TRANSFER PRICING

Transfer Pricing Local File

PT Contoh Distribusi Nusantara

FY2025 | Prepared for the fictional management team | 3 October 2026

Executive assessment

Complete the segmentation and functional evidence before adopting a tested margin or an arm's length conclusion. The sample distributor earns a positive accounting margin, but its service costs and actual control of commercial risks remain unresolved.

The fictional distributor purchases goods from a related regional principal and sells to independent Indonesian customers. Management describes the entity as routine, although local staff negotiate discounts and maintain inventory. Recorded sales are IDR 120,000 million; cost of goods sold is 96,000 million and operating expenses are 18,000 million. A 3,000 million regional service charge is included in expenses.

Priority	Matter requiring a decision	Current evidence position
High	Risk control needs corroboration	Open for professional review
High	Service cost affects the segment	Open for professional review
High	Benchmark remains unperformed	Open for professional review

This is a worked sample, not an issued client opinion. All companies, transactions, evidence records and calculations are fictional. The recommended actions demonstrate professional delivery; they do not establish a tax liability, filing eligibility, benchmark or regulatory approval.

Scope and analytical method

Purpose and intended use

The purpose is to help the fictional management team understand the evidence, the decision still required and the work needed to complete a defensible deliverable. The report is intended for internal discussion with the responsible Falcon professional. It is not a filing, an audit opinion or a guarantee of an authority outcome.

Work performed in the illustrative case

- Controlled goods purchases and regional services
- Entity and transaction delineation
- Functional interviews and segmented operating accounts
- Method selection and comparable search design

Reconcile the transaction population to statutory accounts, interview sales and finance personnel, trace discount approvals and losses, and assess the availability of reliable internal uncontrolled transactions. Consider TNMM only after testing functional comparability and the quality of the segment. Reject methods with reasons tied to the transaction, not convenience.

Evidence population

Ref	Illustrative record	Role in the analysis
E01	Segment trial balance and statutory bridge	Starting population and primary bridge
E02	Related-party purchase and distribution agreements	Classification and factual support
E03	Functional interview record and discount approval log	Exception or corroboration testing
E04	Regional service allocation and deliverables	Decision history and completion support

The references are report-local training identifiers. They are not verified originals, app record IDs or hashes. No real client files were inspected. A live engagement must preserve the actual originals, their versions and the reviewer's assessment of each material claim. The descriptions above define the evidence that the case assumes or explicitly identifies as missing.

Coverage and limitations

Only the stated sample scope is covered. The report does not infer completeness of other entities, years, transactions or tax types. Where the record is incomplete, the analysis identifies the limitation rather than treating management's explanation as verified evidence. Any estimate remains subject to factual validation, current legal applicability and independent review.

Detailed findings and professional response

Priority is a qualitative judgement about the importance of resolving an issue before delivery. High means that the matter could change a material conclusion or prevent completion. Medium means that a control or corroboration improvement is required. These labels are not a probability of assessment or a calculated tax exposure.

Finding 1 Risk control needs corroboration

High priority. E02 assigns pricing discretion to the regional principal, while E03 describes local approval of exceptional discounts. The sample does not resolve who sets the commercial policy or bears the economic consequence.

Professional implication. A routine label is insufficient to identify the party controlling market and inventory risk.

Recommended response. Obtain approval logs, inventory write-offs and decision records. Compare contractual terms with actual conduct before determining the tested party.

Finding 2 Service cost affects the segment

High priority. The 3,000 million charge in E01 has an invoice and allocation spreadsheet in E04, but no complete delivery evidence.

Professional implication. The reported margin changes materially if the charge is incorrectly classified or attributable to a different segment. A sensitivity is not a deductibility conclusion.

Recommended response. Trace deliverables, recipients and the allocation key. Reconcile benefit evidence and classification without removing the charge merely to reach a target margin.

Finding 3 Benchmark remains unperformed

High priority. No licensed database export, search date, screening log or accepted comparable set is included.

Professional implication. Neither a sample range nor the positive result establishes compliance with the arm's length principle.

Recommended response. Approve a search strategy, preserve all screening decisions and test adjustments. Obtain independent review of the final method and range.

Counteranalysis and judgement

An incomplete record is not proof that the taxpayer's position is wrong. Equally, an invoice, signed agreement or plausible narrative does not establish every factual or legal element. The reviewer should test alternative explanations and record what evidence would change the assessment. Preserve both supportive and adverse material so that the final conclusion remains balanced.

Financial analysis and decision alternatives

The schedule below makes the numerical reasoning reproducible. All inputs are fictional. The calculation basis states whether a value comes from the assumed record, a formula or an explicit scenario parameter. Figures should not be copied into a live return or used as a benchmark.

Measure	Illustrative result	Calculation basis
Revenue	120,000	E01
Cost of goods sold	96,000	E01
Gross profit	24,000	120,000 minus 96,000
Operating expenses	18,000	E01
Operating profit	6,000	24,000 minus 18,000
Operating margin on sales	5.00%	6,000 divided by 120,000

Amounts are IDR million. Excluding the service charge solely for sensitivity increases operating profit to 9,000 million and margin to 7.50%. The 2.50 percentage point difference isolates the accounting sensitivity; it is not a permitted tax adjustment. No illustrative quartiles are supplied because a fabricated comparable range would obscure the principal evidence gap.

Alternatives for management discussion

Alternative	Practical rationale	Condition before adoption
Preserve booked charge	Keeps the ledger intact	Requires service and allocation verification
Correct evidenced classification	Aligns the segment to actual costs	Requires a documented accounting basis
Perform a new benchmark	Tests the selected pricing method	Requires licensed data and screening review

Management should compare the alternatives using verified facts, operational feasibility and the applicable legal analysis. A more favourable numerical scenario is not evidence that its assumptions are valid. The report therefore recommends completing the unresolved work before selecting a final tax position or an external action.

Recommendations and delivery plan

The following sequence is an illustrative internal work plan measured from engagement kick-off. It is not a statutory timetable. Any external response or filing date must be verified separately and may require faster escalation. The engagement partner remains responsible for the scope and resources agreed with the client.

Work step	Responsible role	Indicative timing	Completion evidence
Confirm scope and procedural facts	Engagement lead	Days 1 to 2	Approved scope and verified external date where relevant
Resolve finding 1	Client finance and Falcon adviser	Days 2 to 5	Original evidence and documented resolution or scope limitation
Resolve finding 2	Technical workstream lead	Days 3 to 7	Originals and approved technical treatment
Resolve finding 3	Client owner and Falcon adviser	Days 3 to 8	Reviewed action and completion evidence
Review analysis and computations	Independent Falcon partner	After evidence closure	Documented challenge and approved current version
Authorise delivery and preserve receipts	Engagement lead and client signatory	After professional approval	Final report version and any external acknowledgement

Escalation and change control

Escalate immediately if an actual external date is near, an original contradicts the working facts, the legal framework changes, or the proposed action exceeds the authorised scope. New evidence can change the recommendation. Update the affected calculations, issue analysis and report version, and obtain fresh independent review where the conclusion has changed.

Client communication

Tell the client what is established, what remains uncertain and what they must supply or decide. Explain how missing evidence limits the deliverable. Obtain approval of the final audience and language. Preserve the distinction between internal review, client delivery and authority acceptance.

Technical references and completion record

The official references below were located on 3 October 2026. They are starting points for a real technical review, not a representation that every operative article, amendment, treaty or transitional provision has been checked. No quoted legal passage or current statutory rate is relied on to decide this fictional case.

Indonesian related party transactions

PMK 172 of 2023 - Review the applicable articles, period, documentation, MAP and APA provisions and any subsequent changes.

Open official reference

Transfer pricing analytical framework

OECD Transfer Pricing Guidelines 2022 - Analytical guidance is not a substitute for Indonesian law, treaty text or later relevant guidance.

Open official reference

Required legal applicability record

For each material position, retain the original provision and exact article, authority and version, effective dates, relevant amendments and the reason it applies to the client's facts and period. Record competing interpretations and the specialist's conclusion. Official service pages and OECD guidance have different authority from domestic legislation and treaty text.

Independent completion checks

- The client identity, period and authorised scope match the actual engagement.
- Every material statement is traceable to the original record and preserves any contradiction.
- The calculations are independently reperformed and assumptions are distinguished from legal rules.
- The applicable law and source history support the conclusion for the actual period.
- A different qualified Falcon reviewer records the judgement and material limitations.
- The client authorises the intended delivery and any separate external submission is evidenced.

Sample status: not approved for client issue. No preparer, reviewer or client signature is simulated. Replace the fictional dataset and complete the real engagement review before using this document as a delivery model.