

Tax Intelligence Analysis in Mitigating the Threat of Tax Evasion Through Transfer Pricing Practices in the Palm Oil Industry: A Case Study of PT Asian Agri Group

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Abstract

The palm oil sector stands as a strategic pillar for Indonesia's economy, significantly contributing to the nation's GDP and fiscal revenue. However, the industry faces acute non-conventional threats from tax evasion orchestrated via abusive transfer pricing (TP) mechanisms. This study analyzes the root causes and multidimensional impacts of these threats and formulates a robust tax intelligence strategy to safeguard national economic resilience. Adopting a post-positivist paradigm, this qualitative descriptive research evaluates the landmark case of PT Asian Agri Group (AAG), which legally resulted in a state loss of Rp1.25 Trillion. Data collection involved in-depth, semi-structured interviews with eight purposively selected strategic informants across the State Intelligence Agency (BIN), the Directorate General of Taxes (DJP), industry representatives, and tax practitioners. Integrating Creswell's thematic framework with the Intelligence Analysis Cycle, the findings indicate that the threat level of transfer pricing-driven tax evasion is 'Acute' (Threat Coefficient Score: 19), propelled by a perfect synergy between strategic corporate intent (desire for zero-tax structures) and sophisticated operational capabilities (cross-border shell companies, faked invoicing, and fabricated expenses). Utilizing Barry Buzan's security matrix, the study shows that the impact spans across economic, political, and societal dimensions, distorting market competition and eroding fiscal sovereignty. Grounded in Arthur F. Lykke Jr.'s strategic model, this paper prescribes a layered intelligence framework emphasizing advanced Big Data Analytics, digital forensically driven evidence gathering to prove mens rea, global data exchange matching (AEoI/CbCR), and interagency enforcement taskforces as a critical deterrence paradigm.

1. Introduction

Taxes serve as the foundational backbone of a sovereign state's economy, playing an indispensable role in funding public infrastructure, defense, healthcare, and educational ecosystems. In Indonesia, national tax collection has demonstrated a significant upward trajectory, rising from Rp1,332.7 trillion in 2019, weathering a sharp pandemic-driven decline to Rp1,072.1 trillion in 2020, and ultimately rebounding robustly to reach Rp1,932.4 trillion by 2024. Within this fiscal structure, the broader agricultural sector remains a crucial contributor, yielding Rp27,568.30 billion in tax revenue in 2023 and accounting for 13.71% of the total Gross Domestic Product (GDP) by the third quarter of 2024, making it the country's second-largest macroeconomic contributor after manufacturing.

At the heart of this agricultural dominance is the palm oil industry. Indonesia stands as the world's premier producer of Crude Palm Oil (CPO), with export values projected to hit 22,869 Million USD in 2024 alone, while providing millions of jobs across its vast supply chain. In 2023, the palm oil sector directly funneled Rp88 trillion into the state budget (APBN), split between Rp50.2 trillion in direct taxes, Rp32.4 trillion in Non-Tax State Revenue (PNBP), and Rp6.1 trillion in export duties. Consequently, protecting the integrity of this industry's tax base is a matter of critical national security and economic resilience.

Despite its immense contribution, the sector exhibits severe systemic vulnerabilities regarding global profit shifting. Otoritas tax data from 2024 highlighted an alarming fiscal anomaly within the primary palm oil hubs, such as Riau. While domestic Value Added Tax (PPN Dalam Negeri) collections from palm oil corporations grew by a stellar 13.9% (outperforming the national PPN growth of 6.11%), Corporate Income Tax (PPH Badan) from the exact same taxpayers suffered a massive contraction of -38.9% year-on-year. This sharp contradiction between rising consumption/transaction volume and collapsing corporate profits signals aggressive Base Erosion and Profit Shifting (BEPS) through abusive transfer pricing.

Abusive transfer pricing transforms a legal business practice into a highly destructive economic crime. Multinationals deliberately manipulate prices in intra-group transactions to shift profits out of high-tax jurisdictions like Indonesia into zero-tax havens. According to the Tax Justice Network, Indonesia loses roughly 2,981.1 Million USD annually due to corporate tax evasion and avoidance. The landmark legal battle against PT Asian Agri Group (AAG)—where the Supreme Court (Decision No. 2239 K/PID.SUS/2012) convicted the corporation of systematically evading Rp1.25 Trillion in income taxes—illustrates that this phenomenon is not merely an administrative infraction but a deliberate, non-conventional threat to the state's financial survival. Therefore, this study aims to dissect the underlying causes, analyze the multi-sectoral impacts, and structure an innovative tax intelligence strategy to counter these sophisticated financial maneuvers.

2. Literature Review

2.1. Threat Analysis Theory

To objectively quantify non-conventional financial crimes, this study adopts Hank Prunckun's Threat Analysis framework. Prunckun conceptualizes that an active threat (T) is a product of an adversary's Intent (I) and operational Capability (C):

$$T = I \times C \quad (1)$$

Intent is broken down into Desire (D), the underlying psychological or corporate drive to achieve a harmful goal, and Expectation (E), the strategic calculation that the plan will succeed based on perceived loopholes. Capability is split into Knowledge (K), the technical intelligence required to design the scheme, and Resources (R), the material, institutional, or legal backing needed to execute it. In the domain of corporate tax evasion, this enables analysts to evaluate how a company's financial power balances against its internal motives to undermine state revenue.

2.2. National Security and Multidimensional Threat Matrix

Modern national security goes far beyond traditional military boundaries. This paper utilizes Barry Buzan's Security Sector framework, which segments state security into five key arenas: Economic, Political, Societal, Military, and Environmental. Financial fraud by massive corporate networks starts as an economic vulnerability but rapidly creates a cascading effect, weakening political institutions, destroying public morale, and limiting the state's capacity to fund environmental protection or national defense infrastructure.

2.3. Strategic Intelligence and the Lykke Model

Countering corporate financial crimes requires structured strategic planning. Grounded in Arthur F. Lykke Jr.'s strategic model, an effective defense strategy must perfectly balance three independent pillars: Ends (the clear objectives), Ways (the concepts or methodologies applied), and Means (the resources

allocated). When applied to tax intelligence, this model shifts the state's role from reactive auditing to proactive threat mitigation.

3. Method

This study employs a qualitative descriptive design rooted in a post-positivist paradigm, which is ideal for evaluating secretive corporate financial crimes. The research focus targets the intersection of state tax enforcement, economic security, and intelligence practices within the Indonesian palm oil sector. Primary data was gathered through semi-structured, in-depth interviews with eight elite informants selected via purposive sampling, ensuring high expertise and diverse perspectives:

- Informants 1 & 2 (N1, N2): Senior Officials from the Economic Intelligence Deputy of the State Intelligence Agency (BIN).
- Informants 3, 4, & 5 (N3, N4, N5): Expert Tax Officers from the Directorate General of Taxes (DJP) across the Audit, Enforcement, and Surveillance directorates.
- Informant 6 (N6): A representative from the Indonesian Palm Oil Association (GAPKI).
- Informants 7 & 8 (N7, N8): Academic experts and senior tax practitioners certified by the Indonesian Tax Consultants Association (IKPI).

Secondary data was collected through a thorough review of the Supreme Court Decision No. 2239 K/PID.SUS/2012, corporate financial audits, and international tax tracking indexes. Data analysis followed Creswell's qualitative data lifecycle (transcription, data immersion, open coding, axial coding, and selective thematic aggregation), cross-verified via strict source triangulation to eliminate subjective bias and ensure absolute analytical validity.

4. Results and Discussion

4.1. Root Causes of the Threat: Synergy of Intent and Capability

The investigation reveals that the threat of tax evasion via transfer pricing is highly organized and well-planned. Applying Prunckun's matrix, the threat coefficient score reaches a critical value of 19 out of 20, classifying it as an Acute national threat. This level of threat is driven by the dangerous convergence of corporate Intent and exceptional Capability.

1. Intent Analysis: The underlying motive is a deeply entrenched corporate drive to achieve a "zero-tax" structure, treating civic taxes as a financial cost that must be eliminated to maximize shareholder value. The case of PT Asian Agri Group (AAG), part of the Royal Golden Eagle (RGE) conglomerate owned by Sukanto Tanoto, proved that this intent was institutionalized. Internal records from a 2002 Tax Planning Meeting in Jakarta showed executive instructions to artificially suppress taxable income across 14 palm oil subsidiaries. This clear intent was reinforced by Expectation; executives believed that the tax authority lacked the cross-border tracking data to trace complex offshore transactions. Furthermore, they relied on thick, highly complex Transfer Pricing Documentation (TP Doc) as a legal shield to bog down tax auditors for years.
2. Capability Analysis: The execution of this evasion requires elite accounting Knowledge and massive financial Resources. AAG applied two primary methods:
 - a. Systematic Under-Invoicing: AAG exported high-grade CPO from Indonesia but routed the transactions on paper through a network of Special Purpose Vehicles (SPVs) in low-tax regions like Hong Kong, Macau, and the British Virgin Islands (e.g., Twin Bonus Edible Oils Ltd., Goods Fortune Oils & Fats Ltd.). The Indonesian entities logged sales at artificially low prices, while the SPVs flipped the CPO to the actual global buyers at market rates. This trapped billions in profits offshore, completely untouched by Indonesian corporate tax.

- b. Artificial Loss Creation ("Biaya Jakarta"): To depress domestic profits further, AAG inflated operating costs through fictitious expenses. Large cash amounts were withdrawn via corporate checks, routing through transit bank accounts named HAREL (Haryanto Wisastra & Eddy Lukas) and ELDO (Eddy Lukas & Djoko S. Oetomo) before being converted to USD and shipped to GOALLEAD Ltd. in Hong Kong. In the Indonesian ledgers, these outflows were logged as fake plantation maintenance expenses ("deepening drainage trenches" or "weeding"). They also fabricated financial losses through backdated commodity hedging contracts (washout transactions) and unperformed corporate management fees.

Table 1. Threat Assessment of Transfer Pricing Tax Evasion Using Prunckun's Threat Assessment Matrix

Threat Element	Sub-Factor Dimension	Empirical Evidence (AAG & Palm Oil Industry)	Score (1-5)
INTENT (I)	Desire (D)	Executive directives for zero-tax structures; corporate culture treating tax as an erasable cost. Documented in the 2002 corporate tax planning meetings.	5
	Expectation (E)	Exploiting historical data gaps in cross-border tracking; relying on thick, complex TP Docs as legal shields against tax audits. Elite understanding of transfer pricing	5
CAPABILITY (C)	Knowledge (K)	loopholes; using backdated hedging, fake invoicing, and artificial management charges.	5
	Resources (R)	Multinational conglomerate structures, offshore shell networks, and top-tier tax attorneys to lengthen legal disputes.	4
Total Coordinated Threat Coefficient Score			19 / 20

4.2. Multidimensional Impacts on National Security

The impact of this corporate tax evasion spreads across multiple sectors, as mapped through Barry Buzan's security matrix. The effects weaken economic stability, reduce political trust, and erode public tax morale.

Table 2. Security Impacts of Corporate Tax Evasion through Transfer Pricing Based on Barry Buzan's Security Sectors

Security Sector	Core Focus Dimension	Specific Empirical Indicators & Impacts
Economic	Fiscal Loss & Tax Gap	Direct loss of Rp1.25 Trillion in the AAG case. Contributes to wider systemic losses of \$2,981.1 Million annually, draining the state budget (APBN).

Security Sector	Core Focus Dimension	Specific Empirical Indicators & Impacts
Political	Market Distortion	Destroys the level playing field. Evading companies reduce their effective tax rate to near zero, gaining an unfair advantage that crowds out honest domestic competitors.
	Capital Flight & IFF	Drives massive Illicit Financial Flows (IFF) to offshore tax havens, weakening the national currency and disrupting macroeconomic balance.
	Erosion of Sovereignty	Loss of effective state control over the financial gains derived from its own natural resources. The state loses its role as the economic gatekeeper.
	Institutional Weakening	Extremely long tax disputes clog the legal system, causing institutional fatigue and public skepticism toward tax enforcement.
	Tax Morale Collapse	Undermines public trust. When ordinary citizens and smaller companies see massive conglomerates evade taxes, it ruins compliance rates and creates widespread social frustration.
Societal	Industry Stigmatization	Damages the reputation of the entire palm oil sector globally, scaring away clean, ethical international investments.
Security	Non-Conventional Threat	Acts as a silent financial drain, weakening the state's capacity to fund military defense, borders, and national security infrastructure.
Environmental	Funding Deficits	Indirectly reduces state funding for environmental enforcement, land conservation, and sustainable agriculture programs (such as ISPO).

4.3. Formulating the Tax Intelligence Strategy (Ends, Ways, Means)

Because these financial crimes cross international borders, traditional tax audits are no longer sufficient. To effectively counter these threats, the state must deploy a structured strategic approach using the Lykke Model.

1. Ends (Strategic Objectives): The primary goal is to create a strong deterrence effect against high-level financial fraud, ensuring that bad actors face certain criminal prosecution rather than just minor administrative fines. This focus guarantees that wealth generated from Indonesia's natural resources stays within the state budget, stabilizing the state budget and protecting economic sovereignty.

2. Ways (Operational Methodologies): The state must upgrade its methods by transitioning to deep, proactive intelligence operations:
 - a. Proving Corporate Intent (Mens Rea): Intelligence operations should move past basic paperwork to look for internal corporate communications, board records, and whistleblower disclosures that prove deliberate intent to commit fraud.
 - b. Cross-Border Financial Tracking: Fully utilize international data networks like the Automatic Exchange of Information (AEOI) and Country-by-Country Reporting (CbCR). By comparing a corporate group's low reported profits in Indonesia against its massive earnings in offshore tax havens, intelligence teams can easily spot profit-shifting patterns.
 - c. Data-Driven Risk Mapping: Use Compliance Risk Management (CRM) tools to automatically flag high-risk companies, sending actionable target lists directly to enforcement teams before companies submit their final annual returns.
3. Means (Resources and Assets): To support these operations, the state must invest heavily in modern technology and specialist skills. This includes building advanced Big Data Analytics platforms that combine data from tax records, customs, shipping trackers, and international banks in real time. Additionally, the state must establish specialized digital forensic labs to retrieve encrypted corporate files, recruit multidisciplinary analysts skilled in forensic accounting, and reform legal frameworks to ensure that intelligence insights are fully admissible as criminal evidence in court.

4.4. Intelligence Application: Synthesis of the Cycle

Integrating these insights into the Intelligence Analysis Cycle allows enforcement agencies to stay ahead of corporate maneuvers through four key phases:

1. Early Detection: Spotting initial warning signs, such as a plantation company reporting continuous losses despite huge export volumes, or identifying sharp gaps between declining income tax payments and rising consumption tax records.
2. Early Warning: Building detailed risk assessments for leadership that outline specific corporate targets, explain their financial schemes, and calculate potential revenue losses before fraud occurs.
3. Problem Solving: Deploying specialized interagency taskforces (combining tax authorities, intelligence officers, and financial trackers like PPATK) to dismantle offshore shell networks, prove intent, and carry out decisive criminal prosecutions.
4. Forecasting: Predicting how corporate financial tactics will evolve. As global tracking hardens around raw commodity prices, companies are shifting their fraud toward inflating offshore management fees, manipulating intellectual property royalties, or using AI-driven accounting tools to automatically avoid tax risk triggers.

5. Conclusion and Recommendations

5.1. Conclusion

Tax evasion via abusive transfer pricing in the palm oil industry poses an Acute, non-conventional threat to Indonesia's national security (Threat Coefficient Score: 19). The landmark PT Asian Agri Group case demonstrates that these financial operations rely on a deliberate synergy of corporate intent and cross-border capabilities. The resulting damage extends far beyond simple budget losses; it distorts market competition, drives illicit financial outflows, reduces public tax compliance, and harms the global reputation of Indonesia's core industries. Countering these hidden financial maneuvers requires shifting from standard audits to a proactive, data-driven tax intelligence framework that protects the state's fiscal sovereignty.

5.2. Policy Recommendations

To protect national revenue and ensure economic fairness, this study presents the following policy recommendations:

1. **Technical and Institutional Upgrades:** The Directorate General of Taxes must prioritize resources to build an integrated Big Data Analytics platform. This system should automatically combine global financial records (AEOI/CbCR) with local customs data and commodity price feeds to flag profit-shifting anomalies in real time. Furthermore, the government should establish a permanent Joint Financial Intelligence Taskforce—uniting tax officers, customs, BIN, and PPATK—specifically trained in international forensic accounting to investigate and prosecute complex corporate tax fraud.
2. **Regulatory Reforms:** Lawmakers must introduce clear, industry-specific safe harbor rules and Advance Pricing Agreements (APA) designed for volatile commodity sectors like palm oil to remove pricing ambiguity. Crucially, the legal framework must be reformed to give intelligence insights clear standing as valid evidence in corporate criminal courts, minimizing the long delays that companies use to defer tax debts.
3. **Internal Integrity and Governance:** The tax authority must deploy strict internal controls, including anomaly-based internal audits and regular rotations for personnel overseeing high-risk sectors, to prevent collusion. Concurrently, industry associations like GAPKI must enforce a strict code of conduct regarding tax compliance, shifting corporate focus toward transparency and social responsibility.
4. **Academic Expansion:** Higher education institutions should integrate digital forensics and cross-border financial analysis into tax and intelligence curricula. Future research must focus on tracing advanced evasion methods, such as offshore intellectual property royalties and intra-group corporate lending, ensuring that state enforcement capabilities remain a step ahead of financial crime.

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