easier because it is a consequence of the primary correction. Conversely, if the primary adjustment is invalidated or weakly substantiated, the secondary adjustment is automatically untenable."* (PK1, PK2, PK3)

It is known that evidentiary issues are very high in the verdict granting the entire verdict (defeat on the DGT's side) dominating as much as 64.80% of the total verdicts with evidentiary disputes, as shown in Table 4.

**Table 4. Evidentiary Dispute Content Analysis Results**

Disputes	Increase tax payable	Partially Granting the Appeal	Granting the Appeal in its entirety	Reject the Appeal	Unacceptable	Total
Evidence	1	46	224	56	7	334

Source: Research Data, 2024

This is reinforced by interviews with resource people.

*"Tax auditors use professional judgment to determine whether a transaction needs to be corrected or not. This decision depends on their assessment of the facts, including whether the transaction can be considered a disguised dividend. Therefore, the result of the correction may vary, depending on the examiner's interpretation of the characteristics of the transaction under examination."* (HKM)

From the tax authority's side, both the tax auditor and the objection reviewer all agree with the previous tax court judge's answer.

The content analysis shows that many of the appellant's arguments highlighted the examiner's professionalism in the *primary adjustment*, including weaknesses in argumentation, procedural discrepancies, and disregard for evidence, which were the main reasons for the dispute proceeding to court. Examiner professionalism factors can be grouped into two main categories: technical competence and subjectivity. Some of the applicant's arguments included inappropriate use of legal basis, misunderstanding of the business model, inaccuracy in analyzing the disputed transactions, inconsistency in corrections between reporting periods, and lack of analysis to test the reasonableness of operating profit. These results were then confirmed through interviews with sources related to the *secondary adjustment* dispute.

*"Usually, arguments related to the definition of dividends have been built since the audit stage through responses to the SPHP (Notice of Audit Results). Taxpayers often reject secondary adjustment corrections on the grounds that the examiner uses an incorrect legal basis. This argument then continues to the objection process, appeal, and so on in an effort to reject the proposed correction."* (KP)

Category **Man** includes the limited competence of tax auditors in handling complex transfer pricing cases, especially in offices such as KPP PMA. Lack of training and specialization leads to weak substantiation of corrections and procedural discrepancies, which taxpayers often question. Taxpayers also criticize corrections based on assumptions, neglect of arguments, and lack of consultation, which increases the potential for disputes up to the appeal stage. Tax authorities also recognize the importance of improving examiner competence to handle these cases more professionally.

*"Examiners often consider transfer pricing (TP) as a prohibited practice, whereas TP or tax planning is a normal part of business. What is prohibited is tax avoidance, so TP examination should focus on proving the existence of tax avoidance, which unfortunately is often overlooked."* (PK1)

The Management category is one of the main causes of increased tax disputes, mainly due to internal policies that are overly oriented towards revenue targets. The pressure to achieve revenue targets and audit deadlines often reduces the focus on audit quality, with auditors tending to prioritize the issuance of large tax assessment letters (SKP). As a result, evidentiary aspects and accuracy in corrections are often overlooked, affecting audit objectivity and increasing the potential for disputes to go to court.

The Method category reflects weaknesses in audit procedures. Tax auditors often use an irrelevant or inappropriate legal basis and often make corrections without sufficient evidence. Based on content analysis of tax court decisions, PMK-22/2020 is often used as the legal basis for correction of juridical disputes.

Previously, *secondary adjustment* was only limitedly regulated in the appendix of PER-22/2013 and SE-50/2013 related to "overpayments" to affiliates,

which was considered weak by some tax authorities. This caused hesitation in its use as a basis for correction, as seen from the few *secondary adjustment* disputes in decisions before 2021. However, since PMK-22/2020 was implemented, tax auditors are more confident in using the rule to bring up *secondary adjustment*.

*"However, after PMK-22/2020 appeared, auditors had no choice but to adjust. This shows that the tax authority has already decided that the adjustment is necessary."* (FPP1)

The tax consultant representing the taxpayer during the trial also corroborated the answer from the tax authority.

*"Since the enactment of PMK-22/2020, there has been a significant surge in the application of secondary adjustment. This regulation provides a stronger legal basis for DGT, unlike previously which was only regulated in PER and SE, often only in the appendix. With PMK-22, DGT has clearer legal standing and authority to conduct secondary adjustment, making it the main factor that triggered the increase in cases."* (KP)

There is also additional information from the tax authority that the DGT Head Office supervises internally related to the correction of secondary adjustment by the auditor. It is corroborated by a statement from the objection reviewer who has direct contact with the taxpayer's rebutted examiner correction until the objection process by the taxpayer, related to DGT's internal instructions.

*"DGT through the Head Office internally supervises the application of secondary adjustment corrections by examiners by ensuring the use of PMK-22/2020 as the appropriate legal basis. Reinforced by the existence of internal instructions such as Service Memorandum (ND-178), which is designed to ensure the correct application of PMK-22/2020. This ND provides guidance to auditors regarding the appropriate procedure in making corrections, which then becomes a particular concern in the objection process filed by taxpayers."* (FPP2, PK2)

Improper application, especially in cases before 2020, and uncertainty regarding the Advanced Pricing Agreement (APA) rules, have led to a surge in tax disputes in the tax court, especially related to the issue of secondary adjustment. Defi and Hapsari (2024) also explained the increase in the number of disputes after PMK-22/2020.

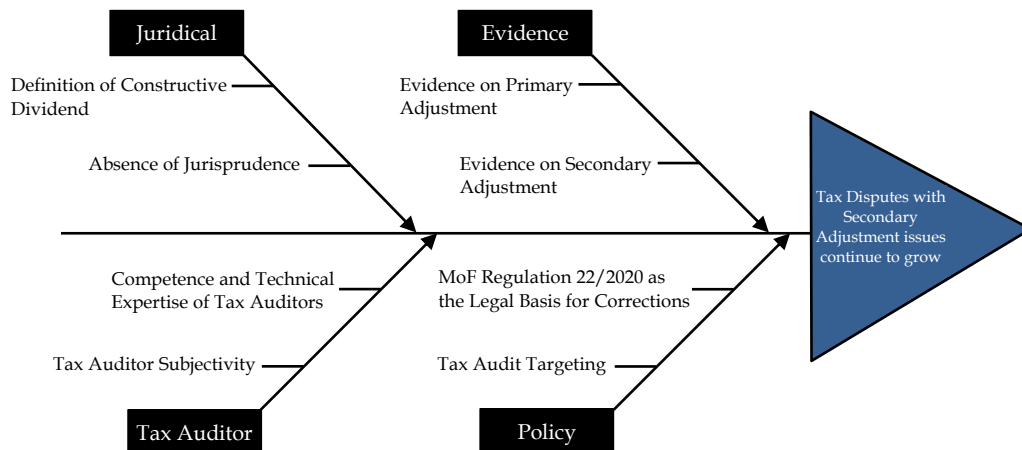
Primary adjustments in corporate income tax disputes often trigger secondary adjustments in various types and tax periods, with relatively large dispute values. The auditors confirmed the results of the content analysis, with the main reason being the achievement of revenue targets that are too high and difficult to achieve. One of the auditors felt that the audit target should focus on law enforcement to increase taxpayer compliance.

*"The audit process should focus on law enforcement, not on revenue targets. Revenue targets can compromise objectivity and lead to inappropriate corrections. Alternatively, performance indicators (KPIs) should measure the quality of work, such as timely completion of examinations or the number of evidence collected, to better reflect the professionalism of examiners.1"* (FPP2)

All objection reviewers give similar views, namely that the audit focus that only focuses on the amount of revenue can interfere with the professionalism of the auditors in carrying out their duties, especially in Tax Offices in Special Regional Offices that often handle transfer pricing cases. Therefore, there is a need for corrections related to transfer pricing.

The root cause identification process used a Fishbone Diagram approach (Figure 6) that categorized the main problems into juridical, evidentiary, examiner, and policy categories. Next, *Root Cause Prioritization* was conducted to assess the

impact, frequency, and relevance of solutions. The figure can answer the research question "What are the causes of tax disputes related to Secondary Adjustment issues in Transfer Pricing that arise based on Tax Court Appeal Decisions from 2021 to 2023?"



**Figure 6. Fishbone Diagram of the Causes of Secondary Adjustment Tax Disputes continue to grow**

Source: Research Data, 2024

In the next stage of RCA is Root Cause Prioritization with measures of relatedness, frequency and impact. Each root cause is evaluated to assess its impact, frequency of occurrence, and likelihood of implementing a solution. From the results of this evaluation, the focus of improvement is focused on the root cause to solve the problem effectively and efficiently. From the analysis, it was found that the unclear definition of disguised dividend in tax regulations was the main cause, exacerbated by the weakness of tax auditors' competence and aggressive policy pressure, especially regarding the use of PMK-22/2020. This led to massive and inconsistent corrections, which in turn triggered an increase in tax disputes related to secondary adjustment.

This study found that the ambiguity of the definition of disguised dividend, the weakness of examiner competence, and policy pressure are the main causes of *secondary adjustment* disputes. To address this issue, the main recommendations are the revision of regulations to remove the ambiguity of the definition of disguised dividend, the improvement of tax auditors' competence through training focused on transfer pricing, and the review of the audit target policy to prioritize quality over nominal revenue. With these steps, it is expected that potential disputes can be minimized in the future.

## CONCLUSION

This study analyzes that the increase in "secondary adjustment" disputes in the Indonesian Tax Court is caused by the unclear definition of disguised dividend, different interpretations of PMK-22/2020, limited technical competence of tax auditors, and audit target pressure. These causes create legal uncertainty and complicated dispute resolution, requiring fundamental improvements to enhance legal certainty and audit quality.

To reduce future disputes, revisions to the regulations are needed to clarify the definition of disguised dividends for a more uniform interpretation between tax authorities and taxpayers. Intensive training for tax auditors needs to be focused on improving technical competence and understanding of regulations related to transfer pricing and *secondary adjustment*. In addition, the revenue target policy should be redesigned to prioritize audit quality over revenue quantity, to create a fairer process and reduce potential disputes.

This research has limitations, mainly because the data used is based on case studies of tax court decisions, so the results may not be fully generalized. In addition, the limited number and variety of interviewees may result in interpretative bias. Future research needs to use broader data and involve more perspectives, both from taxpayers and tax authorities.

A quantitative approach in a follow-up study could yield more representative data, while a focus on the economic impact of *secondary adjustment* disputes on the investment climate in Indonesia would provide new insights. Collaboration with various parties, including taxpayers and tax authorities, is needed to come up with a more comprehensive solution to tax disputes.

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