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A Review of Taxation Aspect of Cash Poolings Based on Indonesian Regulations

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ABSTRACT

Cash poolings are typically formed by companies in a single business group. Therefore, most of the transactions are affiliated transactions that must meet the Arm's Length Principles. This study reviews the implementation of the Arm's Length Principles in cash poolings. This research utilized a qualitative approach by reviewing elements of cash pooling transactions with Indonesia's regulations and best practices in transfer pricing. The study concluded that implementing transfer pricing regulations in cash pooling arrangements would depend on the role of the leader. Based on the role of the leader, affiliated transactions in cash pooling are payment of loan interest and payment of interest on deposits in the scheme of the leader as an in-house bank and payment of fees in the scheme of the leader as a service provider. The transactions then need to be examined for compliance with the Arm's Length Principles, including evaluating price indicators and selecting the tested party of each transaction.

Keywords: affiliated transaction, Arm's Length Principles, cash pooling, income taxes

1. INTRODUCTION

1.1 Background

Every company will strive to maximize the utilization of its assets to provide better returns . This can be accomplished through various approaches in the management of their assets. For example, if a company owns vacant land that is not used in its business operations, the company can rent it out to generate regular rental income without spending too much money. The company can also invite other companies that specialize in specific industries to work on the vacant land, and the landowner will receive a profit sharing.

Cash is a critical asset for any business that must be managed appropriately. Because modern financial management believes that "cash is king," the availability of cash is crucial for a business. Cash must be available in sufficient quantities for the company's operations, but it should not be idle in excessive amounts because it reduces the company's potential income.

Good cash management will become increasingly crucial for a business group with multiple companies. Each company will have different cash requirements. Some businesses may have excess cash, while others require operations or expansion funding. When confronted with this situation, a business group typically develops a strategy to ensure that the overall use of its cash is managed correctly to provide maximum benefits.

A cash pooling scheme is one strategy that a business group can implement. Cash pooling is a specialist comprehensive banking service tailored

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for capital groups that optimizes joint current liquidity while ensuring an optimized interest (Dąbrowska, 2010, as cited in Ciężki & Drożdż, 2019) . It is embodied as a bank service that allows corporations to externalize intra-group cash management, allowing them to manage their global liquidity more effectively and affordably (European Central Bank & Colangelo, 2016). The cash owned by all business groups spread across each company can be managed optimally using this scheme. Research supports the fact that it provides some benefits: a reduction in foreign exchange risk, the possibility to receive and present information on the bank accounts of a given unit, and no need to make decisions concerning borrowing or placement of liquid assets (Grzywacz, 2008, as cited in Ciężki & Drożdż, 2019).

Overcoming tax issues related to cash pooling requires an approach focused on compliance, transparency, and ethical tax planning. An important challenge that needs to be addressed is determining a fair price for cash pooling transactions, particularly in cases where there are no comparable transactions in the open market that can be used as references.

1.2 Research Problem

Based on previous concerns, research into the tax implications of cash pooling is critical. Cash pooling incorporates companies in a business group where the affiliated company influences most cash pooling transactions. Transactions impacted by such special relationships must adhere to the Arm's Length Principles (ALP). Failure to comply with the principles may lead to a taxpayer being accused of profit shifting, resulting in an increased tax bill. Hence, research on the cash pooling business process and its relationship to related tax provisions is critical to mitigating the risks associated with this practice.

This research aims to examine the implementation of tax provisions in Indonesia on the practice of cash pooling by business groups. This study focuses on the application of the ALP practices to transactions impacted by related parties in cash pooling. Using a qualitative method, this study compared cash pooling business practices with related tax provisions. The following topics will be covered:

a. identification of transactions influenced by related parties;
b. price indicators; and
c. selection of tested party.

2. THEORETICAL FRAMEWORK AND PROBLEM STATEMENT DEVELOPMENT

2.1 Cash Pooling Business Process

According to Ciężki and Drożdż (2019), a business group's ability to manage liquidity is critical. The ability of a company to meet its short-term obligations in a timely manner is referred to as liquidity management. Failure to handle this properly can have serious consequences for the company, even leading to bankruptcy. As a result, in a business group, the parent company typically plays a role in implementing liquidity management for the entire business group.

To manage liquidity, the parent company will analyze the entire company's cash flow structure, including internal and external party generated cash flows. According to Sierpiska and Wdzki (2002, as cited in Ciężki & Drożdż, 2019), the two main issues in cash management are cash flow velocity and efficiency.

Implementing liquidity management will add another financial cost to the business group. Banking institutions provide cash management services in the form of cash pooling to streamline these activities. According to Grabowska (2012, as cited in Ciężki & Drożdż, 2019), cash pooling is the process of transferring cash between the accounts of the entities involved and the entity group's main account.

Several accounts can be managed collectively in cash pooling. Furthermore, this entails coordinating liquidity and related risks. According to the Organization for Economic Co-operation and Development (OECD), this scheme is expected to reduce the financial costs of the entire business group by reducing the spread between loan interest and deposit interest, as well as transaction costs (Haller & Chand, 2019). In general, the parties involved in organizing cash pooling are as follows:

a. Independent Bank

Essentially, the bank continues to play the role of a third-party financial management institution in cash pooling, albeit with a process that simultaneously incorporates multiple enterprises. The bank serves as the cash manager for all participants in the cash pool. In addition to performing other pertinent tasks, the bank will keep participant funds, transmit money between participants, charge management fees, provide interest on cash pooling depositors' deposits, and so forth.

From the banking perspective, the cash pooling system uses two strategies: notional pooling and cash concentration. While the bank will aggregate the balances of many firm accounts in notional pooling, the money will still be in each cash pooling member's accounts. On the other hand, in a cash concentration mechanism, money belonging to all cash pool participants is physically transferred to one combined account.

b. One particular company as the cash pool leader

In cash pooling, the cash pool leader must be one particular company. The role of the cash pool leader is to oversee how the available funds are used for the benefit of all cash pool participants. The position of the cash pool leader might be played in one of two ways: as an in-house bank or as a service provider.

The cash pool leader performs the role of an independent bank when acting as the company's in-house bank. The role of the cash pool leader is to take on members' surplus funds and distribute them to those who ask for funding. As a result, the cash pool leader can act as an intermediary for providing internal capital needs in the business group, allowing capital to be available more quickly and at a lower cost.

In the meantime, to maximize benefits for the whole business group, the cash pool leader serves as a fund manager for the entire group. The needs of every member will determine how these benefits are provided. The benefit is improved deposit rates for members with extra funds. The upside is a lower cost of capital for members who require money, in any case.

No matter what capacity the leader plays, it will primarily be responsible for communicating with the bank. With a consolidated fund capacity, the leader can negotiate with the bank on many issues to gain the advantage of the entire business group. The leader might, for instance, bargain over deposit interest rates, loan interest rates, and export privileges.

c. Other companies as cash pooling members

Companies participating in the cash pooling scheme of business groups, which are not the leaders, are referred to as cash pooling members. As a member, their role in the cash pool relies on whether the company has excess or insufficient cash. If the company has extra funds, cash pooling will be a funding source for other members. While this is happening, if a member is experiencing a cash deficit, they will use the cash pooling's available funds.

2.2 Bank as the Business Unit

Law of the Republic of Indonesia Number 7 of 1992 concerning Banking and its Amendments emphasizes that the primary role of banking is to collect and disperse public funds. Banks take government funds as savings and disperse them through loans or other means. This bank plays a vital role in economic growth since it directs cash from parties with excess funds to commercial operations that stimulate the economy. According to Levine (1997, as cited in Raharjo et al., 2014), banks can stimulate a nation's economic growth if they can effectively perform the role of financial intermediary.

Banks offer incentives in the form of deposit interest to encourage the collection of public funds. The bank will charge interest on the debtor loan to cover this deposit interest. The Net Interest Margin is the difference between the interest on a loan and the interest on a deposit. Claeys and Vennet (2007) argued that the bank's location's market conditions are reflected in the amount of net interest margin. A high Net Interest Margin is a sign that banks are operating inefficiently and that there is less competition in the banking industry. A high Net Interest Margin also suggests that banking regulations are inadequate and that there is a high level of asymmetric information. Therefore, the Net Interest Margin may reflect market risks that could harm bank performance (Hutagalung & Ratnawati, 2013).

2.3 Accounting for Cash Pooling Activities

The existence of cash pooling will result in cash transfers from one company to another. Cash will flow from cash pool members to leaders when the cash pool is formed. Cash will flow in the opposite direction when used for business or other reasons, from the leader to the other participants in the cash pool. The three classifications of cash-related activities identified by Pernyataan Standar Akuntansi Keuangan (PSAK [Indonesian Financial Accounting Standards]) 2 are as follows:

a. The company's operating activities, which are mostly derived from its primary revenue-generating activities.
b. Investing activities, particularly those involving assets intended to provide income and cash flow in the future.
c. Financial activities, including cash flows from capital providers to the business.

Some transactions on the creation and use of cash pooling funds must be recorded, depending on the type of cash pooling used. Most cash transfers between companies when establishing or withdrawing cash pooling funds do not involve sales of goods or services that generate revenue. As a result of these transactions, each company involved now has debts, liabilities, and receivables.

Based on PSAK 1, liabilities can be divided into short-term and long-term. Short-term liabilities must meet one of the following criteria: (1) expect to settle these liabilities in one normal cycle; (2) have the liability for trading purposes; (3) the liability is due to be settled within 12 months after the reporting period; or (4) do not possess the unconditional right to defer settlement of the liability for at least 12 months after the reporting period. Liabilities are categorized as long-term liabilities if they do not satisfy specific requirements.

2.4 Best Practice of Tax Applications on Affiliated Transactions Related to Cash Pooling

According to the OECD (2017), a corporate group often has a treasury department that manages its financial operations. To guarantee sufficient cash available at the appropriate time and location, the person in charge of treasury must optimize the liquidity utilization across the entire business group. Treasury responsibilities include the management of cash and liquidity, as well as corporate financial management.

The availability of cash in the company group’s ongoing operations is a key concern for the cash and liquidity management person in charge. Meanwhile, the person in charge must act with a long-term perspective when performing the role of corporate financial management. Business groups must be aware of any risks that may arise while maintaining business continuity to make financial decisions that optimize capital costs, such as issuing bonds, bank loans, and investment options.

The treasury function might also be performed by creating a cash pool. Compared with situations without cash pooling, the presence of cash pooling offers better conditions for all involved parties. This viewpoint affects the reward distribution among all cash pooling parties, including cash pool leaders and members.

When a related party relationship impacts a transaction, the decision to proceed with the transaction may be influenced by an interest to reduce the total amount of tax that must be paid. As a result, the transaction’s fairness might not be in line with the ALP. According to Article 18 paragraph (4) of Income Tax Law Number 7 of 1983 and its amendments, a special relationship (related party relationship) exists if:

a. taxpayers have direct or indirect capital participation of at least 25% in other taxpayers; a relationship between taxpayers where there is a participation of at least 25% in two or more taxpayers;
b. the taxpayer controls other taxpayers; two or more taxpayers are under the same control, either directly or indirectly; or

c. there is a family relationship, whether it be through blood or adoption.

Companies in the same business group use cash pooling to conduct transactions. As a result, these transactions are influenced by a particular relationship. The transaction must be tested to determine whether or not it complies with ALP.

Cash pooling transactions can provide cash management services or savings and loan transactions, depending on the cash pooling scheme used. The Minister of Finance Regulation Number 22/PMK.03/2020 states in Article 14 paragraphs (1) and (2) that transactions in the form of service transactions and transactions related to loan costs must be completed in preliminary stages before ALP testing. The following are the preliminary steps that must be performed:

a. the case of service transactions, documentation demonstrating that the services:
    1) were rendered by the service provider and were accepted by the service receiver;
    2) were necessary for the service recipients;
    3) brought about financial gains for the service recipients;
    4) is not a shareholder activity;
    5) is not a passive association activity that benefits a party only because the party is a member of a business group;
    6) is not a repetition of activities already carried out by the taxpayer;
    7) is not a service that offers incidental benefits; and
    8) in the case of on-call services, it is not a service that can be immediately obtained from an independent party without prior arrangements.
b. For loan interest-related transactions, evidence of:
    1) conformity with the actual substance and circumstances;
    2) borrower needs;
    3) use to obtain, retain, and collect income in compliance with the rules of laws and regulations governing income tax;
    4) satisfy the loan characteristics, which include:
        a) the creditor recognizes the loan economically and legally;
        b) there is a loan maturity date;
        c) there is a requirement to settle the loan principal;
        d) payments are made according to a predetermined payment schedule for both the loan principal and the yield;
        e) when the loan is obtained, the borrower can obtain a loan from an independent creditor and repay the loan principal and yield.
        f) based on a loan agreement created following relevant laws and regulations;
        g) legal repercussions may occur if the borrower fails to repay the loan's principal and/or yield; and
        h) the lender has the right to pursue collection as an independent creditor; and
    5) offer borrowers financial advantages.

3. RESEARCH METHOD

This is a qualitative study that examines current taxation related to cash pooling practices. This study further explores how ALP-related tax regulations are applied to cash pooling-related transactions. Therefore, the basis of analysis of this research is as follows:

a. Law of the Republic of Indonesia Number 7 of 1983 concerning Income Tax and its Amendments, and
b. Regulation of the Minister of Finance Number 22/PMK.03/2020 Concerning Procedures for Implementing Transfer Pricing Agreements serve as the foundation for testing in this study (PMK-22),

as well as best practices for implementing transfer pricing by the United Nations Practical Manual on Transfer Pricing for Developing Countries (United Nations, 2013) and OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (OECD,2017).

The steps performed in research to achieve the expected results are as follows:

a. Identifying related transactions that need to comply with ALP.
b. Research on price indicators.
c. Choosing tested party.

4. RESULTS AND DISCUSSION

4.1 Transactions among Cash Pooling Members

Haller and Chand (2019) proposed that the financial arrangements for cash pooling must comply with domestic regulations governing funds transfers. For instance, financial agreements reached through cash pooling are considered loans in Germany. As a result, the cash pooling recipient will be considered to have received the loan, and the sender of the funds will be the owner of the receivables resulting from the loan.

Generally, transactions can be divided into two categories: balance sheet transactions and income statement transactions. Transactions involving the transfer of assets from one party to another are known as balance sheet transactions. Income statement transactions, on the other hand, involve income statement accounts, such as income or expenses, to affect the transacting entity's equity position. This income statement transaction relates to the determination of the tax payable.

Cash pooling involves three partners, as previously mentioned. Therefore, transactions involving cash pooling may proceed between these three parties. Transactions between independent banks and leaders or members are considered independent when examined from the perspective of the relationship.

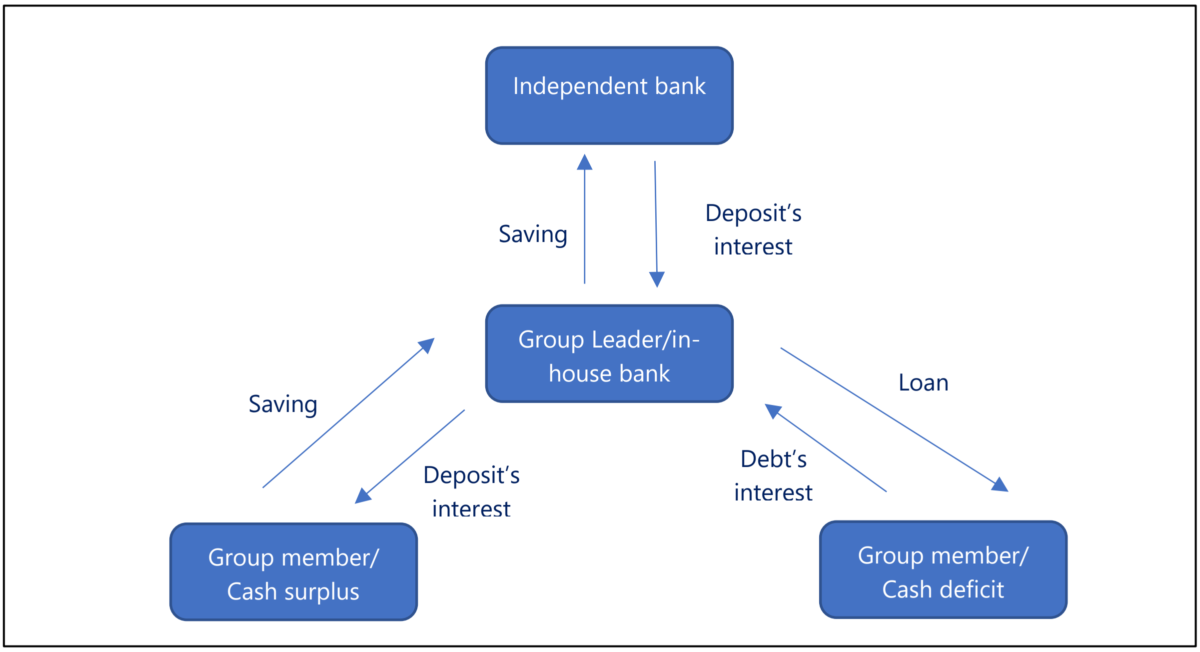
In addition, affiliated transactions occur whenever a transaction is made between member companies in a cash pool, particularly between leaders and members. According to Jie-A-Joen et al. (2020), determining an arm's length remuneration for the Cash Pooling Leader is a key transfer pricing issue. Therefore, affiliated transactions must be subject to the implementation of the ALP. Identifying the associated transactions is required to test the implementation of the ALP. The leader's role in the cash pooling process will impact the type of transactions.

4.1.1 Leader as the In-House Bank

The leader performs as a bank for the business group is called the "in-house bank." The leader of the cash pooling group controls all cash flows. Members with extra cash appear to be conserving it for the leader. In the opposite situation, if a member needs money, the leader lends the member money from the cash pooling funds.

Figure 1

Cash Pooling Transaction Flow Using the Leader Scheme as the In-House Bank



Note. Processed by Authors

Several types of transactions occur between related parties in this scheme. Cash transfers from members to leaders occur as funds accumulate in cash pooling. The funds are deposited into the leader's account at the cash pooling organizing bank. During cash pooling operations, members can only withdraw funds when making payments for operational transactions that must be paid or depositing funds into the cash pool if there is payment from the buyer for the sales. In addition, if any members require loans, the leader, acting as corporate treasury, will conduct corporate financial management activities to determine the viability of providing loans. If possible, the leader will make loans to these members. Furthermore, the leader receives loan interest from members who borrow and deposit interest from members with positive cash balances in cash pooling. Figure 1 shows the transaction relationship of each party.

The mechanism impacts the leader's source of income. As the in-house bank, the leader earns the net interest margin/spread, which is the return generated from the cash pooling fund invested in less interest payments. The return on this investment may come from loan interest or interest the bank pays due to a positive balance in the overall cash pooling fund. Meanwhile, interest obligations raise from interest liability to banks and interest that is a right of cash pooling members, whether paid or not.

Figure 1 illustrates how transactions with independent banks, such as cash deposit transactions, which are balance sheet transactions, and transactions interest earned on bank deposits, which are income statement transactions, proceed through the cash pooling leader. Since earning interest on deposits from the bank is a profit and loss statement activity, there is typically no special relationship between the bank and the leader, making this transaction an independent one. As a result, this transaction satisfies the ALP.

Several transactions take place between leaders and members. The existence of a special relationship between the parties involved affects the transaction; thus, it must satisfy the ALP. The affiliated transactions include the following:

a. Cash transfers to create cash pooling and deposit sales or other revenues from members to leaders.
b. Withdrawal of funds from the leader to the cash pooling members.
c. Granting loans to members.
d. Interest payments on deposits from leaders to members.
e. Loan interest payments from members to leaders.

Among the abovementioned transactions, those for cash transfer, receiving money, and making loan transactions appear on the balance sheet. While loan interest payments from members to leaders and deposits from leaders to members are income statement transactions. Therefore, ALP compliance is required for transactions involving interest payment on deposits and loans. Nevertheless, because the balance sheet transaction serves as the foundation for the calculation, this income statement transaction is still inextricably linked to the one that occurs.

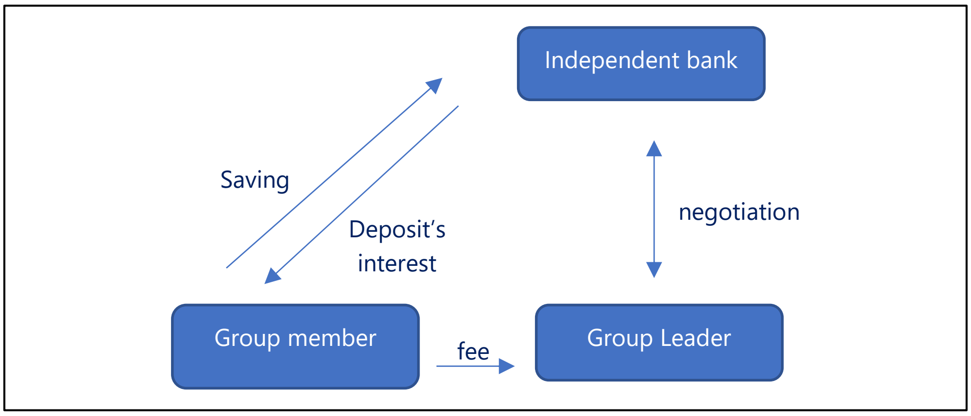
4.1.2 Leader as a Service Provider

When the leader assumes the role of a service provider, the funds accumulated in the cash pool are genuinely under the control of each member. In financial management, the leader serves as a service provider, meeting all members' demands. For instance, the leader bargains for the best interest rate and identifies more affordable and long-term loan sources.

Members appear to be in direct contact with independent banks in this scheme, both in physical and notional cash pooling. When payments are made for sales performed by members, they transfer cash into the bank to build a cash pool. The bank will reimburse each member for interest on the deposit from the remaining balance of each member's fund balance. Meanwhile, it appears that the group's leader is paid by the members for providing cash pooling services. A member who requires a loan may apply for one from the organizing bank. However, in this study, this was not considered because the

Figure 2

Cash Pooling Transaction Flow with the Leader Scheme Serving as a Service Provider



Note. Processed by Authors

transaction was outside the scope of cash pooling. Figure 2 shows a transaction illustration.

The Figure 2 clearly illustrates that members conduct business directly with independent banks through deposits and withdrawals, which are balance sheet transactions and interest receipts, which are income statement transactions. Banks and members commonly do not have any affiliated relationships. Hence, this transaction is regarded as complying with the ALP. The leader's receipt of fees is a transaction that appears on the income statement and is affected by an affiliation. Therefore, the ALP implementation for this fee payment transaction should be tested.

4.2 Tax Implementation of Cash Pooling

Transactions impacted by a special connection must be checked for ALP compliance, as previously stated. Because income statement transactions directly affect the amount of income tax liability, these transactions are the ones that this test focuses on the most. The following cash pooling transactions must be tested based on the previous identification:

a. In the leader scheme as an internal bank:
   1) Payment of loan interest from members to leaders.
   2) Payment of interest on deposits from leaders to members.
b. In the leader scheme as a service provider: Payment of fees from members to leaders.

As per Article 9 paragraph 1 of PMK-22, after the introductory steps, as previously explained, ALP research is conducted for cash pooling transactions. In line with Article 8 paragraph 2, the execution of this ALP is carried out by comparing the terms and price indicators of transactions that are impacted by a special relationship with the terms and price indicators of comparable independent transactions. Therefore, for the aforementioned cash pooling transactions, it is necessary to determine the appropriate price indications.

For loan interest and deposit interest in the leader as the in-house bank scheme, some values relevant to transactions are found: the loan value/deposit value, amount of interest paid, and interest rate. The interest rate should be the transaction indicator for paying interest on loans/deposits depending on the features of the transaction, out of the three indicators. Therefore, the ALP test compares the interest rates charged on transactions with those of independent interest rates for similar scenarios.

Researching the transaction before paying fees to the leader scheme as a service provider is necessary. The OECD Transfer Pricing Guidelines categorizes specific transactional characteristics as low-value intra-group service transactions (OECD, 2017). These characteristics include the following:

a. Being supportive.
b. Not being a part of the group's core activities regarding profit-earning.

c. Not requiring unique and valuable intangibles and not participating in the creation of such intangibles.
d. Not being involved in significant risk control or causing significant risks.

The services offered by the leader in the leader plan satisfy the aforementioned criteria when referring to such characteristics. As a result, the leader's services fall into the category of low-value-added services. The OECD (2017) recommends using this simplified technique with a maximum profit of 5% of the total relevant cost for low-value-added services. Although all members benefit from cash pooling, all members must pay for these services. As a result, the following procedure is used to establish price indications for paying this leader for cash pooling services:

a. Calculation of all leaders' expenses related to cash pooling operations.
b. Establishment of the appropriate profit level.
c. Distribution of fees to all members.

ALP implementation requires identifying the tested party after identifying the pricing indications. A price indicator's "tested party" is the party that executes the transaction. According to the previously completed functional analysis, the choice of the tested party should be consistent.

The selection of the tested party is typically based on circumstances in which transfer pricing methods are the most accurate to use and comparison data are available. Regarding the transfer pricing method, the party with the simplest business process is typically chosen as the tested party. Regarding data availability for comparative analysis, the tested party was selected based on which party naturally engages in transactions with independent parties. The tested party for related transactions in cash pooling is chosen based on the following criteria:

a. Repayment of interest on loans

Members as income generators and the leader-in-house bank as income recipients are the people involved in paying loan interest. Between the two, by nature, the borrower can propose loans to independent parties. However, because these investments are made to cash pool interest rather than serve as loans in the context of business operations, they cannot be considered as loans. In the meantime, leaders allocate funds to separate banks. As a result, from the leader's perspective, it is typically impossible to find reliable comparison data because the leader can lend money to other cash pooling members. Members should, therefore, be selected as the tested party for loan interest payment transactions.

Table 1

Overview of Implementing ALP on Affiliated Transactions in Cash Pooling

	In-house Bank Scheme		Service Provider Scheme
	Loan Interest	Deposit Interest	Service Fee
Income Generator	Member	Leader	Member
Income Recipient	Leader	Member	Leader
Price Indicators	Loan interest rate	Deposit interest rate	Profit level based on low-value-added services
Price Allocation	Based on loan value	Based on deposit value	Cost allocations to all members
Tested party	Member	Member	Leader
Reason for selecting the test party	Data for comparison is more reliable	Data for comparison is more reliable	Low-value-added services
Income Generator	Member	Leader	Member

Note. Processed by Authors

b. Payment of interest on deposits

The leader-in-house bank pays deposit interest to members who are income recipients. From the leader's perspective, the sole source of deposits is the members' cash pool. Members can choose where to invest their money in other financial institutions or a cash pool. Therefore, members are a more reliable choice to become tested parties in this transaction.

c. Payment of fees

The leader-in-house bank pays deposit interest to members who are income recipients. From the leader's perspective, the sole source of deposits is the members' cash pool. Members can choose where to invest their money in other financial institutions or a cash pool. Therefore, members are a more reliable choice to become tested parties in this transaction.

Table 1 provides a summary of the full above description.

5. CONCLUSION

Cash pooling is a method for a business group to manage its cash. Cash pooling allows business groups to optimize the use of their internal funds, such as the use of group cash by a company experiencing a cash shortage, thereby reducing external funding sources. A business group with a large amount of funds may also have better financial opportunities, such as negotiating better rates of return or seeking cheaper financing sources.

Three groups are often involved in cash pooling: independent banks, cash pooling leaders, and cash pooling members. Cash pooling can be classified into two categories regarding the leader's role: the leader as an in-house bank and the leader as a service provider. Variations in the leader's function affect transactions made in cash pooling.

Companies in the same industry participate in cash pooling, resulting in some transactions being influenced by affiliated relationship transactions. Tax implications arise from this situation. These transactions should conform to the ALP or Prinsip Kewajaran dan Kelaziman Usaha (PKKU). Hence, it is crucial to investigate how to implement ALP to cash pooling.

Finding the relevant associated transactions is a required preliminary step in the early stages. The leader's role in the cash pooling process affects these transactions. Loan interest payments and deposit interest payments are related transactions that must satisfy the ALP in the leader scheme as an in-house bank. Meanwhile, the transactions identified in the leader scheme as a service provider are considered fee payment transactions.

Two steps are required to conduct related transactions in cash pooling. According to PMK-22, it is necessary to make initial loan interest and service charge payments to verify their existence. In addition, research on implementing ALP for all associated transactions is required, including a study of pricing indicators and the tested parties.

The loan interest rate serves as a price indicator for loan interest payments. The member who acquired the loan is the tested party in this transaction because the comparison data are more reliable. Therefore, the interest rate applied to cash pooling will be compared with the independent loan interest rate obtained by members as debtors to assess the implementation of ALP loan interest payments in cash pooling.

The deposit interest rate is a pricing indication for deposit interest payments. The chosen tested party is a member to obtain accurate comparison data. As a result, in the payment of deposit interest transactions, the applied deposit interest rate is considered to comply with the ALP if it is comparable to the independent deposit interest rate that the member may earn as the deposit's owner.

Under the leader as a service provider scheme, services offered by the leader are classified as low-value-added services. The OECD recommends a simplified approach when implementing ALP for services that fit this category. The relevant cost determines the service delivery value, and a maximum of 5% profit may be applied. As a result, the tested party is the service provider in this transaction.

6. IMPLICATIONS AND LIMITATIONS

This study investigates how the ALP or PKKU might be applied to related cash pooling transactions. This research offers recommendations for the implementation of ALP in cash pooling. Taxpayers may follow procedures that diverge from the findings of this study. This study is not necessarily a deviant application and requires more in-depth research.

This study has not considered the various variations in cash-pooling schemes. For instance, how can the collateral provided by the Cash Pooling Leader be measured in loans from Cash Pooling members? According to Vasco (2021), the variations may affect the risks and information among the Cash Pooling group and influence the remunerations of each party. These circumstances require further observation.

This study includes a significant literature review, which limits the results. Hence, this study has limited ability to provide additional empirical data. A more in-depth analysis of cash pooling activities in the practices is necessary to capture the specific phenomena of cash pooling and its taxation aspects.

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