

EXPLORING INCOME SHIFTING STRATEGY WITHIN MINING FIRMS

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ABSTRACT:

This study investigates how mining multinational enterprises (MNEs) operating in Indonesia engage in base erosion and profit shifting (BEPS) practices that ultimately reduce their effective tax rates. Using a qualitative research design, we draw on insights from two anonymous key informants—a head of accounting and tax as well as a head of shipping—and apply matching-principles analysis to identify thematic patterns. The findings reveal that MNEs strategically shift income across jurisdictions by positioning group entities in low-tax countries, enabling firms with low-tax ultimate owners to exhibit the strongest profit responses to tax incentives, thereby lowering the group's overall effective tax burden. These practices include setting intra-group prices at unreasonably low levels to move profits abroad, subsequently channeling funds back to Indonesian entities through intra-group loans. To avoid triggering thin capitalization scrutiny, MNEs tightly manage their debt-to-equity ratios to remain within the 2:1 limit, ensuring that interest payments to foreign affiliates remain deductible. These insights underscore the need for tax authorities to strengthen risk assessment of group structures and transfer pricing arrangements. The study contributes to the literature by demonstrating how transfer pricing mechanisms—anchored in arm's-length principles embedded in double tax treaties—are operationalized by MNEs to navigate multiple tax jurisdictions while shaping their taxable income.

Keywords: Base Erosion and Profit Shifting, Multinational Enterprises, Transfer Pricing, Effective Tax Rate, Thin Capitalization.

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I. INTRODUCTION

Domestic tax base erosion and profit shifting, or BEPS, refers to tax planning techniques used by multinational corporations to take advantage of tax law gaps and fictitiously move profits to low-tax or no-tax jurisdictions in order to evade paying taxes. Base erosion results in lower tax collections, which puts tax authorities and tax equity at risk in many nations due to profit shifting. Never-ending problems if discussed both from the perspective of the economy and the state, namely the issue of taxation and various ways to minimize and even avoid it are still often studied and reviewed to find a solution (Yulianus 2023). The digitalization of various sectors has also made this sector not spared from its changes from manual in every calculation to reporting to all digital. It should be emphasized that everything that is digitized to make it easier can also create loopholes for government policies to break through (Wildan 2021), because in the tax sector itself, there are a lot of grey areas commonly known as grey areas, which are areas between tax compliance and tax evasion which makes it very difficult to investigate because it is very questionable, illegal, and legal (Budiarto et al. 2018) because it is often used by various entities. One method often used by entities in their tax planning is to practice income shifting. An action in the world of taxation carried out by an entity in the form of transferring or transferring income or expenses to subsidiaries, branch entities, or other special entities to influence financial statements and optimize their tax obligations, we usually call it income shifting (Turwanto dan Alfian 2022).

In his writing Adoe (2014) revealed that Income shifting itself is often carried out by a company to reduce its income tax payable, many ways are often done to launch this income shifting practice. Many multinational companies exploit a strategy of shifting profits to low-tax or no-tax countries, known as tax havens. This approach allows them to take advantage of global outsourcing opportunities while manipulating regulations under the guise of optimizing tax treaties. Such income shifting not only threatens the integrity of tax systems but also leads to base erosion—a scenario in which countries experience a significant decline in tax revenue. This undermines tax authority and equity, adversely impacting economies and societies worldwide. We must address these practices to promote fairness and accountability in taxation (Mulyono 2018).

To reduce the problem of income shifting which can also be done through transfer pricing (Mulyono 2018) he argues that there are three main ways to eradicate BEPS (Base Erosion and Profit Shifting) actions, namely with a coherent, substance, and transparency approach. One of the goals of the approach is to minimize the occurrence of transfer pricing practices that can be a source of income shifting both in national and international companies.

Income-shifting practices have been utilized by one of the world's leading companies in the food and beverage sector, Starbucks (Theresia dan Septriadi 2018), to minimize their tax obligations. Starbucks engages in several income shifting strategies, which include : (1) Mark-up Pricing, strategically implementing higher coffee prices in low-tax countries, Starbucks can significantly enhance its profit margins and shift its earnings to these favourable locations; (2) Thin Capitalization, through intercompany lending in high-interest subsidiaries, companies can effectively minimize their taxable income, creating a more

efficient financial structure; (3) Royalty Fees, by charging royalties to its subsidiaries in various countries, Starbucks can optimize its revenue streams and allocate profits to low-tax jurisdictions, maximizing its overall profitability.

The mining sector ranks as the fourth largest contributor to tax revenue in Indonesia for 2023 (Annur 2024). It contributes 9.4%, or 175.7 trillion rupiah, following the processing industry, which holds the first position, the trade sector in second, and the financial services and insurance sector in third. This sector plays a crucial role in the Indonesian economy and is particularly success able to income shifting practices. Additionally, there are 43 mining companies listed on the Indonesia Stock Exchange, 27 of which are foreign investment firms, comprising two-thirds of the total (IDX 2024). As is well known, foreign investment companies are more vulnerable to income shifting, which is why the researcher has chosen to focus on mining companies for this study.

An example of income shifting can be seen in the well-known mining Adaro Energy (Adro). Adro Indonesia, a subsidiary of Adaro Energy, allegedly transferred its revenue and profits to its subsidiary, Coaltrade Services International (CSI) PTE Ltd Singapore, through this practice (Maharani 2022). Adro follows two main procedures to execute this strategy: (1) Adro sells coal mined in Indonesia to CSI at a reduced price, and (2) CSI then sells the coal to the international market at a higher price. This practice has resulted in significant financial losses for the state, amounting to trillions rupiah. Specifically, a price difference of just US\$10 in transfer pricing can lead to state losses of up to 400 billion rupiah per year (Wibowo 2021).

The practice of income shifting itself is often considered unethical because there is an element of tax avoidance in it. Tax evasion carried out on companies that carry out this practice can cause losses for the state, due to declining tax revenues and being diverted to countries with lower tax rates. In addition, the practice of income shifting can also cause unfair competition between companies, where companies that the practice will tend to have lower selling prices of their goods or services because they make quite extreme tax savings compared to companies that do not practice income shifting.

II. THEORETICAL FRAMEWORK

Compliance is based on the word obedience, which is a situation in which a person, group of people, or an entity acts by existing flows and rules or can also be said to act following predetermined standards (McMahon 2003). This theory is very relevant to the title of this study because the practice of income shifting itself means that companies seek to move their income to countries or regions with lower tax rates to avoid tax liabilities, which means that it is an activity that violates the theory of compliance (Turwanto dan Alfian 2022).

There are various models and approaches in tax compliance theory, each with its own focus and methodology. Here are some examples of commonly used models and approaches according to (Krislov 1991): (1) Normative Compliance Model which explains tax

compliance as a process of internalizing social and moral norms. Taxpayers who comply with their tax obligations because they believe that paying taxes is the right and important thing; (2) Instrumental Compliance in this model explains tax compliance as a process of calculating costs and benefits. Taxpayers comply with their tax obligations if they estimate that the tax compliance benefits outweigh the costs of non-compliance; (3) The Structural Compliance Model in this model explains tax compliance as a result of social structure and group norms. Taxpayers who comply with their tax obligations because they feel pressured by social pressure or fear negative consequences if they do not comply; (4) The Motivational Compliance Model is a model that explains tax compliance as a result of the taxpayer's internal motivation. Taxpayers comply with their tax obligations because they have an intrinsic motivation to do so, such as a sense of responsibility or a desire to contribute to national development.

Compliance is very closely related to the world of taxation, where compliance is a benchmark for taxpayers' behaviour in carrying out their obligations. Taxpayers will be considered compliant if they behave under existing regulations. Tax compliance itself has a meaning, namely a structured process for the identification, assessment, ranking, and handling of tax compliance risks systematically (OECD 2020). In Guidance Note Compliance Risk Management: Managing and Improving Tax Compliance (OECD 2020), it states that the outcomes of compliance include four main elements : (1) Registration, which means compliance to register as a taxpayer in a country where we reside; (2) Filling, which is compliance to fill out tax reports at the time specified in the applicable tax regulations; (3) Reporting, which means compliance to report tax reports on time by applicable regulations; and (4) Payment, which is compliance to pay taxes owed.

Transfer pricing is one of the terms that is often heard, especially in companies that have branches and are group companies. A group company will tend to conduct transactions between companies and is very vulnerable to transfer pricing. This phenomenon is a condition in which the price set for goods and services traded between entities is under the same ownership or control (Sukarno 2022). In his book which discusses international taxes (Gunadi 2007) it is said that research has been conducted on transfer pricing by the UNCTAD (United Nations Conference on Trade and Development) which focuses on international trade and economic development, in his research it was found several motivations for transfer pricing in Indonesia, namely as follows: (1) Reducing the tax burden by manipulating transfer prices to transfer profits to jurisdictions with lower tax rates; (2) Foreign exchange control that will be carried out by limiting the amount of foreign exchange that must be transferred out of the country; (3) Asset protection is carried out by protecting the company's assets from risks such as takeover or nationalization; (4) Performance evaluation, which is evaluating the performance of each business unit in a multinational firm.

The main purpose of transfer pricing is to ensure that the price used for internal transactions is consistent with the price that would be charged to an independent party in a reasonable market situation. This principle is referred to as the "arm's length" principle

(Tambunan 2022). By applying the "arm's length" principle, tax authorities seek to prevent multinational corporations from reducing their tax liabilities by shifting profits to countries with lower tax rates. Following the Regulation of the Director General of Taxes Number PER-32/PJ/2011, transfer pricing is classified into eight common methods. An obligation that must be fulfilled by an entity is often viewed as a burden. As a result, efforts are frequently made to minimize or even eliminate this obligation through strategies commonly referred to as tax planning (Mantiri et al. 2024). In conducting tax planning or commonly called tax planning, an entity will take various ways (Budiarto et al. 2018), such as: 1) Tax Avoidance: legal practices that taxpayers (companies or individuals) do to reduce their tax liability. Tax avoidance takes advantage of regulatory loopholes and legal strategies to minimize taxes payable, (2) Tax evasion is an illegal practice carried out by taxpayers (companies or individuals) to avoid paying taxes, (3) Tax savings, or tax savings are legal efforts to reduce tax liabilities that must be paid to the government. In contrast to tax avoidance which sometimes uses legal loopholes, tax savings focuses on legal strategies and under tax regulations.

In his book (Suandy 2016) it is stated that there are at least three motivations for taxpayers to engage in tax planning: (1) Tax Policy, in this case multinational companies often carry out income shifting to take advantage of the difference in tax rates between countries.; (2) Tax Law, legal loopholes in double tax avoidance agreements (P3B) or transfer pricing regulations can be used to manipulate transfer prices and transfer profits; and (3) Tax Administration, if tax administration in a country is considered less effective, multinational companies may be more likely to shift income to countries with lower tax administration.

The Income Shifting method is often used to minimize tax liabilities by shifting income and treating it as advance income (Nicole 2024). In the context of multinational enterprises (MNEs), companies often implement methods like transfer pricing, cost-sharing agreements, and other strategies to allocate internal resources and shift revenue to lower tax jurisdictions. However, this practice of income shifting for tax reasons complicates the task for outside investors to identify the true source of a company's income accurately.

A study conducted by (Chen et al. 2018) revealed that identifying the actual source of income is crucial for assessment purposes. This is because there are differences in expected growth rates, income resilience, and risks associated with foreign and domestic income. Companies incur costs when they disclose information about tax-motivated income shifting, as these disclosures provide tax authorities with the necessary information to identify aggressive tax evasion. Consequently, tax-motivated income shifting can influence the asymmetry of corporate information. Research indicates that income shifting motivated by taxes impacts information asymmetry. By employing a two-stage method, the study found a positive correlation between income shifting and four measures of information asymmetry. Additionally, the results indicated that this effect is stronger in companies with significant disparities in foreign and domestic revenue growth. In practice, income shifting is often

viewed as an illegal activity because it is used to evade taxes in unreasonable ways. Various factors can influence taxpayers when attempting to save on taxes through illegal income shifting (Suandy 2016) : (1) Tax required to pay, The greater the tax that must be paid, the greater the incentive for taxpayers to find ways to avoid taxes.; (2) Cost of bribe, bribery costs can be considered as transaction costs in carrying out income shifting practices. The lower the cost of bribery, the more likely it is that this practice is carried out; (3) Probability of detection, the weaker the tax supervision, the lower the probability of detection of income shifting practices.; (4) The Size of the penalty, and legal certainty related to sanctions are also important to provide a deterrent effect. If the sanctions applied are inconsistent, taxpayers may take the risk of practicing income shifting.

III. METHOD

This study employs a qualitative research design using a descriptive case study approach, following the framework outlined (Zaini et al. 2023). To enhance the credibility and validity of the findings, methodological triangulation was applied in accordance with Sugiyono (Sugiyono 2021). Data were collected through in-depth interviews with two anonymous key informants—the heads of the accounting and tax department and the shipping department of the MNE—supplemented by direct observations of organizational activities and work culture. In addition, relevant internal documents pertaining to income-shifting practices were examined to provide contextual depth and corroborate interview evidence. Data analysis was conducted using the matching principle analysis technique proposed by Yin (Yin 2018), which is well-suited for identifying thematic patterns and ensuring analytical rigor in case study research

IV. RESULTS

High Profits, Triggering Income Shifting Practices?

Minimizing taxes is one of the goals for companies to be able to cut costs that are considered to have no feedback when a burden occurs. Taxes are considered a scary scourge for some companies because often the rates are considered too burdensome and there is no transparency. It is not uncommon for a company to do tax planning without paying attention to the good and correct way, which then makes a company face the existing tax sanctions. Taxes are often considered complicated in regulation so not many companies choose shortcuts to cut their tax payable every year.

In relation to the company's efforts to minimize its tax debt, income shifting is often a shortcut for companies. This practice is quite popular among companies that have an inter-country reach. Unlike transfer pricing which has limited methods, income shifting does not have limited methods in its practical realization. Often associated with tax havens, the practice of income shifting also utilizes tax treaties in its implementation. MNE's firm, which is the subject of research and whose name is kept confidential for publication purposes, is one of the multinational companies based in Indonesia with its parent company located in

Singapore, operating in the mining sector. In conducting its business line, MNE's firm is structured as a group, within which many companies are established to support the main activities of MNE's firm, namely conducting mining exploration and marketing it in both local and international markets.

With a sufficiently high profit each year, MNE's firm feels burdened by the applicable tax rates in Indonesia. Tax planning is also deemed insufficient for MNE's firm to minimize its tax obligations each year. With the increase in profit each year, there will also be significant corporate tax costs associated with each increase in MNE's firm's profit. This is evident from the comparison of the last three years of corporate tax data for MNE's firm presented in the table below, where there has been an increase each year. It should be emphasized that the figures presented are dummy figures, but the percentage increase is the actual figure that occurred.

Table 01: Statement of Profit or Loss and Other Comprehensive Income (Year 2021-2023)

Notes	2021	2022	2023
Revenue	50.000	78.000	193.000
Cost of revenue	23.000	35.000	69.000
Gross profit	27.000	43.000	124.000
General & administrative expenses	2.000	3.000	28.000
Interest of current account	5	10	48
Interest expenses	1.000	2.000	5.000
Others, net	85	30	108
Earning before tax	24.000	37.000	91.000
Corporate tax	5.000	8.000	19.000
Current earning	19.000	29.000	72.000

Source: our own calculation.

Based on Table 1, it can be observed from both the nominal and percentage of the income statement and other comprehensive income of MNE's firm for the period from 2021 to 2023. It is explained that from 2021 to 2023, there was an increase in revenue, which also led to an increase in profit for MNE's firm. This is also evident in the column for corporate income tax payable, which has also experienced an increase. By simply reading the income statement and other comprehensive income of MNE's firm for the period from 2021 to 2023, we can conclude that the corporate income tax of MNE's firm has increased each year, which indicates that the management requires something more impactful than mere tax planning.

Comparing Corporate Tax: Indonesia vs Asia'n Country

The Corporate Income Tax rate in Indonesia has currently undergone several adjustments to increase investment competitiveness and expand the tax base. However, significant differences in corporate income tax rates between countries, including neighbour countries, are still one of the triggers for income-shifting practices. Multinational companies often take advantage of this difference in rates to move profits to jurisdictions with lower tax rates, thereby reducing the overall tax burden. This can be done through a variety of means, such as transfer pricing, setting up complex financial structures, or using shell companies in tax haven countries.

This income-shifting practice is a serious challenge for tax authorities in Indonesia because it can reduce state revenue and reduce the unfairness in the tax system. To address this problem, the Indonesian government has sought to tighten supervision of transactions between related companies, increase tax transparency, and cooperate with other countries to prevent tax avoidance practices. However, these efforts are still ongoing, given the increasingly complex global business dynamics and the continued development of new tax avoidance schemes.

This is where the trigger was created, when the desire of the management to continue to increase production which will be followed by a huge surge in profits, but the desire to make significant tax savings as well. As is well known where the profit of the current period is directly proportional to the tax burden that must be paid. Indeed, tax payments to the state are quite coercive in nature, and sometimes there is an insincere desire because there are several infrastructure developments in Indonesia that are not in line with their tax revenues.

Looking at the income statement and other comprehensive income of MNE's firm for the period 2021 – 2023 in Table 2, the question arises "Is the practice of income shifting of MNE's firm a manifestation of MNE's firm's unwillingness to pay its high taxes?". This statement is even stronger because of the statement from the resource person in this study, who is the head of accounting & tax at MNE's firm in his presentation when asked about the fulfilment of tax obligations by MNE's firm answered:

"Yes, because if the MNE's firm tends to have high profits, compared to other sectors, it is natural that mining companies usually regulate their tax obligations. When it comes to the methods used by various people".

With the answer to the question above, which is strengthened by the data in Table 2, it is further strengthened that the biggest reason why MNE's firm practices income shifting is because of high profits that are directly proportional to the taxes payable which are no less high. It is said that it is directly proportional because the corporate tax that applies in Indonesia is obtained from the applicable tax rate and multiplied by taxable income, where the rate that applies, for now, is 22% so that the calculation of corporate income tax can be formulated $22\% \times \text{taxable income}$, which has been stipulated in the Regulation of the Minister of Finance Number 123/PMK.03/2020 of 2020 concerning the Form and Procedure for

Submitting Reports and Taxpayer Lists to Fulfil of Requirements for Reducing Income Tax Rates for Domestic Corporate Taxpayers in the Form of Public Companies [24].

Companies with high profits will also tend to practice income shifting, by shifting their profits to countries with low tax rates because their tax obligations can also be suppressed from there. The following is data on corporate tax rates in Southeast Asian countries:

Table 02: Corporate Tax in Southeast Asian Countries

Country Codes	Corporate Tax Rate (%)
PHL	30
MYS	25
MMR	24
IDN	22
THA	20
VNM	20
KHM	20
LAO	20
BRN	18
SG	17

Source: our own calculation

In Table 2, it can be seen that Indonesia has the fourth highest corporate tax rate with a tax rate of 22%, of course, the amount of the tax rate is an opportunity for companies, especially multinational companies that have corporate branches in various countries to choose to expand to neighbour countries with a fairly low tax rate. In this case, MNE's firm chooses to shift its profits to the SIN country, because when viewed from Table 2, SG has the lowest tax rate among the other 10 ASEAN countries. That way MNE's firm will be able to cut its tax obligations.

Transfer Pricing

The process of income shifting is still a mystery that is often not fully explored by previous researchers. There is a lot of discussion about the practice, but only from a procedural point of view. Because the practice is in the grey area of taxation, it is difficult to realize when this practice is ongoing and is often equated with ordinary tax planning activities that are usually carried out by companies. But there is one thing that is inherent and inseparable from this practice is the initial symptom of occurrence, namely through the gap in transfer pricing practices, when a company conducts income shifting practices, there is always a transfer pricing practice in it. When the purpose of the transfer pricing practice is to move profits from a country with a high tax rate to a country with a low tax rate, that is where the practice of income shifting begins to form and occur.

In the practice that occurs in MNE's firm, transfer pricing is the entrance to the occurrence of income shifting practices, these two things are very inseparable because they can fill each other's gaps, these two things that have different roles can complement each other in their respective portions. Transfer pricing as the entrance to the occurrence of income shifting practices, especially those that occur in MNE's firm, was also revealed by the two informants with different points of view, the following is what was revealed by informant A when there was a question about the selling price in MNE's firm:

"For Mining firm itself, we sell some locally, some export, where the export is a transaction with one of our groups, we export it to the parent company. For the selling price, there is usually a reference price, both local and export, if it is local, we can usually use HBA or ICI, but for most of them, we usually use ICI, so from there is usually an agreement between us and the subsidiaries of this ICI price, how many dollars do you want to add US\$1 plus or minus US\$1? It depends on our agreement with the subsidiaries but for the basic price, yes, it will remain. If the agreement didn't happen to all buyers, it's specifically for the price to the parent company, if it's to other non-affiliates, the price is usually the price in accordance with the basic rate without any reduction or addition to the ICI."

From a piece of discussion above between informant A who is the head of accounting & tax at MNE's firm, there is a difference in the selling price or basic rate between affiliates and non-affiliates firms. This incident can be said to be an indicator of transfer pricing. If you reflect on the interview above, it can be concluded that MNE's firm uses the Comparable Uncontrolled Price (CUP) transaction price method, because there is an activity to compare transaction prices between related entities and transaction prices carried out between unrelated parties in comparable conditions with records of comparable transactions and can be accessed publicly, where the transaction record here is the ICI price used to all buyers in MNE's firm. The provisional suspicion regarding the CUP method in transfer pricing in MNE's firm is further strengthened by a statement by informant B who has the position of shipping head in MNE's firm, which must have a different point of view from informant A. The following is an excerpt from an interview about the selling price to the parent company:

Oh, from us, the average is equated with the price of ICI. It's just that usually, there will be a price adjustment from the ICI, for example, plus or minus a few dollars according to the agreement.

Well, this is a pretty interesting question, so when I make shipping documents, some costs must be filled in, such as COGS, that's possible. So, in addition to the basic rate, when we sell, we must have other components, for examples: freight, demurrage costs, royalties, manpower costs, or other components that are components of the selling price, now that component will be the control variable for the price to be sold. We are a group company. So, there will be special prices if you use the services of your subsidiary firm, usually it is used when making transactions in the parent"

Based on the two opinions from two informants who have different duties and jobs, but are still related to each other, it can be concluded that there is an income shifting practice that

occurs in MNE's firm. This condition can be seen from the two informants who mentioned that there is an increase or decrease in price if MNE's firm sells to affiliates firms. But MNE's firm will set a reasonable price or even more expensive if it makes a transaction with non-affiliates firm.

The description of the cost of goods sold in 4 and table 5 below can be used as a comparison when MNE's firm sells to affiliate firms, namely to the parent company in SIN and to non-affiliate firms. It should be underlined that every month MNE's firm sells more than half of its production to the parent company where the parent company is the largest profit contributor for MNE's firm. It should be underlined that the figure presented is a dummy number but the percentage still uses the original reference from the report.

Table 03: COGS by Non-Affiliates and Affiliates Firm (in Thousand IDR)

Account	Non-Affiliates Firm				Affiliates Firm			
	\$	IDR	Qty	\$	\$	IDR	Qty	\$
Over burden & mud	11.6	179.581	7.000	1.000	9.28	143.665	7.000	1.000
Coal getting	1.17	18.150	7.000	136.000	0.94	14.520	7.000	108.000
Coal hauling 1	0.63	9.680	7.000	72.000	0.50	7.744	7.000	58.000
Coal handling	1.17	18.150	7.000	136.000	0.94	14.520	7.000	108.000
Coal hauling 2	1.22	18.876	7.000	141.000	0.98	15.101	7.000	113.000
Main road	0.39	6.050	7.000	45.000	0.31	4.840	7.000	36.000
Freight	7.43	115.000	7.000	862.000	6.68	103.500	7.000	776.000
Jetty licence	0.09	1.333	7.000	10.000	0.09	1.333	7.000	10.000
Royalti	2.65	41.000	7.000	225.000	1.94	30.000	7.000	225.000
Loading plan	0.03	490	7.000	3.000	0.03	490	7.000	3.000
Loading companies	0.01	200	7.000	1.000	0.01	200	7.000	1.000
Surveyor	0.19	3.000	7.000	22.000	0.19	3.000	7.000	22.000
CSR	0.10	1.548	7.000	11.000	0.10	1.549	7.000	11.000
Production	0.19	3.000	7.000	22.000	0.19	3.000	7.000	22.000
Land fee	0.13	2.000	7.000	15.000	0.12	1.800	7.000	13.000
Road fee	0.88	13.700	7.000	102.000	0.80	12.330	7.000	92.000
Jetty fee	3.35	51.824	7.000	388.000	3.01	46.642	7.000	349.000
Income tax article 22	0.37	5.728	7.000	43.000	0.38	5.808	7.000	43.000
COGS	31.60	489.312	7.000	3.000.000	26.48	410.042	7.000	3.000.000
Selling price	41.08	636.106	7.000	4.000.000	29.13	451.047	7.000	3.000.000
Profit/loss	9.48	149.793	7.000	1.100	2.65	41.004	7.000	307.000

Source: own calculation

It is illustrated that the state of the cost of sales of MNE's firm in August 2024 is at \$ 31.60/MT with an average quantity in August 2024 at 7,000 MT, then the profit of one of non-affiliated firm is 23.08%. As can be seen in the report, the assumption is that MNE's firm makes a profit of 30% of the cost of production.

the circumstances where when MNE's firm sells to an affiliate, namely the parent company located in SG, its cost of goods sold is at \$ 26.48/MT and only takes a profit of 10% of the cost of production at the time of sale to the parent company which can be seen in table 6 the profit generated is only \$ 9.09/7,000 MT of sales.

In the two tables of cost of goods sold above, there are two groups of costs, namely: (1) The group of costs incurred and must be paid by MNE's firm to companies outside the X group of companies, namely costs that are not printed in bold on the table, such as jetty permits, royalties, Loading and Unloading Activity Plan Fees, Loading and Unloading Services, surveyors, Corporate Social Responsibility, Production Operation Mining Business License, and (2) The group of costs incurred and payable by MNE's firm to the company that is still in the group of companies X which is a subsidiary company of MNE's firm, which in tables 4 and 5 are marked in bold such as overburden & mud costs, coal getting, coal hauling, coal handling, road maintenance, land fees, road fees, jetty fees.

The separation of the cost group will affect the cost of goods sold, because the subsidiary company whose services are used by MNE's firm which will be a component of the cost of goods sold will provide a discount at the time of billing for its services, can be seen in Table 3 where the price of purchasing services to non-affiliates firm remains the same. But there is a difference with the price of purchasing services at a subsidiary company. The discount makes the cost of goods sold even smaller, and when the cost of goods sold decreases, MNE's firm also does not take too large a margin when selling with their affiliates. With the same caloric value and quantity, MNE's firm can issue a different cost of goods sold because of the price difference in the cost of goods sold component, this is the beginning where there is an income shifting gap through price injustice through transfer pricing in MNE's.

Profit Shifting Strategi between MNE's

The position that exists in the grey area cannot be denied that there are practices that exceed what should be tax planning for MNE's, which is within the reasonable limits that should be conducted by a company. The existence of these loopholes increases the potential for income-shifting practices to be carried out. With the presence of MNE's as one of the multinational companies in Indonesia operating in the mining sector, MNE's has a very high-profit margin.

When realizing that there is a high profit, MNE's carries out this practice with potential schemes that can be utilized, namely as follows: (1) Conducting transfer pricing with the Comparable Transaction Price Method (CUP), by comparing the transaction price between affiliated companies with the transaction price made between unrelated parties; (2) Thin Capitalization, MNE's can create a financial structure that is unbalanced between its capital and debt. This can be done by borrowing money from affiliated companies in countries with low tax rates. The interest paid to the affiliated company can be deducted as an expense, thereby reducing the taxable profit in the country of origin, if described as follows:

Figure 01: Income Shifting Scheme of MNE's Firms



Source: our own sketch (2024).

In Figure 1, we can see the scheme or flow of the income-shifting practice carried out by MNE's, here is the explanation: (1) In number one, you can see an arrow whose direction is from MNE's to non-affiliate firms. Where it means that there is a sale from MNE's firm to non-affiliates firm sells at a normal price, the selling price has been explained in Table 3; (2) Number two represents the arrow whose direction from MNE's firm to the affiliate firm, where the figure intends to represent the sale of MNE's firm to affiliate firms, the price is explained in table 5; (3) Then for number 3 where the arrow has the opposite direction to number 2, namely from the affiliate to MNE's firm, which represents the flow of funds back from the parent company which is the affiliate back to MNE's firm.

Figure 1 concluded that the outline is that MNE's firm sells its products for two purposes, namely to companies that are still in the same group and companies outside the group, where MNE's firm sells at a different price, namely selling to companies that are still in the same group with discounts due to the influence of components of the cost of goods sold by the subsidiaries company of MNE's firm. Because the portion of sales to companies that are still in one group is larger, there is a shift in profits that is deliberately shifted to the country of the parent company where it is located due to the existence of tax treaty facilities that can be used. When the parent company of MNE's firm gets a smaller purchase price than its competitors and sells it at the same price as the competitor, the parent company gets a larger profit, and then the parent company will provide a loan to MNE's firm in Indonesia. When getting a loan, MNE's firm is obliged to pay interest on the loan, then the interest expense of the loan will be used by MNE's firm to reduce its profit because the interest expense can be a component of profit reduction. Talking about the loan interest expense used by MNE's firm to reduce its profits, in its tax planning, MNE's firm still pays attention to the debt-to-equity ratio (DER) regulations, by the provisions of PMK 169/2015 where the maximum limit is 4:1. But MNE's firm still uses the loan interest expense as a deduction from its profit.

After the explanation in the previous paragraphs, the income shifting carried out in MNE's firm lies in activities where the selling price is not the same between affiliates and non-affiliates. The ultimate goal is to shift profits to firm with tax treaty facilities, where the profits should be taxed in Indonesia. The profit shifts due to low selling prices in countries

with high taxes. Then it lies in the provision of loans so that the loan interest expense can be used as a profit deduction, which is often referred to as thin capitalization.

Profit Shifting Impact toward MNE's

The indication of the income-shifting practice that is happening in MNE's firm certainly has an impact on many parties, a practice must have a good and bad impact on its implementation. If we reflect on the practices carried out, it can be said that the portion of the negative impact will be more than the positive impact of the income-shifting practices implemented by the company. From the perspective of the positive impacts that can be obtained when MNE's firm practices income shifting is the possibility of obtaining tax incentives because a country with a lower tax rate will often offer tax incentives to attract foreign investors. However, it is important to remember that these positive impacts are often temporary and can pose bigger problems in the long run.

In contrast to the potential positive impacts that may be produced, this practice tends to lead to negative impacts that can result from its implementation Economic dependence that occurs due to the practice of income shifting is a situation in which a region or country is highly dependent on tax revenues generated by multinational companies such as MNE's firm. When these companies carry out tax avoidance practices such as income shifting, then the country's tax revenue will be significantly reduced. Another negative impact that is no less detrimental is the formation of unfair competition which is a threat to a healthy market. The practice of income shifting in MNE's firm allows the company to achieve lower selling prices because by shifting profits to a lower tax jurisdiction, MNE's firm can reduce production costs and offer lower prices to consumers. The most detrimental impact that will be caused is the impact of tax base erosion, so that a country loses a huge potential tax revenue, which should be used to finance, then the government will be forced to find new sources of revenue or reduce spending to cover the budget deficit. In the case of MNE's firm, income shifting is carried out by transferring profits from operations in Indonesia to its subsidiaries in tax haven countries through an unreasonable transfer pricing mechanism. As a result, the tax revenue that should be received by Indonesia will be significantly reduced.

V. CONCLUSIONS

The main finding of this study indicates that income-shifting practices within multinational enterprise (MNE) groups are primarily triggered by substantial spikes in profitability, which create strong incentives for firms to relocate taxable income across jurisdictions. Indonesia's relatively high corporate income tax rate further amplifies these incentives, motivating MNEs to pursue strategies that reduce their domestic tax burden. Transfer pricing emerges as the initial and most significant channel through which income shifting occurs, exploiting pricing gaps in intra-group transactions to reallocate profits to lower-tax affiliates. Additionally, MNEs employ thin capitalization techniques as part of a

broadier sequence of profit-shifting strategies, leveraging intra-group loans to shift income in the form of interest payments while remaining within regulatory thresholds. The implementation of these income-shifting practices ultimately reduces Indonesia's tax base, weakens the effectiveness of domestic revenue collection, and complicates tax authorities' efforts to ensure compliance and enforce arm's-length standards.

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