Cash Pooling Arrangements: Navigating Tax Disputes, Operational Efficiency, and Regulatory Compliance

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ABSTRACT

Cash pooling represents a strategic cash management mechanism commonly employed in related-party transactions. This study aims to examine the underlying causes of tax disputes arising from cash pooling arrangements and to propose actionable recommendations to minimize such conflicts. Employing a qualitative research methodology, the study incorporates content analysis of tax court decisions issued between 2021 and 2023, supplemented by interviews with relevant stakeholders. The findings reveal four primary categories contributing to cash pooling-related tax disputes. These include factors related to tax auditors (competency, communication practices, and evidentiary standards), taxpayers (documentation adequacy and perceived fairness), audit methodologies (guidelines, agreement interpretations, and transaction delineation), and the lack of comprehensive domestic regulations governing cash pooling arrangements. The implications of this research are twofold. For the Directorate General of Taxes (DGT), implementing the proposed solutions could mitigate revenue losses from tax disputes. For taxpayers, enhanced clarity and regulatory alignment could lead to reduced compliance costs, fostering a more cooperative tax environment.

Keywords: *Cash pooling; Tax Dispute; Tax Court.*

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ABSTRAK

Cash pooling merupakan skema manajemen kas yang bertujuan untuk efisiensi dan melibatkan transaksi dengan pihak yang memiliki hubungan istimewa. Penelitian ini bertujuan untuk mencari penyebab sengketa pajak atas cash pooling dan memberikan rekomendasi untuk meminimalisir sengketa. Pendekatan kualitatif dilakukan dengan analisis konten putusan pengadilan pajak yang diterbitkan tahun 2021-2023 serta wawancara dengan narasumber yang relevan. Hasil analisis menemukan bahwa terdapat empat kategori utama penyebab sengketa pajak atas cash pooling. Sengketa terjadi karena faktor pemeriksa pajak (kompetensi, komunikasi, pembuktian), wajib pajak (dokumentasi dan keadilan), metode pemeriksaan (belum ada pedoman pemeriksaan, perbedaan penafsiran perjanjian, delineasi transaski), dan belum adanya peraturan domestik terkait cash pooling. Penelitian ini diharapkan dapat memberikan solusi untuk menurunkan angka sengketa cash pooling. Bagi DJP hal ini dapat mengurangi potensi penurunan penerimaan negara dari pajak dan bagi wajib pajak adanya penurunan biaya kepatuhan.

Kata Kunci: *Cash pooling; Sengketa Pajak; Pengadilan Pajak.*

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INTRODUCTION

Cash pooling is a strategic cash management mechanism employed by corporate groups to centralize cash balances through a single, centralized bank account, governed by a formal cash-pool agreement (Berlinger et al., 2017). The primary objective of cash pooling is to optimize the management of business funds and ensure the availability of capital to meet the financial needs of all entities within the group (Utama, 2019). This practice is particularly prevalent among multinational corporations seeking to enhance liquidity management and operational efficiency.

In a cash pooling arrangement, the cash balances of multiple entities or divisions are consolidated into a master account, enabling centralized control and streamlined financial operations. This consolidation facilitates the efficient allocation of surplus funds, minimizes borrowing requirements, and lowers overall interest costs, thereby improving the company's cash management efficiency (Haller, 2019; Luo & Shang, 2015; Mucelli et al., 2020). By reducing reliance on external financing, cash pooling enhances the efficient utilization of internal capital resources and supports cost-effective financial management (Muaja et al., 2023).

The following section provides a detailed overview of the cash pooling scheme.

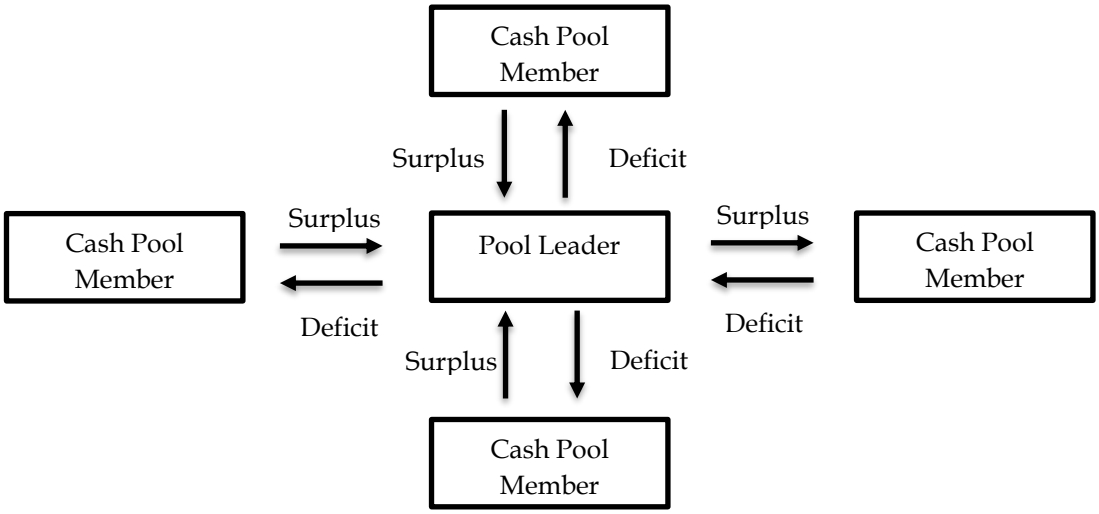


Figure 1. Cash Pooling Scheme

Source: Research Data, 2024

In 2022, the Organization for Economic Co-operation and Development (OECD) issued updated guidelines on transfer pricing for financial transactions, emphasizing adherence to the arm's length principle for intra-group financial dealings. These guidelines encompass intragroup debt, cash pooling, and hedging arrangements, aiming to mitigate taxation issues stemming from profit shifting across jurisdictions (OECD 2022). Among these transactions, cash pooling plays a central role in liquidity management within corporate groups, involving the transfer of payables and receivables among participants. These transactions often occur between entities in a special relationship, making them subject to scrutiny under transfer pricing regulations.

In Indonesia, Article 18, paragraph (3) of the Income Tax Law grants the Directorate General of Taxes (DGT) the authority to adjust taxable income when special relationship transactions, such as those in cash pooling, indicate potential deviations from the arm's length principle. This has led to recurring disputes between taxpayers and tax authorities, particularly regarding the fairness and appropriateness of interest rates applied in cash pooling arrangements. To minimize these disputes, companies must ensure that interest rates and other terms reflect market conditions and are substantiated by appropriate documentation.

Cash pooling agreements not only govern the transfer of funds but also outline the allocation of costs and interest income. Companies with outstanding debts typically incur fees, while entities providing liquidity receive compensation in the form of interest income. According to Article 6, paragraph (1) of the Income Tax Law, interest expenses are deductible from gross income, provided they are directly related to operational activities such as earning, collecting, and maintaining revenue. However, disagreements over whether interest expenses in cash pooling arrangements meet these criteria often lead to divergent interpretations, further fueling tax disputes.

The implementation of cash pooling also depends on the legal and regulatory framework of the jurisdiction in which entities operate. For instance, in countries with robust investor protections, firms may be more inclined to reduce cash reserves and engage in higher-risk investments. Conversely, in jurisdictions with weaker protections, companies may prioritize maintaining higher cash reserves (Yeoh & Hooy, 2022). This illustrates how local regulatory environments influence corporate decisions regarding cash pooling and broader cash management strategies. In Indonesia, the absence of explicit tax regulations governing cash pooling creates significant uncertainty for taxpayers. Variability in tax authority interpretations and changes in regulations further exacerbate this uncertainty, increasing the likelihood of disputes (Dyreng et al., 2019; Musumeci & Sansing, 2014).

The frequency and complexity of tax disputes related to cash pooling have risen both in Indonesia and globally. This trend reflects the growing intricacy of financial transactions and heightened emphasis on tax compliance. Multinational corporations must ensure strict adherence to transfer pricing regulations to mitigate risks, particularly in jurisdictions like Indonesia where cash pooling practices are increasingly scrutinized (Putri, 2021). Concerns over transfer pricing and potential tax avoidance have drawn the attention of the DGT, resulting in significant financial implications for taxpayers. Recent tax court decisions from 2021 to 2023 highlight the extent and impact of disputes related to cash pooling, as illustrated in Table 1.

Table 1. Dispute Statistic

Year	Number of Decision	Dispute Value
2021	13	Rp 6,943,567,377,531
2022	11	Rp 236,354,740,216
2023	10	Rp 224,998,004,974
	Total Dispute Value	**Rp 7,404,920,122,721**

Source: Tax Court Ruling Analysis Data, 2024

The rulings of the 34 reviewed decisions can be categorized into two outcomes: 8 cases granted in part and 26 cases granted in full. This demonstrates that taxpayers prevailed in the majority of these disputes, a trend consistent with statistical data published by the Directorate of Objections and Appeals in 2021. A broader analysis of decisions from 2010 to 2020 further indicates that the Directorate General of Taxes (DGT) has maintained a relatively low success rate in resolving cash pooling disputes (Directorate of Objections and Appeals, 2021). Based on this historical data and recent decisions, it can be concluded that cash pooling disputes are recurring issues, with the DGT frequently experiencing unfavorable outcomes. These defeats result not only in reduced state revenue but also necessitate interest payments to taxpayers due to unfavorable rulings at the appeal level. Moreover, recurring disputes impose significant costs on taxpayers, increasing expenses and reducing profitability.

Prior research on cash pooling tax disputes, while insightful, has been limited in scope. Pujiastuti (2009) examined cash pooling transactions by comparing outcomes of objections and appeals, focusing on a single Tax Court decision within a one-year period. This study identified the sufficiency of evidence as a critical determinant in resolving tax disputes. Kurniawan (2014) expanded on this by analyzing broader aspects of cash pooling disputes, while Fachrina & Martani (2024) explored the role of transfer pricing and intercompany financing in multinational corporations. Their research highlighted the relationship between tax management practices and the occurrence of disputes, with a particular focus on cash pooling practices in a single company.

This study distinguishes itself from prior research by offering a broader and deeper analysis. It examines a larger dataset of Tax Court decisions over an extended period, providing a comprehensive understanding of recurring cash pooling disputes. Furthermore, it emphasizes identifying the root causes of these disputes, adopting a holistic approach to understanding their origins. By addressing systemic factors driving cash pooling disputes, this research aims to propose actionable recommendations to reduce future conflicts. Decreasing the frequency of such disputes would benefit both the DGT and taxpayers by improving state revenue retention and lowering compliance costs for corporate entities.

The objective of this study is to identify specific transactions underlying disputes between taxpayers and tax authorities in the context of cash pooling. These transactions are analyzed to uncover factors contributing to recurring disputes. The findings of this study will inform practical recommendations to mitigate cash pooling disputes in Indonesia. A reduction in disputes would likely diminish the risk of decreased state revenue due to interest payments to taxpayers.

At the same time, taxpayers would benefit from lower financial burdens associated with dispute resolution, enabling more efficient corporate cash management and fostering a more collaborative compliance environment.

RESEARCH METHOD

This study employs a qualitative case study approach to explore the underlying causes of cash pooling tax disputes. The case study method is particularly effective for answering explanatory "how" and "why" questions, as it enables an in-depth examination of operational processes over time rather than focusing solely on frequencies or occurrences (Yin, 2018). As a diagnostic research method, it aims to identify root causes within specific contexts (Ellet, 2018). To enhance the robustness of the analysis, this study applies a triangulation methodology, integrating content analysis of tax court decisions, interviews with stakeholders, and a review of relevant literature, regulations, and prior research.

Table 2. Question List

Research Objective	Interview Substance	References	Interviewee
Identification of types of disputes and factors causing cash pooling disputes	Determination of cash pooling scheme and its purpose	(Rafiq et al, 2010), (Berlinger, 2017)	Tax Consultant
	Correction of transactions related to cash pooling	Tax Court Ruling, UU PPh, UU PPN	Tax Consultant, Tax Auditor, Objection Reviewer, Tax Judge
	Objection and appeal process	PMK-202/PMK.03/2015, UU Pengadilan Pajak	Tax Consultant, Tax Auditor, Objection Reviewer, Tax Judge
	Regulations related to cash pooling	Tax Court Ruling, UU PPh, UU PPN	Tax Consultant, Tax Auditor, Objection Reviewer, Tax Judge, Tax Policy Maker
	Causes of cash pooling disputes	Previous research	Tax Consultant, Tax Auditor, Objection Reviewer, Tax Judge
Provide recommendations to reduce the occurrence of cash pooling disputes	Correction of transactions related to cash pooling	Tax Court Ruling, UU PPh, UU PPN	Tax Consultant, Tax Auditor, Objection Reviewer, Tax Judge
	Objection and appeal process	PMK-202/PMK.03/2015, UU Pengadilan Pajak	Tax Consultant, Objection Reviewer, Tax Judge
	Regulations related to cash pooling	Tax Court Ruling, UU PPh, UU PPN	Tax Consultant, Tax Auditor, Objection Reviewer, Tax Judge, Tax Policy Maker

Source: Research Data, 2024

Primary data were collected through interviews with ten key stakeholders, including tax auditors (three individuals), objection reviewers (four individuals), a tax policymaker (one individual), a tax consultant (one individual), and a tax judge (one individual). Secondary data were drawn from the Tax Court Secretariat website, comprising 34 Tax Court decisions issued between 2021 and 2023 that relate to cash pooling disputes. The literature review complements these data sources, incorporating an analysis of tax regulations, academic journals, and previous studies on cash pooling and associated disputes.

Semi-structured interviews were conducted to gather detailed insights from participants, allowing for the flexibility to adapt questions based on interviewees' responses while maintaining a focused inquiry into their perspectives (Bryman, 2012; Creswell & Creswell, 2018). This approach facilitated a deeper understanding of the issues surrounding cash pooling tax disputes by capturing the experiences and viewpoints of stakeholders, contributing to a more nuanced and comprehensive analysis.

The recorded interviews were transcribed to facilitate analysis. Subsequently, the transcripts were subjected to examination and organized according to the same overarching theme. A manual content analysis of Tax Court decisions was conducted, whereby each decision was examined individually. The data from the decisions were entered into a table to facilitate the analysis.

The findings from the content analysis of Tax Court decisions, complemented by the results of interviews with experts in the field and an examination of relevant literature on the underlying causes of cash pooling disputes, will be presented in the form of a fishbone diagram. Subsequently, further analysis is conducted on the same data set to develop recommendations for minimizing future tax disputes related to cash pooling.

RESULT AND DISCUSSION

The disputes concerning cash pooling are classified into four principal categories, as determined by the findings of both content analysis and interview analysis. In general, the categories of tax auditor corrections or issues that frequently result in disputes in cash pooling pertain to the existence of the cash pool, interest expenses unrelated to operational activities, the reasonableness of the interest rate, and the difference between the balances on the receivables flow test and the money flow test.

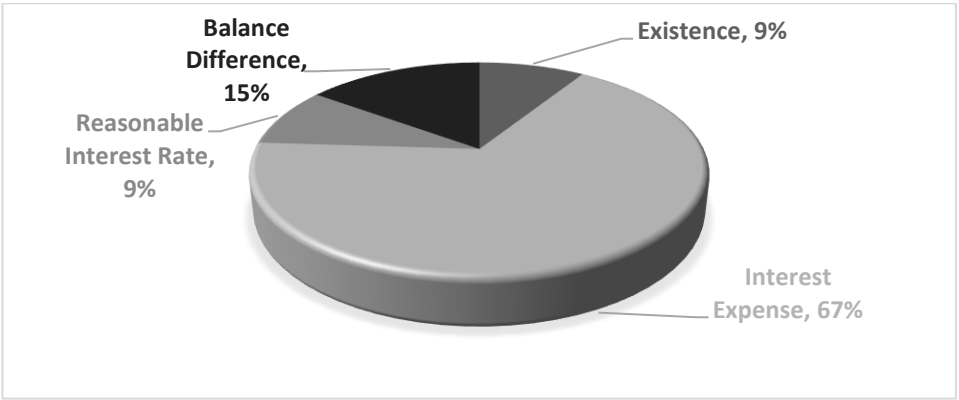


Figure 2. Subject of Dispute

Source: Tax Court Ruling Analysis Data, 2024

The most frequently occurring point of dispute in the context of cash pooling, particularly within the scope of the Tax Court's decisions from 2021 to 2023, concerns disputes related to interest costs, representing as much as 67% of the total number of decisions, or 23 decisions in total. Subsequently, the second most frequent point of dispute concerns the difference in the balance of the results of the receivables flow test, representing approximately 15% of the total, or five decisions. Disputes related to the existence and reasonableness of interest are present in three decisions, representing 9% of the total number of decisions.

Table 3 Content Analysis Result

No.	Tax Court Ruling	Causes of Disputes								
		P1	P2	P3	W1	W2	M1	M2	M3	A1
1	Put-015012.15/2020/PP/M.XVB/Tahun 2023	✓	-	✓	-	-	-	✓	-	-
2	Put-004260.15/2022/PP/M.XIIB/Tahun 2023	-	-	-	✓	-	-	-	-	-
3	Put-001152.16/2022/PP/M.XIVA/Tahun 2023	-	✓	✓	-	-	✓	-	-	✓
4	Put-001151.15/2022/PP/M.XIVA/Tahun 2023	-	✓	✓	-	-	✓	-	-	✓
5	Put-009966.16/2019/PP/M.XA/Tahun 2023	-	✓	✓	-	-	✓	-	-	✓
6	Put-001624.13/2022/PP/M.IB/Tahun 2023	-	-	✓	-	✓	✓	✓	✓	✓
7	Put-001592.16/2022/PP/M.IB/Tahun 2023	✓	-	✓	-	-	✓	✓	✓	✓
8	Put-001591.15/2022/PP/M.IB/Tahun 2023	✓	-	✓	-	-	✓	✓	✓	✓
9	Put-008821.15/2019/PP/M.VIIIA/Tahun 2023	✓	-	✓	-	✓	✓	-	✓	✓
10	Put-015011.15/2020/PP/M.XIIB/Tahun 2023	-	✓	✓	-	-	-	-	✓	-
11	Put-007088.15/2018/PP/M.XIA/Tahun 2022	✓	-	-	✓	✓	✓	✓	✓	✓
12	Put-013490.15/2020/PP/M.XIIB/Tahun 2022	✓	-	✓	-	✓	✓	-	✓	✓
13	Put-009786.15/2020/PP/M.XXA/Tahun 2022	-	✓	✓	✓	-	-	-	✓	-
14	Put-009694.15/2020/PP/M.VB/Tahun 2022	✓	-	✓	✓	✓	✓	-	✓	✓
15	Put-010573.15/2019/PP/M.IIIA/Tahun 2022	✓	-	✓	-	✓	✓	-	✓	✓
16	Put-006820.15/2018/PP/M.XB/Tahun 2022	✓	-	✓	-	✓	✓	-	✓	✓
17	Put-000721.15/2020/PP/M.XIIB/Tahun 2022	-	-	✓	-	✓	-	✓	-	-
18	Put-112678.15/2010/PP/M.XB/Tahun 2021	✓	-	✓	-	✓	-	✓	✓	-
19	Put-013653.15/2019/PP/M.XIIIB/Tahun 2021	✓	-	-	✓	-	✓	-	✓	✓
20	Put-008819.15/2019/PP/M.XIIB/Tahun 2021	✓	-	✓	-	✓	-	-	✓	-
21	Put-009627.15/2019/PP/M.XIIIB/Tahun 2021	✓	-	✓	-	✓	✓	-	✓	✓
22	Put-010733.15/2019/PP/M.XIVB/Tahun 2021	✓	-	✓	-	✓	✓	-	✓	✓
23	Put-010416.15/2019/PP/M.IB/Tahun 2021	✓	-	✓	-	✓	✓	-	✓	✓
24	Put-009948.15/2019/PP/M.XIVB/Tahun 2021	✓	-	✓	-	✓	✓	-	✓	✓
25	Put-006993.15/2018/PP/M.XA/Tahun 2021	✓	-	✓	-	✓	✓	-	✓	✓
26	Put-003959.15/2019/PP/M.IA/Tahun 2021	-	✓	-	-	-	-	-	✓	-
27	Put-001336.15/2018/PP/M.XA/Tahun 2021	✓	-	✓	-	-	-	✓	✓	-
28	Put-005973.15/2019/PP/M.IIIA/Tahun 2021	-	✓	✓	-	-	✓	-	-	✓
29	Put-006884.15/2018/PP/M.XVIA/Tahun 2021	✓	-	✓	-	✓	✓	-	✓	✓
30	Put-116164.15/2014/PP/M.XB/Tahun 2021	✓	-	✓	-	-	✓	-	✓	✓
31	Put-006633.15/2019/PP/M.IIIA/Tahun 2022	✓	-	✓	-	✓	✓	-	✓	✓
32	Put-011805.15/2020/PP/M.XIVB/Tahun 2022	✓	-	✓	-	✓	✓	-	✓	✓
33	Put-009967.15/2019/PP/M.IIIA/Tahun 2022	✓	-	✓	-	✓	✓	-	✓	✓
34	Put-008387.15/2018/PP/M.XB/Tahun 2022	✓	-	✓	-	✓	✓	-	✓	✓

Source: Tax Court Ruling Analysis Data, 2024

Description:

P1:	Competency	W1:	Documentation	M2:	Interpretation of the agreement
P2:	Communication	W2:	Justice	M3:	Transaction Delineation
P3:	Proofing	M1:	Audit Guidlines	A1:	Regulation

Previous research by Sari (2023) mentioned that one of the disputes over interest expenses is the issue of testing the fairness of the transaction. Likewise, research by Aisya & Nuryanah (2024) mentioned that one of the main disputes in transfer pricing is the tax auditor's correction of the application of the principles of reasonableness and business prevalence.

Based on the results of the content analysis of Tax Court decisions, corroborated by informant interviews, the causes of tax disputes can be classified into four main categories: those arising from the actions of tax auditors, the actions of taxpayers, the methods employed in audits, and the absence of domestic tax regulations related to cash pooling.

From the tax auditors' perspective, the key causes of disputes include limited competence, ineffective communication, and insufficient ability to provide evidence. On the taxpayers' side, the primary causes are inadequate documentation and perceptions of unfair treatment. In terms of audit methods, contributing factors include the lack of specific audit guidelines for cash pooling, differing interpretations of contracts, and improper delineation of transactions. Finally, from a regulatory standpoint, the absence of domestic tax laws explicitly addressing cash pooling exacerbates these disputes. Table 3 below presents the results of the dispute cause analysis based on the content analysis of decisions.

The content analysis of court rulings indicates that the most common cause of cash pooling disputes is insufficient evidence provided by tax auditors. The second most frequent issue is improper delineation of transactions, followed by the lack of audit guidelines and domestic cash pooling regulations. The causes of cash pooling tax disputes, as outlined in the analysis of recurring disputes, are visually summarized in the accompanying fishbone diagram.

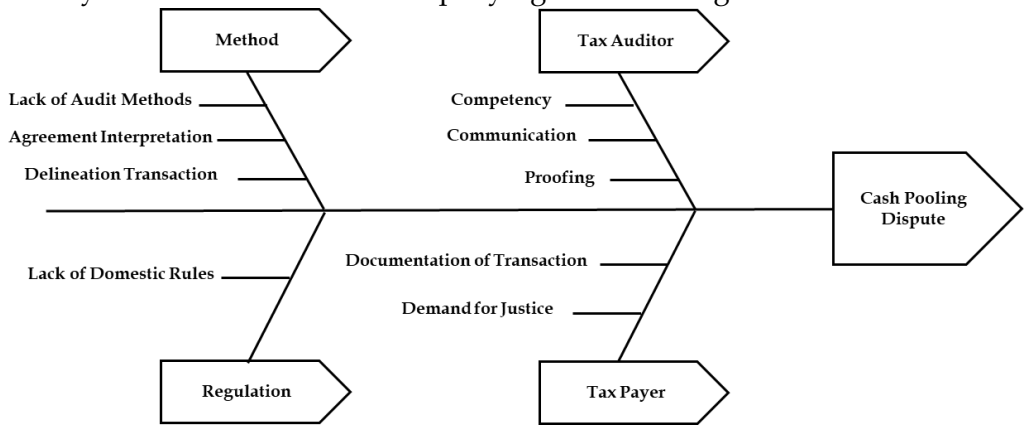


Figure 3. Fishbone Diagram of Dispute Causes

Source: Research Data, 2024

The cause of disputes originating from tax auditors is linked to their competence and ability to conduct examinations of tax returns for taxpayers applying the cash pooling scheme. Ineffective communication during the audit process further exacerbates the issue, resulting in incomplete information being exchanged between the parties. Finally, evidentiary shortcomings arise when auditors make corrections without sufficient and adequate supporting evidence.

The competence of tax auditors is a critical factor in conducting audits of both formal and material taxpayer compliance. Auditor competence directly influences the analysis of potential non-compliance and determines the corrective actions taken. Mashiri (2018), as cited in Sebele-Mpofu et al., (2021), highlights a lack of skills and limited capacity among auditors in developing countries as a significant obstacle to effective audits, particularly in the context of transfer pricing. Similarly, (Wuryaningsih & Nuryanah, 2024) identify knowledge and capability challenges as primary barriers to applying the arm's length principle in intragroup lending arrangements.

An analysis of the decisions presented in Table 3 reveals that examiner competence was a factor in 24 of the disputes reviewed. For example, in a case related to interest expenses, the judge ruled that the tax auditor's lack of understanding regarding the cash pooling mechanism could not justify the corrections made. In another instance, the issue of auditor competence arose in a dispute over the reasonableness of interest rates. The use of inappropriate comparative data during the evaluation of transaction reasonableness led to erroneous conclusions, as noted by the judge.

The competency gap among tax auditors is further underscored by feedback from a DGT objection reviewer, who stated:

> "*There is still considerable variation in the competence of auditors, with some displaying greater ability than others. Some are able to provide detailed corrections, while others lack the requisite understanding.*" *(*Objection Reviewer*)*

The findings from the content analysis and interviews reveal variability in the competence of tax auditors, particularly in cash pooling cases. Auditor competence significantly impacts the quality of corrections made during the audit process, which in turn influences the strategy adopted by objection reviewers during trials. The strength of the arguments presented to the panel of judges depends on the quality of the corrections, ultimately affecting the judge's decision on the disputed corrections.

Inadequate communication during the audit process contributes to misinterpretations and incomplete information for both tax auditors and taxpayers. Prior research by Palupiningrum & Rosid, (2024) identifies communication issues as a key factor in disputes involving tax auditors. Effective audits rely on transparency, information sharing, comprehensive data collection, and robust tax administration practices (UNECA, 2018, as cited in Sebele-Mpofu et al. (2021)). Ineffective communication may also hinder the provision of necessary evidence to support audit corrections. From the taxpayer's perspective, the unique characteristics of cash pooling—often less understood by auditors—exacerbate communication challenges.

Content analysis of the decisions identifies communication issues in seven disputes. These disputes highlight instances where auditors were unaware of the financing source for covering negative balances, misunderstood discrepancies in cash flow balances, or failed to gather sufficient information from taxpayers. Such issues could have been resolved with better communication, allowing auditors to explore these matters further with the taxpayers involved. Additionally, taxpayers' claims of non-cooperation and the withholding of documents during

the audit process could have been mitigated through effective communication. Notably, many supporting documents are only presented during court proceedings, despite their relevance during audits. Effective communication during the audit process could have secured these documents earlier and potentially prevented disputes.

The complexity and relative unpopularity of cash pooling schemes contribute to communication challenges, as noted by a tax consultant:

> "*Indeed, such occurrences are not uncommon. Cash pooling transactions are less prevalent than loans, which makes it more challenging to delineate their distinctive attributes. Consequently, it requires more effort to provide an explanation of cash pooling.*" (Tax Consultant)

In the context of cash pooling disputes, evidence plays a pivotal role, particularly in litigation. According to Article 78 of the Tax Court Law, the resolution of disputes hinges on a tripartite assessment: the evidence presented, the applicable tax regulations, and the judge's discretion. Prior research by Parmalia & Rosid (2023) highlights the role of evidentiary shortcomings in contributing to disputes, particularly regarding interest expenses incurred by shareholders. As an objection reviewer explained:

> "*The most crucial aspect is to persuade the panel, as their endorsement constitutes a form of evidence. Frequently, the evidence is insufficient because, for instance, the financial statements are examined in isolation, without consideration of other factors. For example, the purpose of the company and the intended use of the loan are not taken into account. It is necessary to interpret the data and then search for evidence to support the conclusions.*" (Objection Reviewer)

In trials, facts, data, and evidence are paramount, reflecting the principle of substance over form. The auditor's ability to substantiate corrections with adequate evidence is critical. Decisions rejecting corrections due to insufficient evidence underscore the persistent challenges auditors face in establishing proof. Establishing a mechanism to resolve disputes without appeal—through the submission of supporting evidence during the examination or objection process—could improve efficiency and reduce litigation.

From the taxpayer's perspective, disputes often arise from two primary factors: deficiencies in documentation and perceptions of inequity. Implementing effective documentation practices can help mitigate disputes with auditors. When corrections are necessary, the availability of comprehensive and well-organized documentation facilitates a more efficient and effective resolution process. Prior research indicates that disputes over interest expenses frequently result from incomplete documentation (Filbery, 2022). Additionally, failure to fulfill documentation obligations exposes companies to challenges from tax authorities (Bauer, 2016; Green & Kerr, 2016). Studies by Pujiastuti (2009) and Ningtias (2022) further conclude that inadequate documentation of transactions is a key factor contributing to disputes.

Content analysis of the decisions highlights documentation issues in five of the analyzed cases. These issues are often reflected in tax auditors' arguments citing the lack of supporting documents provided during audits, which are subsequently submitted only during trials. This problem is not solely attributable

to ineffective communication by auditors but also to taxpayers' failure to present documentation in a suitable format. As a result, taxpayers face difficulties when asked to provide transaction records during the audit process.

Tax consultants have similarly expressed concerns about the quality of documentation maintained by taxpayers:

> "*It is of the utmost importance to maintain comprehensive documentation. Not all taxpayers retain essential documents such as bank statements, which is a significant vulnerability. Maintaining meticulous documentation remains a challenge for many taxpayers.*" (Tax Consultant)

The findings indicate that some taxpayers still fail to provide adequate documentation, creating challenges in both the examination and objection processes. The lack of sufficient information constrains tax auditors and objection reviewers in determining the accuracy of taxpayers' cash pooling transactions in accordance with prevailing tax regulations. One reason for inadequate documentation may be the prevalence of cash pooling in multinational group companies, where relevant records are often held by parent companies located outside Indonesia. This poses significant challenges for taxpayers in accessing the necessary documentation. Additionally, consultants note that the daily occurrence of cash pooling transactions makes it difficult for taxpayers to maintain comprehensive and organized records.

The second cause of disputes from the taxpayer's perspective is a perception of injustice. Taxpayers who believe they have provided sufficient explanations and documentation during the examination or objection process but still perceive the outcome as unfair often pursue appeals through the Tax Court. Wahyudi et al. (2017) suggest that the underlying causes of disputes may extend beyond technical and material considerations, encompassing broader social values, including the demand for justice.

Content analysis revealed that taxpayers sought justice in 20 court decisions. This demand is evident in the arguments presented by taxpayers, who assert inconsistencies in auditors' adjustments. For example, auditors may correct interest expenses while neglecting to adjust cases where taxpayers report interest income. Furthermore, audit results often vary from year to year for the same accounts, further reinforcing perceptions of inconsistency. Interviews with tax consultants reveal that disputes frequently stem from information asymmetry:

> "*Why appeal? The dispute arises from information asymmetry – information that is not clearly conveyed to the taxpayer. Pursuing an appeal allows taxpayers to provide more detailed information to reduce this asymmetry.*" (Tax Consultant)

The causes of disputes related to audit methods can be classified into three sub-categories: the absence of specific guidelines for auditing cash pooling, differences in the interpretation of cash pooling agreements, and improper delineation of cash pooling transactions. Audit guidelines for cash pooling pertain to the procedures that auditors should follow when examining cash pooling transactions. Based on the content analysis, the absence of audit guidelines was identified as a factor in 25 decisions. This issue is evident in arguments presented by both appellants and the Directorate General of Taxes (DGT). Tax auditors

employed varying approaches, with some utilizing transfer pricing audit guidelines while others did not. Since cash pooling transactions typically occur between related parties, transfer pricing guidelines are often applied by auditors.

The objection reviewer highlighted the challenge posed by the absence of specific guidelines for cash pooling:

> *"At this time, the guidelines do not provide comprehensive regulation of cash pooling. In the absence of comprehensive guidance, affiliates are confronted with the burden of justifying the arm's length nature of their transactions. Subsequently, the examination will be conducted in accordance with the overarching transfer pricing guidelines."* (Objection Reviewer)

Cash pooling is unique, focusing more on cash flow dynamics than other corporate finance aspects. According to the OECD Guidelines (2022, par. 10.123), one challenge in auditing cash pooling lies in determining whether the cash pooling balance should be treated as part of a company's cash flow scheme or as a long-term loan. While the use of transfer pricing guidelines is generally appropriate, the absence of specific guidance for cash pooling, given its unique characteristics, increases the likelihood of improper corrections and subsequent disputes.

Differences in the interpretation of agreements and regulations are also common in disputes involving cash pooling transactions. Implementing a cash pooling scheme requires an agreement between group companies that outlines the mechanism, distribution of rewards, and remuneration for each party. Prior research by Fachrina & Martani (2024) identified incomplete evidentiary documentation and differences in regulatory interpretation as significant causes of tax disputes. Furthermore, complex and frequently changing tax regulations can lead to confusion regarding the legal treatment of cash pooling, exacerbating disagreements between taxpayers and tax authorities (Dyreng et al., 2019).

Content analysis revealed that eight disputes arose from differences in the interpretation of cash pooling agreements. In one case, the tax auditor treated the balance in the cash pooling account as a deposit, whereas the taxpayer argued that the agreement specified that the balance should align with general deposit treatment. This divergence in interpretation led to differing assessments of the reasonableness of interest. Similar insights emerged from interviews with tax auditors:

> *"Yes, in the DGT, there is still a lack of understanding of contract analysis issues. Contract analysis should involve discussions with taxpayers who possess a comprehensive understanding of the contract in question. This approach allows for alignment on contract terms and ensures a thorough examination of the underlying substance."* (Tax Auditor)

Transaction delineation is a critical aspect of understanding cash pooling arrangements. Accurate delineation of transactions is emphasized in the OECD Guidelines (2022, par. 10.116), which state that delineation involves more than examining account balances. Instead, it requires contextual analysis of the broader cash pooling arrangement. The content analysis identified transaction delineation issues in 27 disputes, primarily related to interest and existence costs. These

disputes reveal gaps in tax auditors' understanding of cash pooling transactions, as evidenced by arguments from the DGT, taxpayers, and judges. Taxpayers frequently argued that cash pooling transactions were intended for cash management efficiency rather than tax avoidance.

Judges underscored the importance of accurate transaction delineation in cash pooling cases:

> "*Delineation of transactions is important in cash pooling – understanding the transaction, its purpose, and its scheme ensures appropriate treatment. Before conducting a reasonableness analysis, we must first fully understand the nature of the transaction.*" (Tax Judge)

The content analysis and interviews reveal that transaction delineation is a significant factor contributing to disputes in cash pooling. Incorrect delineation of transactions leads to a misunderstanding of the cash pooling scheme applied by taxpayers. This misunderstanding, in turn, results in improper corrections by auditors, which often escalate into disputes.

Another key cause of disputes stems from the lack of domestic regulations related to cash pooling. Currently, Indonesia's tax regulations do not specifically address cash pooling. To ensure taxpayers' rights to a fair and legitimate resolution of tax disputes, regulatory reforms are necessary (Hidayah et al., 2018). The OECD Transfer Pricing Guidelines (2022) include a dedicated section on financial transactions, including cash pooling, but this has not yet been reflected in Indonesia's domestic framework. The Directorate of Audit and Collection at the Directorate General of Taxes (DGT) confirms this gap:

> "*Now if the specific question is related to cash pooling, is there a special policy? There has not been any until now.*" (Directorate of Audit and Collection)

The absence of cash pooling regulations mirrors the problem of missing audit guidelines. A review of 25 decisions indicates that this regulatory void contributes to disputes. Many tax auditors lack familiarity with cash pooling transactions, leading to audits that are unsupported by robust evidence and sound arguments. From the DGT's perspective, adopting OECD rules requires careful consideration and comprehensive examination.

The findings suggest a strong need for establishing domestic regulations for cash pooling, ideally aligned with the latest OECD standards. From the taxpayers' perspective, the absence of clear rules creates uncertainty about the documentation required during audits and the extent of explanations needed regarding the rationale for cash pooling arrangements. These ambiguities often lead to disputes between taxpayers and tax auditors.

Recommendations to address these disputes include enhancing auditor capacity, raising taxpayer awareness of regulations, developing specific audit guidelines for cash pooling, and incorporating cash pooling considerations into Indonesia's domestic regulatory framework. Strengthening auditors' competence can address issues such as uneven expertise, ineffective communication, and challenges in gathering sufficient and persuasive evidence. Enhanced training would also improve methodologies for handling differences in the interpretation of cash pooling agreements and transaction delineation.

Establishing specific cash pooling audit guidelines is another key recommendation. The current transfer pricing audit guidelines lack explicit provisions for cash pooling, which is a distinct cash management tool requiring a tailored approach. Clear and specific audit guidelines for cash pooling would enable auditors to adopt appropriate strategies for these transactions and improve their understanding of the unique nature of cash pooling.

Incorporating OECD Transfer Pricing Guidelines into domestic regulations is also critical. The OECD Guidelines for Multinational Enterprises and Tax Administrations (2022 Edition), particularly the section on financial transactions, should be integrated into Indonesia's regulatory framework. Including cash pooling as a specific topic in these regulations would help auditors and other stakeholders recognize and address the complexities of these transactions. Interviews indicate that many auditors refrain from referencing OECD standards due to their lack of integration into domestic regulations.

Socializing regulations with taxpayers is an additional recommendation to mitigate documentation issues and ensure fairness in tax compliance. Disseminating information about documentation requirements and taxpayers' rights would enhance compliance and transparency. Tax consultants could play a key role in educating corporate taxpayers engaged in cash pooling, emphasizing the importance of proper documentation, particularly for transfer pricing. Socialization efforts should address not only tax obligations but also taxpayers' rights, fostering mutual understanding and reducing disputes. Regular outreach and the active involvement of consultants and taxpayers in obtaining relevant information are expected to contribute significantly to minimizing future disputes.

CONCLUSION

The underlying causes of cash pooling disputes can be classified into four principal categories: first, those originating from the perspective of the tax auditor; second, those arising from the taxpayer's viewpoint; third, issues related to the methodology employed in tax audits; and fourth, the absence of domestic regulations governing cash pooling. Each category can be further subdivided into specific subcategories contributing to disputes. From the tax auditor's perspective, key factors include a lack of competence, ineffective communication, and insufficient evidence. On the taxpayer's side, inadequate organization of transaction documentation and the demand for justice are significant issues. Methodological causes stem from the absence of specific audit guidelines, discrepancies in the interpretation of agreements, and improper delineation of transactions. Lastly, the lack of regulatory oversight related to cash pooling further exacerbates these disputes.

Based on these findings, addressing the root causes of disputes is essential to reducing their frequency in the future. For tax authorities, resolving these issues can help mitigate potential losses in state revenue resulting from unfavorable outcomes in tax courts. For taxpayers, effective solutions can minimize the financial burden of disputes and reduce their impact on company profitability. Furthermore, the establishment of clear and comprehensive legislation on cash pooling would provide legal certainty for taxpayers seeking to engage in efficient

cash management, while ensuring compliance with applicable tax regulations and avoiding potential conflicts.

This research acknowledges certain limitations. Most sources used in this study are from tax authorities, which may lead to a less comprehensive analysis from the taxpayer's perspective. Future research would benefit from incorporating additional sources, particularly those directly from taxpayers. Input from accounting and finance departments could offer a more holistic understanding of cash pooling implementation and its associated challenges. Additionally, the temporal scope of this study is limited to a three-year period (2021–2023). As a result, the analysis may not fully capture all principal disputes arising from cash pooling. Future research should consider extending the study period and including decisions from the Supreme Court to enhance the depth and breadth of the analysis.

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