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Implications of Transfer Pricing on MSMEs in the Digital Era

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ABSTRACT

In the ever-evolving digital era, MSMEs face new challenges and opportunities in managing business transactions, including the implementation of transfer pricing strategies. This research aims to provide a description of how transfer pricing strategies can affect the economy, especially MSMEs, in the digital era. This research method uses a qualitative approach. Data were analysed thematically and tested for validity through triangulation to provide a comprehensive picture of the challenges and solutions for MSMEs in implementing transfer pricing. The result of this study is that transfer pricing, while often used by large companies to shift profits to lower-tax countries, also presents challenges for MSMEs in the digital era. MSMEs face difficulties in implementing appropriate transfer pricing policies due to limited resources, knowledge, and access to technology, but digitalisation offers opportunities to manage transactions more transparently and efficiently to ensure compliance with global tax regulations. Although transfer pricing is often associated with large enterprises, MSMEs also need to understand and manage this policy carefully, especially in the increasingly globalised digital era. Technology allows MSMEs to connect with international markets, but it also brings risks related to complex taxes and regulations. Therefore, it is important for MSMEs to have a clear understanding of transfer pricing, use the right technology, and consult with tax experts in order to comply with regulations and avoid legal issues.

Keywords: Transfer Pricing, MSMEs, Digital Era, Technology, Tax Regulations.

1. Introduction

Advances in various fields of technology, information, and communication have had a major impact on the economy and business. This development allows companies to more easily grow and develop, even reaching international markets (Andani et al., 2024). Many companies are now expanding their reach by opening multiple branches or subsidiaries in different countries. These companies are often known as multinational companies that conduct cross-border operations, including various international transactions that involve different regulations and tax rates in each country (Pratama et al., 2024). One of the many strategies that multinational companies most often use to deal with these different tax rates is transfer pricing. Transfer pricing is a strategy used to determine transfer prices in various transactions such as the sale, purchase of goods, provision of services, or use of intangible assets between companies that have a certain relationship.

Transfer pricing refers to the pricing of goods and services exchanged between related entities, which is relevant in ensuring tax compliance and accurate financial reporting (Klassen et al., 2017). In the context of MSMEs, appropriate transfer pricing not only helps to correctly reflect the value of transactions, but also avoids tax penalties that could burden small businesses.

The digital era provides transformation opportunities for MSMEs through the adoption of e-business, which is now an important element in expanding markets and improving services. In this regard, an effective transfer pricing strategy can play a major role in improving transaction transparency, especially as MSMEs begin to utilise online platforms to run their operations (Septiadi & Agus, 2024). However, the implementation of transfer pricing in the MSME sector also brings its own challenges, such as the lack of understanding of digital technology and the complexity of regulations that often confuse small businesses (Nurzaman et al., 2024).

However, with adequate training and support from the government and related institutions, MSMEs can utilise transfer pricing as a tool to optimise their operations while improving competitiveness in the global market. The importance of this education and assistance lies in how MSMEs can navigate existing challenges, such as the perception that the regulatory burden outweighs the benefits, so that they can fully utilise the potential of digital transformation for sustainable growth.

The implications of transfer pricing for Micro, Small and Medium Enterprises (MSMEs) in Indonesia, especially in the digital era, include significant challenges and opportunities related to compliance and competitiveness. Digitalisation is radically changing business models, leading to the need to re-evaluate traditional transfer pricing methods. As stated by Prasanna et al. (2018), there is an emphasis on more complex arm's length analyses that must take into account digital dynamics, which is often more difficult for MSMEs to implement compared to large enterprises. In this context, MSMEs often struggle with the increased complexity and compliance costs arising from digital transactions, which can negatively affect their competitiveness (Solilová & Nerudová, 2016). In addition, transfer pricing practices can result in significant tax revenue losses for the Indonesian government, especially when MSMEs engage in transactions with multinational companies that utilise pricing mechanisms to avoid taxes. To address this issue, Indonesia's Directorate General of Taxation has updated regulations to improve compliance and reduce tax evasion. One of the solutions suggested by international bodies is the adoption of a simpler transfer pricing approach for MSMEs, which has been implemented by 62% of EU member states (Solilová & Nerudová, 2016). This approach can reduce the compliance burden for MSMEs and give them the opportunity to compete more effectively in the digital economy. However, while this simplified approach aids compliance, it may pose a risk of inconsistency in transfer pricing practices, which could undermine fair competition and tax equity in the broader market.

In the context of transfer pricing, there are two different views. On the one hand, companies utilise this strategy to increase profits while reducing the tax burden. On the other hand, the government views transfer pricing as a challenge as it can reduce the country's tax revenue (Mashiri et al., 2021). Multinational companies often shift their tax obligations from countries with high tax rates to countries with lower tax rates, which is considered detrimental. This is certainly a major concern for governments in various countries, including Indonesia.

Meanwhile, Indonesia as one of the countries with a large population of MSMEs faces both challenges and great opportunities in utilising digital technology. MSMEs, which are the backbone of the national economy, need to understand how technology and e-business can bring changes in the way they operate and interact with consumers. With the development of digital technology, MSMEs can easily tap into a wider market through efficient and low-cost online marketing. Digital technology allows businesses to utilise various platforms such as social media, marketplaces, and websites to promote their products. This can certainly help MSMEs stay relevant in the digital era.

Though various studies have addressed transfer pricing in the context of multinational corporations and its impact on state tax revenue, there are limited studies on its implications for Micro, Small and Medium Enterprises (MSMEs) in the digital era. Most studies focus more on the tax regulations and compliance of large companies, while the specific challenges faced by MSMEs, such as limited resources, understanding of digital technology, and the complexity of transfer pricing regulations, have received less attention. In addition, the lack of research that explores how the adoption of digital technology can assist MSMEs in managing transfer pricing more efficiently is a gap that needs to be filled. Therefore, further studies are needed that not only discuss transfer pricing as a strategy of large companies, but also how MSMEs can adopt it in order to improve competitiveness and compliance in the growing digital economy era.

The main objective of this study is to provide a depiction of how transfer pricing strategies can affect the economy, particularly MSMEs, in the digital era. With a better understanding, MSMEs can utilise the opportunities available to grow and remain competitive. The expected outcome of this paper is that MSMEs can effectively adopt digital technology, while understanding the implications of business strategies such as transfer pricing in a global context. Thus, MSMEs are expected to be more innovative and able to make a real contribution to the national economy.

2. Methodology

The research method used in the writing is a qualitative approach. This approach is chosen to deeply understand how transfer pricing affects MSMEs, especially in the context of the digital era. This research is descriptive in nature, with the aim of explaining the transfer pricing phenomenon, its impact on MSMEs, and strategic steps that can be taken by businesses. The data used in this research consists of primary data and secondary data. Primary data is obtained through in-depth interviews with MSME players, tax experts, and digital economy experts to obtain direct information related to this issue. Meanwhile, secondary data comes from literature such as journals, articles, official government reports, and statistical data relevant to transfer pricing and the development of MSMEs in the digital era.

Data collection techniques were conducted in several ways. In-depth interviews were conducted to explore the experiences and views of MSME players regarding the impact of transfer pricing on their business. Documentation studies were used to collect information from written sources such as tax regulations, MSME financial reports, and other references related to digital transformation (Nafiati et al., 2023). In addition, observations were also made to observe how MSMEs utilise digital technology to manage their businesses and minimise the risks associated with transfer pricing. The data obtained was analysed using the thematic method, where information was grouped into relevant main themes, such as the impact of transfer pricing on MSME profitability, challenges in the digital era, and efforts to comply with tax regulations.

To ensure data validity and reliability, triangulation was conducted by comparing data from various sources, including interviews, documents, and observations. This step aims to ensure that the data obtained is consistent and reliable. This research also takes into account the context of the digital era, where technologies such as cloud computing, e-commerce, and digital accounting systems play an important role in transfer pricing practices.

3. Results and Discussion

3.1. Definition of Transfer Pricing

Referring to Article 1 Paragraph 6 of the Regulation of the Minister of Finance of the Republic of Indonesia (PMK) Number 22/PMK.03/2020 of 2020, it is stated that 'transfer pricing is the determination of prices in transactions that are influenced by:' explain. Special relationship.' According to Xuandi, the notion of transfer pricing has two different meanings. They are general or neutral transfer pricing and derogatory or negative transfer pricing (Ginting & Machdar, 2023). Transfer pricing, atau yang juga dikenal dengan harga transfer netral, merujuk pada sebuah strategi bisnis yang diterapkan tanpa mengurangi kewajiban pajak yang harus dibayar. Sebaliknya, istilah transfer pricing digunakan untuk memberikan gambaran harga yang ditetapkan oleh perusahaan multinasional saat memindahkan dana antar anak perusahaan yang berada di yurisdiksi berbeda, dengan tujuan mengurangi penghasilan kena pajak di negara-negara dengan tarif pajak yang lebih rendah.

In an increasingly connected business world, especially with globalisation and digitalisation, transfer pricing has become increasingly relevant. In the digital era, this practice is not only limited to physical transactions such as goods or services, but also involves more complex digital transactions, such as software, intellectual property rights, or data exchanged between subsidiaries. This makes transfer pricing even more complicated to regulate and monitor, especially by the government who needs to ensure that the prices set between the connected entities do not harm the country's economy.

One of the reasons why transfer pricing is often applied is to reduce the tax burden. In certain cases, large companies tend to price transactions between entities in regions with lower tax rates. In this way, they can shift profits to a country with lower taxes, while incurring greater costs in a country with a higher tax rate (Rossa, 2024). This allows the company to maximise the profits received by the business group as a whole, although it can lead to unfair tax imbalances in the country where the entity operates.

However, this transfer pricing practice is a big challenge, especially for MSMEs (Micro, Small, and Medium Enterprises). MSMEs usually do not have the resources or expertise to manage transfer pricing in an effective manner and in accordance with applicable regulations. In addition, MSMEs often do not have access to professional networks or consultancies that can help them navigate complex tax issues. Without a clear understanding of how transfer pricing works, MSMEs can get caught up in non-compliant practices or even penalised by tax authorities.

The digital era brings significant changes in the way companies, including MSMEs, operate. On the one hand, digital technology provides MSMEs with opportunities to expand their markets and access global resources (Mashita, 2024). However, on the other hand, it also opens up opportunities for poorly monitored transfer pricing, as digital transactions can be done easier and faster, without the need to think about the actual market price. In other words, while MSMEs can benefit from digitalisation, they should also be more careful of transfer pricing practices that can harm them if not properly regulated.

Along with the development of technology, many MSMEs are now turning to digital platforms to sell their products or services. They may work with larger companies or e-commerce platforms that organise most of the transactions for them. In this situation, it is important for MSMEs to understand how transfer pricing can affect their cost structure. For example, if an MSME sells products through an e-commerce platform owned by a large company, the price of the products they sell may already be influenced by the platform's internal pricing policy, which may not necessarily reflect fair market value.

In addition, unfair transfer pricing practices can adversely affect the sustainability of MSMEs. Transfer pricing practices that shift profits to lower-tax countries can put MSMEs operating in countries with higher tax rates in a bind (Tyas, 2021). This can reduce their competitiveness, as they have to pay higher taxes compared to larger companies that utilise transfer pricing to avoid tax obligations in their country of operation.

In addressing this issue, it is important for MSMEs to understand the importance of transparency in their financial management, especially regarding transactions between companies or with third parties. They need to ensure that every transaction made has a fair price and is in accordance with market provisions. In this phenomenon, technology plays a role as a tool that can assist MSMEs in managing their financial administration more easily and precisely. The use of an integrated digital accounting system, for example, can help MSMEs to ensure that the prices used in their internal transactions do not deviate from market prices, while complying with applicable regulations.

With a better understanding of transfer pricing and tax regulations, MSMEs can be wiser in managing their transactions. They can leverage technology to optimise costs and maintain tax compliance, which in turn will strengthen their competition in the global market. Therefore, while transfer pricing is often associated with large corporations, it is important for MSMEs to remain vigilant and understand practical ways to deal with it in this digital era.

3.2. The Role of the Digital Age in Transfer Pricing

The digital era has played an important role in changing the way businesses operate, including transfer pricing. Transfer pricing is the pricing of transactions between connected entities within a group of companies, and the digital era has made it much easier for companies to implement this policy. With the advancement of technology, international transactions between subsidiaries or branches can now be done very quickly and efficiently (Anggraini & Sugiyarti, 2024). This makes transfer pricing more complex, as companies can now operate in different countries and have access to different types of digital transactions.

One of the main impacts of the digital era on transfer pricing is the ease of conducting digital transactions involving goods, services or intellectual property rights. For example, with e-commerce, companies can offer their products in the global market without having to have physical stores abroad (Aini, 2024). At the same time, they can also leverage technology to digitalise their goods or services, such as software or data-driven products. When such transactions take place, the pricing between connected entities within the business group will affect how profits are shared and taxes are calculated in different countries.

The digital age also makes it easier for companies to move data and information globally, which is often the object of transactions in transfer pricing. For example, large companies can move data or software from one country to another without having to involve the physical movement of goods (Santoso & Junaeni, 2022). This opens up opportunities for companies to use transfer pricing to organise the sharing of costs or revenues between entities operating in different countries with different tax rates. Therefore, the government is increasingly paying attention to such transactions to prevent tax avoidance or transfer pricing abuse.

For MSMEs, the digital era brings greater challenges and opportunities in terms of transfer pricing. On the one hand, technology allows MSMEs to expand their market reach worldwide, collaborate with various parties, or even sell their products through digital platforms managed by large companies. However, it also opens up the potential for MSMEs to engage in non-transparent or even harmful transfer pricing, especially if they do not have sufficient understanding of how the system works. In some cases, MSMEs may not realise that they are already involved in transactions that are affected by transfer pricing policies, which could lead to tax issues later on.

In addition, many large companies utilise technology to devise transfer pricing strategies that are more tax and cost efficient. In some cases, they can adjust the prices of products or services traded between subsidiaries to shift profits to low-tax countries. By using advanced technology, such as data analytics and cloud-based systems, they can set prices in great detail and accuracy. For MSMEs, this poses a big challenge as they do not all have the capabilities and resources to monitor or manage transfer pricing on the same scale as larger companies. However, on the other hand, the digital era also provides opportunities for MSMEs to be more transparent and accountable in terms of transfer pricing (Suganda & Fakhroni, 2025). With available technology, MSMEs can now utilise more affordable accounting software or ERP systems to help them manage their transactions and ensure their prices are in line with the market (Srinath, 2022). This technology allows MSMEs to more easily track and record transactions involving connected entities, so they can minimise risks related to taxes or penalties. Moreover, the software also helps them to remain compliant with the tax regulations applicable in the countries where they operate.

The digital era has also accelerated the emergence of various tools and services that can help MSMEs understand and apply transfer pricing better. For example, there are tax consulting services available online, as well as courses or webinars that address international taxation and transfer pricing issues. By utilising these resources, MSMEs can gain a better understanding of how transfer pricing works and how to manage their transactions more effectively. This will go a long way in helping MSMEs to remain competitive in the global market without getting caught in tax traps or complicated regulations.

In addition, the digital era makes data and information easier to access and process. Therefore, many governments are now developing more sophisticated systems to monitor and regulate transactions between entities, including those related to transfer pricing. With technologies such as big data and artificial intelligence, the government can more easily detect price discrepancies between connected entities, thereby reducing the potential for tax evasion. Therefore, MSMEs should also be more cautious and ensure that they comply with existing regulations, as tax authorities are now better equipped to identify improper transfer pricing practices (Wijaya et al., 2022).

3.3. Transfer Pricing Implications for MSMEs in the Digital Age

Digitalisation has brought various implications for SMEs in applying transfer pricing, as traditional business models are now changing significantly. A key challenge SMEs face is the difficulty of applying the ‘arm's length’ principle in a digital environment, where value creation often involves intangible assets and digital services (Eden et al., 2019). The OECD BEPS project emphasises the importance of aligning transfer pricing outcomes with value creation. However, for SMEs, this is a challenge due to limited resources to conduct in-depth analyses (Eden et al., 2019).

On the other hand, SMEs also face relatively higher compliance costs compared to larger companies due to limited expertise and budget. Solilová and Nerudová (2016) note that most EU member states, around 62%, have implemented simplified transfer pricing measures to ease this burden. However, these solutions have not been fully effective to reduce the compliance burden of SMEs in the digital era. One of the proposed measures is the implementation of *safe harbors* based on industry-specific profit margins. This can provide clearer guidelines and lower compliance costs (Solilová & Nerudová, 2016). In addition, a decision-making framework for choosing the right transfer pricing method can help SMEs improve their compliance globally (Kumar & Sosnoski, 2011).

However, an oversimplified approach can carry its own risks. The complexity of digital transactions often cannot be fully accommodated by overly generalised solutions, opening up loopholes for non-compliance and potential tax risks. Therefore, a balance is needed between the simplification of rules and the relevance of transfer pricing methods in facing the challenges of the digital era.

It is important to understand the implications of transfer pricing on MSMEs in the digital era, especially as more and more MSMEs are connected to the global market through technology (Maretaniandini et al., 2023). Transfer pricing is a policy that is widely used by large companies in determining the price of goods or services traded between entities within a business group. Although it is more commonly used by multinational companies, MSMEs are also not spared from the impact of this policy, especially with the development of digital platforms that allow them to connect with large companies or conduct business globally.

For MSMEs, improper application of transfer pricing can bring serious consequences. For example, if transaction prices between companies are set unreasonably, MSMEs could be subject to higher costs or lower profits, ultimately affecting their profitability. This is especially a problem as many MSMEs do not have sufficient resources to understand or manage transfer pricing properly. Without sufficient understanding, they may be trapped in an adverse situation that does not comply with applicable tax regulations.

The digital era presents new challenges and opportunities for MSMEs in the context of transfer pricing. On the one hand, digitalisation opens up opportunities for MSMEs to expand their markets globally more easily and faster. However, on the other hand, the ease of digital transactions also brings risks related to transfer pricing. MSMEs may be trapped in non-transparent or unfair pricing policies, especially when they rely on large e-commerce platforms or are connected to multinational companies that have more power in setting prices (Rahmawati et al., 2024)

The existence of increasingly stringent tax regulations in many countries also adds to the challenges for MSMEs in dealing with transfer pricing. Governments are increasingly concerned about potential transfer pricing abuses, where large companies can shift their profits to low-tax countries. While MSMEs are not as large as multinational companies, they still have to comply with the applicable tax rules, which are often very complicated. If not careful, MSMEs can be caught in potential tax risks and penalties that can be quite costly (Wati & Litdia, 2023).

One way to reduce the negative impact of transfer pricing for MSMEs is to increase transparency and accountability in transactions. In the digital era, MSMEs can utilise various technology platforms to manage transactions and prices more efficiently. Using various existing digital accounting software or utilising an ERP (Enterprise Resource Planning) system can help MSMEs record and monitor prices accurately. That way, they can ensure that the prices used in transactions between their entities are in line with fair market prices, as well as comply with applicable tax regulations.

In addition, MSMEs need to utilise existing knowledge and resources to understand tax regulations related to transfer pricing. Many countries already have clear guidelines on transfer pricing and how these rules apply, although they are often complex and full of details. MSMEs can seek consultation from tax experts or attend relevant training to ensure that they manage their internal transactions in accordance with the regulations (Shindy, 2023). This will help them avoid tax issues that could arise from incorrect transfer pricing practices.

3.4. Strategies that MSMEs Can Implement in Facing Transfer Pricing

MSMEs' strategy in dealing with transfer pricing is very important so that they can manage transactions between entities efficiently and in accordance with applicable tax regulations. One of the first steps that MSMEs can take is to understand the basics of transfer pricing. MSMEs should realise that transfer pricing can affect them if they engage in transactions with connected entities. Therefore, a clear understanding of how transfer pricing works will help MSMEs to avoid mistakes that could lead to taxation issues later on.

The next step is to ensure that the transaction prices applied between MSME entities are in line with fair market prices. In this case, MSMEs can conduct market research to find out the prevailing market price for the products or services they sell or purchase. Thus, they can set realistic prices that do not violate tax regulations. Using valid market data can also help MSMEs to maintain transparency in every transaction made.

For this reason, MSMEs need to use technology to simplify their transaction management. Various accounting software and ERP (Enterprise Resource Planning) systems are now available at affordable prices for MSMEs. By using this technology, MSMEs can track every transaction and ensure that the prices used in transactions between entities are in accordance with applicable regulations. This technology also helps them to record and store data in a more neat and organised manner, which is very useful if one day they have to face a tax audit.

Developing transparency in financial management is also an important strategy. MSMEs should ensure that they have complete documentation related to all transactions involving connected entities. This includes recording the rationale behind pricing and how the prices are in line with market standards. By having clear documentation, MSMEs can prove that they have managed transfer pricing in the right way if there is an inspection from the authorities.

In addition, MSMEs should also utilise professional tax consulting services. Given that the tax regulations related to transfer pricing can be quite complex, working with a tax consultant or expert can help MSMEs to ensure that they are in compliance. Tax consultants can also help MSMEs to design an efficient transfer pricing policy, so that they can optimise the taxes paid without violating the applicable rules.

Another strategy is to engage in training or workshops related to transfer pricing and international taxation. Many seminars and trainings are now available online or offline that discuss various issues related to taxation and transfer pricing. By attending these trainings, MSMEs can improve their knowledge and understand how to deal with challenges related to transfer pricing (Silaban & Yasin, 2024). It can also help them to be better prepared for tax policy changes that may occur in the future.

In the face of transfer pricing challenges, Micro, Small and Medium Enterprises (MSMEs) can adopt several strategic approaches to reduce risk and improve compliance with international tax regulations (Prasetyowati & Panjawa, 2022). Given the unique barriers that MSMEs face, such as complex tax systems and high compliance costs, these strategies are particularly important. One approach that can be applied is the use of *safe harbours*, which are implemented by some EU countries to simplify transfer pricing rules. By using customised arm's length profit margins for specific industry sectors, *safe harbours* can reduce significant compliance costs for MSMEs (Solilová & Nerudová, 2016). In addition, sector-specific guidelines that match the operational realities of MSMEs can also ease compliance with transfer pricing rules, allowing MSMEs to better tailor their strategies within the existing legal framework (Solilová & Nerudová, 2016).

In addition, an optimal financial strategy is essential for MSMEs to minimise global income tax, by understanding the rationale behind government scrutiny and adjusting their pricing according to international transfer pricing regulations (Limberg et al., 1997). Regular monitoring of transfer pricing practices is also necessary for MSMEs to remain compliant and avoid sanctions from increasingly stringent tax authorities (Limberg et al., 1997). In terms of capacity building, adequate training for staff on transfer pricing regulations can empower MSMEs to navigate these complexities more effectively (Rossing et al., 2016). In addition, consultations with tax experts allow MSMEs to obtain customised advice and strategies to better manage transfer pricing risks (Kanee, 2019).

However, while these strategies provide significant assistance, it is important to realise that international tax regulations still present challenges. Some MSMEs may find it difficult to implement these strategies due to limited resources and expertise, which points to the need for ongoing support and education in this area.

4. Conclusion

While transfer pricing is often associated with large corporates, MSMEs also need to understand and manage this policy carefully, especially in the increasingly globalised digital era. Technology has made it easier for MSMEs to connect with international markets and manage their inter-entity transactions, but it also opens up risks related to tax and complex regulations. Therefore, a clear understanding of transfer pricing, as well as the appropriate use of technology, is essential to ensure compliance and avoid potential legal issues in the future. Overall, the right strategy to manage transfer pricing in MSMEs involves a good understanding of market prices, transparency in transactions, use of accounting software, as well as consultation with tax experts. With these measures, MSMEs can optimise their business potential in the global market, while still complying with applicable tax regulations. The digital era offers great opportunities, but it also requires vigilance to keep the business running smoothly and within the rules.

The advice for MSMEs is to continuously update their knowledge on the applicable taxation and transfer pricing regulations. Attending training or consulting with taxation experts can go a long way in ensuring that the transfer pricing policy implemented is not only efficient, but also compliant with applicable laws. Thus, MSMEs can make the most of digital opportunities without facing taxation issues that could harm them in the future. Future research can deepen the analysis of the effectiveness of simplified transfer pricing policies for MSMEs in Indonesia, especially in facing regulatory challenges in the digital era. In addition, comparative studies between countries that have successfully implemented transfer pricing policies for MSMEs can provide valuable insights in designing policies that are more suitable for Indonesia's economic conditions.

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