

Factors Affecting Transfer Pricing

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ABSTRACT

The purpose of this study is to examine the factors that influence transfer pricing including profitability, bonus mechanism, exchange rate, company size, debt covenant, tunneling incentive, intangible assets, tax minimisation, tax haven, audit committee, independent commissioner, managerial ownership and institutional ownership. The population of this study consists of all manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2017-2021. The data sample was collected using purposive sampling technique and resulted in 60 observation data. The results of the analysis show that the variables of profitability (X1), bonus mechanism (X2), company size (X4), audit committee (X10), independent commissioner (X11), institutional ownership (X12) have an effect on transfer pricing, while the exchange rate (X3), debt covenant (X5), tunneling incentive (X6), intangible assets (X7), tax minimization (X8), tax haven (X9), and managerial ownership (X13) have no effect on transfer pricing. The implications of the results of this study are very important for companies in improving corporate governance and making wiser tax strategy decisions. For regulators, the results of this study can be used as material for evaluating regulations related to transfer pricing, including adjustments to tax incentives. For investors and shareholders, it can increase investment confidence and can be used to evaluate tax risks in investment decisions.

Keywords: audit committee; debt covenant; transfer pricing; intangible asset

INTRODUCTION

Transfer Pricing is a pricing policy for both buying and selling prices on certain transactions involving parties that have special relationships or affiliations. Therefore, multinational companies may experience transfer pricing practices (Purba et al., 2024). Multinational businesses use transfer pricing to sell and transfer assets and services between group companies, legally, this practice can be used to split income between entities in the group, but can also be used to reduce taxes. For countries that set relatively high tax rates, the lower the state revenue obtained because the perpetrators of transfer pricing practices tend to transfer profits to countries that set lower rates (Apriyanto et al., 2024). The problem that occurs in transfer pricing practices is the problem of transfer price manipulation, the problem will disappear with the implementation of a global destination-based cash flow tax (DBCFT) based on how firms behave in perfectly competitive markets or monopoly markets. The neutralising effect that the DBCFT has on transfer pricing incentives may fail when multinationals become multi-market oligopolists. In imperfect competition, multinationals will delegate output decisions to their affiliates so transfer prices can have a strategic role through their influence on competitors' actions. Even if all countries adopt the DBCFT, transfer prices will not equal fair prices, and transfer prices will vary with changes in corporate tax rates (Gresik & Schjelderup, 2024).

According to the Regulation of the Director General of Taxes Number PER-32/PJ/2011, transfer pricing is the determination of prices in transactions between parties that have a special relationship, this practice is common in multinational companies to reduce the tax burden paid to

the government. This action can increase profits by shifting profits to countries with lower tax rates. Transfer pricing practices that occur in Indonesia such as in July 2019, international non-profit organisation Global Witness released a report accusing PT Adaro Energy Tbk of tax avoidance practices through transfer pricing schemes. The report indicated that Adaro shifted revenue and profits to its Singapore subsidiary, Coaltrade Services International Pte. Ltd. to take advantage of lower tax rates. PT Adaro Energy Tbk, as a leading coal mining company in Indonesia, is suspected of engaging in transfer pricing practices to avoid taxes (Chandra Gian Asmara, 2019). In addition, PT Smart Indonesia, a wholly-owned subsidiary of Smart Corp. based in Country A, acts as a limited risk distributor in Indonesia. In fiscal year 2021, PT Smart Indonesia purchases electronic products from Smart Corp. for USD 110 per unit and resells them to an independent party in Indonesia for USD 125 per unit. This pricing practice raises transfer pricing issues related to the fairness of transaction prices between affiliated companies (Dewa Suartama, 2022). Transfer pricing practices carried out in Indonesia based on research conducted in 2021 examined various transfer pricing schemes in the 2015-2019 period, especially in automotive manufacturing companies. This research reveals various disputes caused by interpretation, audit, and existing tax incentives (Tambunan, 2021).

Profitability is one of the factors that influence a company's decision to conduct transfer pricing. Companies with high profitability tend to do transfer pricing because they tend to have higher tax liabilities (Hariaji & Akbar, 2021). However, it is argued that companies with high profitability can control their taxes without this practice (Louw, 2020). Bonus mechanisms can also lead to transfer pricing; managers usually engineer their profits to increase bonuses (Istiqomah & Fanani, 2020). As changes in the value of foreign currencies can prompt businesses to change the price of their inter-affiliate transactions, currency exchange rates also have an effect (Lestari et al., 2021). Transfer pricing is also affected by firm size. Large firms more often exhibit transparency and prudence in their financial reporting, which reduces the likelihood of transfer pricing (Sejati Wahyu & Triyanto Nur, 2021). Smaller companies, on the other hand, tend to have tighter oversight, which means this practice is more common.

Debt covenants are agreements made between creditors and debtors to restrict actions that may impair the value of the loan and the recovery of the loan (Nurwati, 2021). According to Hartika & Rahman (2020), debt covenants also have an impact on transfer pricing. To ensure compliance with debt covenants, companies with significant debt tend to engage in transfer pricing. Tunnelling incentives, which is the transfer of assets and profits by majority shareholders for their own interests, also encourage transfer pricing (Maulani et al., 2021). Passing on costs to minority shareholders is a commonly used way to implement this practice (Alawiyah et al., 2024). In addition, there is a greater possibility of transfer pricing for intangible assets, such as trademarks and patents, which can be easily transferred to affiliated companies in other countries (Wulandari et al., 2021).

To reduce their tax liabilities, businesses move their income to countries with lower tax rates, known as tax minimisation, which is another important component of tax minimisation (Surianto et al., 2023). To facilitate transfer pricing practices, foreign companies may use tax havens, low-tax countries, or no-tax countries (Nugroho, 2022). Transfer pricing is strongly influenced by Good Corporate Governance (GCG) which is proxied by the audit committee (Putra & Rizkillah, 2022). As stricter supervision may limit transfer pricing practices, independent commissioners may also influence this policy (Sa'diah & Afriyenti, 2021). According to Purnamasari (2020), institutional and managerial ownership are essential for management oversight, and higher institutional ownership can reduce the likelihood of transfer pricing.

This study aims to examine the effect of profitability, bonus mechanism, exchange rate, company size, debt component, tunneling incentive, intangible assets, tax minimisation, tax haven, audit committee, independent commissioner, institutional ownership and managerial ownership on transfer pricing in manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2021.

LITERATURE STUDY

Michael C. Jensen and William H. Meckling created agency theory in 1976. Agency theory explains how company management and shareholders relate. It is a type of relationship in which one or more people, referred to as shareholders, give orders to other people, referred to as agents, to perform certain tasks on behalf of those shareholders. The agent also has the authority to make decisions on behalf of that shareholder (Jensen & Meckling, 1976).

Misinformation between company managers and shareholders can cause agency conflicts (Sa'diah & Afriyenti, 2021). In this situation, managers seek to maximise profits for their own benefit, and they do everything they can (Sa'diah & Afriyenti, 2021).

The authority to manage company assets is an example of the relationship between agency theory and transfer pricing. By giving authority to agents, principals can utilise their control to conduct transfer pricing, eliminating the interests of shareholders (Firmansyah, 2022). Agency theory explains why businesses choose to engage in transfer pricing. This theory relates to the way majority shareholders influence management to manage the company's assets, so they make efforts to conduct transfer pricing with the aim of lowering taxes payable and maximising profits (Syahputri & Rachmawati, 2021).

According to Abbas et al. (2020), Cost transfers are divided into two categories. The first is cost transfers between divisions within the same company, called intracompany transfer pricing. The second is cost transfer between affiliates, which is called intercompany transfer pricing. Actually, companies can do transfer pricing legally. However, it is often considered as a way for companies to avoid paying taxes, which makes it a tax avoidance (Haliyah et al., 2021). In the case of transfer pricing, the decision is made by ensuring that there are no sales transactions to related parties (Hansen & Mowen, 2007).

Profitability is defined as the ability of a company to manage its resources to generate profits (Hariaji & Akbar, 2021). In addition, profitability can also be defined as a ratio that can assess the company's strength in generating profits within a certain period of time (Louw, 2020). According to Amanah & Suyono (2020), Profitability is defined as the ability of a company to generate profits at a given level of sales, assets, and profit margins (Hariaji & Akbar, 2021). Profitability has many benefits for management and those outside the company.

Profitability reflects the company's performance in achieving business targets (Asalam & Mulyaningrum, 2022). An increase in profitability indicates an increase in profits, which results in an increase in corporate tax. To minimise taxes and maximise profits, management applies transfer pricing (Hariaji & Akbar, 2021) (Louw, 2020). Fernanda et al. (2023) research, shows that profitability has a positive effect on transfer pricing. Increased profit, characterised by high ROA, encourages companies to reduce tax burden through transfer pricing. Based on this explanation, a hypothesis can be drawn. Based on this explanation, the hypothesis can be drawn

H₁ : Profitability has a positive effect on transfer pricing

A bonus mechanism, also known as a 'bonus mechanism', is a system of reward given by the company to managers and directors who have shown the best performance and generated profits that far exceed the targets that have been set (Louw, 2020). According to, (Asalam & Mulyaningrum, 2022). assessments made by the company are used to measure performance.

Management as agents try to provide the best performance. If they are considered good by the principal, they will receive a bonus as an award (Sakina & Sugiyanto, 2023). Management performance is usually measured by the achievement of company profits (Asalam & Mulyaningrum, 2022). According to Mardiana & Badjuri (2023) shows that the bonus mechanism has a significant positive effect on transfer pricing. Management tends to do transfer pricing to achieve profit targets in order to obtain bonuses (Triyanto, 2020) This is in line with agency theory (Jensen & Meckling, 1976), which states that the contract between the agent and the principal can lead to conflict, where the agent has the potential to manipulate for personal gain. Based on this explanation, a hypothesis can be drawn

H₂ : Bonus Mechanism has a positive effect on transfer pricing.

Multinational companies often conduct cross-border transactions, so their cash is denominated in multiple currencies (Lestari et al., 2021). Fluctuating exchange rates can affect

company profits and be utilised to increase profitability (Mulyani et al., 2020). Adelia & Santioso (2021) stated that exchange rate has a positive effect on transfer pricing. The high profit of exchange rate makes the company more profitable to sell goods to overseas subsidiaries through transfer pricing rather than domestically. Based on agency theory (Jensen & Meckling, 1976), this action benefits the agent because it improves management performance in the eyes of the principal. Based on this explanation, a hypothesis can be drawn

H3: Exchange rate has a positive effect on transfer pricing.

Company size, also referred to as firm size, is an economic measure of a company that is usually used as a measurement of the company's ability to manage resources, produce goods and services, and earn profits (Adelia & Santioso, 2021). According to (Hariaji & Akbar, 2021), company size is a size or value that shows how large or small the size of the company is.

The larger the scale of the company, the more information is available to the public and investors. Large companies exhibit greater stability and profitability (Wulandari et al., 2021). Large company size also increases transparency and prudence in financial reporting (Sejati & Triyanto, 2021). According to agency theory (Jensen & Meckling, 1976), perusahaan besar memiliki biaya keagenan tinggi, sehingga principal lebih ketat dalam memonitor agent, mengurangi potensi transfer pricing. Sejati Wahyu & Triyanto Nur (2021) stated that company size has a negative effect on transfer pricing because good long-term prospects reduce management pressure to conduct transfer pricing (Rustian & Syafri, 2023). Based on this explanation, a hypothesis can be drawn

H4: Company size has a negative effect on transfer pricing.

Debt covenants are agreements made by creditors to their debtors that restrict them from investing, paying dividends, distributing excessive profits, increasing loans, and engaging in other activities that may impair the value of the loan or the recovery of the loan (Nurwati, 2021). The purpose of this covenant is to provide protection to creditors from manager behaviour that may jeopardise the value of the loan and the recovery of the loan (Iriani, 2021).

Agency theory (Jensen & Meckling, 1976) states that debt covenants align the interests of managers (agents) with lenders (principals) and limit the opportunistic actions of agents. The greater the company's debt, the higher the interest costs that reduce shareholder profits and dividends (Hartika & Rahman, 2020). According to the debt covenant hypothesis, (Watts & Zimmerman, 1986), companies with high debt ratios tend to implement accounting policies that increase profits, including through transfer pricing (Syahputri & Rachmawati, 2021). Hartika & Rahman (2020) research also shows that debt covenants have a positive effect on transfer pricing. Based on this explanation, the hypothesis can be drawn

H5: Debt covenant has a positive effect on transfer pricing.

Majority (controlling) shareholders engage in tunnelling incentives for their own benefit, but minority shareholders are also liable for the consequences and costs of such actions (Hidayat & Nur Hodijah, 2018). Controlling shareholders often perform several tunnelling incentives, such as not paying dividends, selling company assets to other companies at below-market prices, and selecting family members to hold important positions in the company (Setiawan, 2021)

According to (Maulani et al., 2021), Share ownership in Indonesia tends to be focussed on a few owners, allowing majority shareholders to have better access to information than minority shareholders, which is called information asymmetry in agency theory. Majority shareholders tend to move profits for personal use rather than distributing them as dividends, encouraging transfer pricing practices (Setyorini & Nurhayati, 2022). This practice harms minority shareholders by reducing dividends and increasing costs (Setiawan, 2021). Rizanti & Karlina (2024) research shows that tunnelling incentive has a significant effect on transfer pricing. Based on this explanation, the hypothesis can be drawn

H6: Tunneling Incentive has a positive effect on transfer pricing.

Intangible assets are difficult to detect and can be easily transferred to other companies that have a relationship with the company. This ease of transfer will encourage business managers to perform transfer pricing actions (Wulandari et al., 2021). The transfer of unquantifiable assets at unquantifiable prices will cause agency problems between majority shareholders and minority shareholders (Haliyah et al., 2021).

Intangible assets are difficult to value and detect because they have no physical form, which facilitates transfers between related companies. This encourages managers to conduct transfer pricing (Wulandari et al., 2021). Intangible assets are important in transactions between related parties, especially in multinational companies, because they allow the allocation of assets to companies with low tax rates and the receipt of royalties from companies with high tax rates (Rizqi & Rusydi, 2023). The transfer of intangible assets at unfair prices may create agency problems between majority and minority shareholders (Haliyah et al., 2021). Novira et al. (2020) research shows that intangible assets have a positive effect on transfer pricing, because the higher the value of intangible assets, the greater the motivation of managers to take advantage of profit gaps through transfer pricing. Based on this explanation, the hypothesis can be drawn

H7: Intangible Asset has a positive effect on transfer pricing.

Businesses use tax minimisation methods or strategies to reduce tax payments (Alexander, 2024). In general, this is done by changing the company's income and expenses, which have a special relationship with various tax rates (Mintorogo & Djaddang, 2019).

High tax rates encourage companies to minimise tax payments, i.e. reduce tax liabilities to the tax authorities (Alexander, 2024). Agency theory states that management must generate maximum profit in accordance with the wishes of shareholders. If the tax burden is large, management will be encouraged to minimise taxes, one of which is through transfer pricing (Pondrinal et al., 2020). Research by Badri et al. (2021) and Makhmudah & Djohar (2023) states that tax minimisation has a significant effect on transfer pricing. Based on this explanation, the hypothesis can be drawn

H8: Tax minimisation has a positive effect on transfer pricing.

A tax haven, also known as a tax haven, is a jurisdiction that makes its laws to help people avoid regulations imposed on the jurisdiction in which they conduct significant economic transactions. Tax havens are countries that offer low-rate taxes and levy no taxes to foreign companies or individuals Jalan & Vaidyanathan (2017); Rizaty (2021).

Agency conflict causes shareholders to demand management to maximise corporate profits (Cahyani et al., 2024). However, increased profits also increase tax liabilities, especially in countries with high tax rates. To avoid taxes, companies take advantage of tax haven countries by shifting profits to subsidiaries in these countries through transfer pricing (Pramesthi et al., 2019). Devi & Noviri (2022) and Muhsin & Abidin (2025) shows that tax haven has a positive effect on transfer pricing. Based on this explanation, the hypothesis can be drawn

H9: Tax haven has a positive effect on transfer pricing.

According to Kep-29/PM/2004, the audit committee is formed by the board of commissioners and is responsible for overseeing the management of the company. This is based on Law No. 19 Year 2003, article 70 paragraph 1, which stipulates that the board of commissioners is required to form an audit committee that works together to oversee the company. The number of audit committee members should be adjusted to the complexity of the business while considering the efficiency of decision-making. Therefore, the more audit committees there are in an organisation, the more likely the company is to utilise transfer pricing to avoid taxes and maximise assets (Suyanto et al., 2021).

According to the Indonesian Audit Committee Association (IKAI), the audit committee works professionally and independently in carrying out the supervisory function, so as to reduce manipulation and fraud and improve company performance (Handajani & Ap, 2020). The existence of an audit committee can encourage companies to conduct transfer pricing in accordance with applicable regulations. Based on this explanation, the hypothesis can be drawn

H10: Audit committee has a positive effect on transfer pricing.

Members of the board of commissioners who act as independent commissioners have no financial, management, share ownership, or other relationships that may affect their ability to act independently (Haryani & Susilawati, 2023). According to Law No. 40 of 2007, 'commissioners from outside parties' are independent commissioners in the guidelines for good corporate governance. An independent commissioner has the right to express an opinion that differs from that of other members of the board of commissioners; however, this differing opinion must be

documented in the Annual Report. Independent commissioners are responsible for overseeing the company's operations. They can also participate in decision-making, such as following transfer pricing policies (Sa'diah & Afriyenti, 2021).

Independent commissioners are commissioners who do not come from management, majority shareholders, or company officials (Novita & Fuad, 2024). Its role is to supervise management in making decisions. The more independent commissioners, the more careful management will be, including in decisions related to transfer pricing (Pratomo & Rana, 2021). Based on this explanation, a hypothesis can be drawn

H11: Independent commissioners have a positive effect on transfer pricing.

According to Sihite & Hasanah (2024), management (e.g. company directors and commissioners) are shareholders who participate in company decision making. The percentage of common shares owned by management is called managerial ownership, which is calculated as a percentage of total management shares (Mujid & Utomo, 2024). Therefore, it can be concluded that managerial ownership is when the company's management also participates as shareholders.

Managerial ownership occurs when agents who manage the company also own shares, so they have a dual role as managers and shareholders (Sulistiyani & Zulaikha, 2022). This encourages managers to align their interests in both roles (Zahro et al., 2024). Based on this explanation, the hypothesis can be drawn

H12: Managerial ownership has a positive effect on transfer pricing.

According to Andini et al. (2022), institutional ownership can be defined as shares owned by institutions such as banks, financial institutions, legal entities, foreign institutions, and trust funds, among others. These corporations have the ability to oversee management through the monitoring process. Institutional shareholders have greater authority than individual investors who only own a small stake in the company (Arisa et al. (2024); Sunday et al. (2024). This allows them to keep an eye on management.

Institutional ownership is majority share ownership by institutions or institutions (Erlin et al., 2023). This ownership acts as an effective monitoring tool in management decisions, including transfer pricing, so as to reduce agency problems (Burhan & Malau, 2021). Based on this explanation, the hypothesis can be drawn

H13: Institutional ownership has a positive effect on transfer pricing.

METHODS

This study examines manufacturing companies listed on the IDX during the 2017-2021 period. The sample was selected using purposive sampling technique. This research uses quantitative methods. The purpose of this study is to obtain empirical evidence of the influence between certain variables. The dependent or bound variable (Y) used in this study is transfer pricing (Y). Meanwhile, the independent variables (X) used include profitability, bonus mechanism, exchange rate, company size, debt component, tunneling incentive, intangible assets, tax minimization, tax haven, audit committee, independent commissioner, managerial ownership and institutional ownership. The test in this study uses the E-Views version 13 analytical tool to test descriptive statistics, classical assumptions, t test or partial, f test or simultaneous and test the coefficient of determination or R squared.

RESULTS

Based on the results of classical assumption testing using e-views version 13, it is known that the data is normally distributed with a Jarque-Bera probability value of 0.304682 which exceeds the 0.05 limit. As for the multicollinearity test results, it is known that 13 independent variables VIF values are below 10 so that there is no multicollinearity. For the results of the autocorrelation test, it is known that the F probability value of 0.0763 is also known as the calculated F probability value. The calculated F probability value is greater than the significance level of 0.05 (5%), so based on hypothesis testing, H0 is accepted, which means there is insufficient evidence to reject the null hypothesis that there is no autocorrelation. Conversely, if the calculated F probability value is smaller than 0.05, it can be concluded that there is sufficient evidence to

reject the null hypothesis and conclude that autocorrelation exists. While the probability value of F-statistic (F count) indicated by the value of Prob. F value of 0.2717 is greater than the significance level of 0.05. Therefore, based on the hypothesis test, H0 is accepted, which means there is not enough evidence to reject the null hypothesis that there is no heteroscedasticity.

Table 1. Multiple Linear Regression Test Results

Dependent Variable: Y		Method: Least Squares		
Sample: 1 60		Date: 11/17/24 Time: 00:37		
Included observations: 60				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.275056	0.544012	0.505607	0.6155
X1	1.521177	0.285744	5.323560	0.0000
X2	0.068728	0.006252	10.99276	0.0000
X3	-0.028244	0.139008	-0.203180	0.8399
X4	-0.037536	0.015758	-2.381945	0.0214
X5	0.009131	0.027820	0.328214	0.7442
X6	0.040414	0.134236	0.301067	0.7647
X7	-0.011366	0.007444	-1.526865	0.1336
X8	0.015792	0.186561	0.084647	0.9329
X9	0.077265	0.051217	1.508561	0.1382
X10	0.171040	0.059985	2.851377	0.0065
X11	1.095707	0.228528	4.794624	0.0000
X12	-0.979579	0.308252	-3.177850	0.0027
X13	-0.384855	0.278993	-1.379444	0.1744
R-squared	839150	Mean dependent var		0.159910
Adjusted R-squared	0.793693	S.D. dependent var		0.213015
S.E. of regression	0.096754	Akaike info criterion		-1.632332
Sum squared resid	0.430619	Schwarz criterion		-1.143651
Log likelihood	62.96995	Hannan-Quinn criter.		-1.441182
F-statistic	18.46009	Durbin-Watson stat		0.945030
Prob(F-statistic)	0.000000			

Data Source: Eviews 13 output results, 2024

Based on the results of the multiple linear regression analysis test in table 1 above, the multiple linear regression analysis equation is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9 + \beta_{10} X_{10} + \beta_{11} X_{11} + \beta_{12} X_{12} + \beta_{13} X_{13} + e$$

$$ETR = 0.275 + 1.521 + 0.068 - 0.028 - 0.037 + 0.009 + 0.041 - 0.011 + 0.015 + 0.077 + 0.171 + 1.095 - 0.979 - 0.384$$

Based on the results of this test, it is found that profitability (X1) has a significance value of 0.0000 so that it affects Transfer Pricing. Bonus mechanism variable (X2) has a significance value of 0.0000 so that it affects transfer pricing. The company size variable (X4) also has a significance value of 0.214 so that it affects Transfer Pricing. The audit committee variable (X10) has a significance value of 0.0065 so it affects transfer pricing, independent commissioner variable (X11) has a significance value of 0.0000 so it affects transfer pricing and managerial ownership variable (X12) has a significance value of 0.0027 so it affects transfer pricing.

While the exchange rate variable (X3) has a significance value of 0.8399 so it has no effect on transfer pricing. The debt covenant variable (X5) has a significance value of 0.7442 so it has no effect on transfer pricing. Furthermore, tunneling incentive variable (X6) has a significance value

of 0.7647 so it has no effect on transfer pricing. Intangible assets variable (X7) has a significance value of 0.1336 so it has no effect on transfer pricing. Tax minimization variable (X8) has a significance value of 0.9329 so it has no effect on transfer pricing. The tax haven variable (X9) also has a significance value of 0.1382 so it has no effect on transfer pricing and the institutional ownership variable (X13) has a significance value of 0.1744 so it has no effect on transfer pricing.

Table 2. F Test Results

R-squared	0.839150	Mean dependent var	0.159910
Adjusted R-squared	0.793693	S.D. dependent var	0.213015
S.E. of regression	0.096754	Akaike info criterion	-1.632332
Sum squared resid	0.430619	Schwarz criterion	-1.143651
Log likelihood	62.96995	Hannan-Quinn criter.	-1.441182
F-statistic	18.46009	Durbin-Watson stat	0.945030
Prob(F-statistic)	0.000000		

Data Source: Eviews 13 output results, 2024

Based on the results of the F test, the F statistic value is 0.00000 which is < 0.05 or the critical limit of the study, so it can be concluded that all independent variables simultaneously affect related variables.

Table 3. Coefficient of determination (R²)

R-squared	0.839150	Mean dependent var	0.159910
Adjusted R-squared	0.793693	S.D. dependent var	0.213015
S.E. of regression	0.096754	Akaike info criterion	-1.632332
Sum squared resid	0.430619	Schwarz criterion	-1.143651
Log likelihood	62.96995	Hannan-Quinn criter.	-1.441182
F-statistic	18.46009	Durbin-Watson stat	0.945030
Prob(F-statistic)	0.000000		

Data Source: Eviews 13 output results, 2024

Based on table 3, the coefficient of determination (R-squared) shows a value of 0.839150 or 83.9150%. This value indicates that the variables of profitability, bonus mechanism, exchange rate, company size, debt covenant, tunneling incentive, intangible assets, tax minimization, tax haven, audit committee, independent commissioner, managerial ownership and institutional ownership. The remaining 16.085% is influenced by other factors not included in this research model.

DISCUSSION

The effect of Profitability (X1) on Transfer Pricing (Y) has a significance value of 0.0000 < 0.05 , this result shows that the profitability variable has an effect on transfer pricing, this means that transfer pricing practices can optimise profits and reduce tax burdens so that indirectly these transfer pricing practices can increase profitability. The results of this study are in line with Louw (2020); Adelia & Santioso (2021) and contradict the research of Pondrinal et al. (2020); (Hariaji & Akbar, 2021). Based on agency theory, profitability is the main success measure used by principals to assess agent performance. To reduce agency disputes, companies can implement performance-based incentive systems, increase transparency, and increase supervision of management.

The effect of the Bonus Mechanism (X2) on Transfer Pricing (Y) has a significance value of 0.0000 < 0.05 , meaning that the bonus mechanism variable has an effect on transfer pricing. This means that the management incentive system in obtaining bonuses is able to encourage strategic financial decision making, especially in the practice of determining or adjusting transfer prices to increase reported profits. The results of this study are also in line with the research of Sari & Puryandani (2019); Jannah et al. (2022) which shows that the bonus mechanism has an influence

on transfer pricing and contradicts the research of Triyanto (2020); Louw (2020) which states that the bonus mechanism has no effect on transfer pricing and The bonus mechanism in agency theory functions as a tool to align the interests between agents and principals by providing fair and performance-based incentives, this mechanism can reduce agency conflicts, improve company performance, and maximise shareholder value.

The effect of Exchange Rate (X3) on Transfer Pricing (Y) has a significance value of $0.8399 > 0.05$, the exchange rate variable has no effect on transfer pricing, this means that changes in the exchange rate are not able to influence the strategies of multinational companies in determining transfer prices between entities in various countries because multinational companies often adjust transfer prices to optimise profits, reduce taxes and manage exchange rate risks. The results of this study are in line with the research of Triyanto (2020); Sejati & Triyanto (2021); Adelia & Santioso (2021) which states that the exchange rate has no effect on transfer pricing and research (Makhmudah & Djohar, 2023). The company's financial performance is greatly influenced by the exchange rate, especially for companies operating in the global market. The main problem in agency theory is how to align the interests of agents and principals in managing exchange rate risk. With the right incentives and good supervision, principals can encourage agents to make wiser decisions in the face of exchange rate changes.

The effect of company size (X4) on transfer pricing (Y) has a significance value of $0.0214 < 0.05$, the company size variable has an effect on transfer pricing, this means that the larger the company size or scale of operations and complexity, the more capable the company is of optimising profits and managing taxes in the application of transfer pricing. The results of this study in line with the research of (Hariaji & Akbar, 2021); Sejati & Triyanto (2021); which shows that company size has an influence on transfer pricing and contradicts the research of Sa'diah & Afriyenti (2021) and the research of Wahyudi & Fitriah (2021); Adelia & Santioso (2021) which states that company size has no effect on transfer pricing The level of agency conflict and the necessary control procedures are influenced by company size. Challenges such as information asymmetry, moral hazard, and agency costs are more prominent in large companies. Therefore, strict supervision, a good reporting system, and performance-based incentive mechanisms are needed to balance the interests of agents and principals.

The effect of Debt Covenant (X5) on Transfer Pricing (Y) has a significance value of $0.7442 > 0.05$, the debt component variable has no effect on transfer pricing because the limitations or requirements in the debt agreement have not been able to encourage companies to adjust their financial strategies, one of which is through transfer pricing. The results of this study contradict research of Hartika & Rahman (2020) that shows that the debt component has an effect on transfer pricing. Efforts to limit management actions that could jeopardise the interests of creditors, debt agreements help reduce agency disputes between management and creditors. In the end, the interests of all parties will be balanced because this mechanism increases transparency and reduces the risk of moral hazard.

The effect of Tunneling Incentive (X6) on Transfer Pricing (Y) has a significance value of $0.7647 > 0.05$, the tunneling incentive variable has no effect on transfer pricing, this is due to several factors such as strict regulations, a tunneling focus that is different from transfer pricing and not all companies with tunneling incentives use transfer pricing as well as more stringent transparency and audits on transfer pricing. The results of this study are in line with research of Pondrinal et al. (2020); Louw (2020) that states that tunneling incentives have no effect on transfer pricing and contradict research of Sari & Puryandani (2019); Jannah et al. (2022) that shows that tunneling incentives have an effect on transfer pricing. Tunneling incentives are a type of abuse of authority in agency relationships that can harm principals, especially minority shareholders. Therefore, strict supervision, high transparency, and legal protection are necessary to minimise the risk of tunneling and ensure that management acts in the interests of all stakeholders.

The effect of Intangible assets (X7) on Transfer Pricing (Y) has a significance value of $0.1336 > 0.05$, the Intangible assets variable has no effect on transfer pricing because intangible assets are difficult to measure objectively or are less significant in company operations so that the impact on transfer pricing is very minimal. The results of this study are in line with research from

(Putra & Rizkillah, 2022); (Sejati & Triyanto, 2021) which states that tunneling incentives have no effect on transfer pricing. Intangible assets not only play an important role in company value, but also increase the risk of agency conflicts due to their unquantifiable and subjective nature. Principals can more easily align their interests with agents and ensure optimal management of intangible assets with strict supervision, more transparent disclosure, and appropriate incentive mechanisms.

The effect of Tax Minimisation (X8) on Transfer Pricing (Y) has a significance value of $0.9329 > 0.05$, the tax minimisation variable has no effect on transfer pricing because companies already have an optimal tax structure without having to rely on transfer pricing practices. The results of this study are in line with the research by (Putri & Lindawati, 2023) stating that tax minimisation has no effect on transfer pricing and the research of (Pondrinal et al. (2020); Petra et al. (2020) and contrary to research (Makhmudah & Djohar (2023); Putri & Lindawati (2023)) which shows that tax minimisation has a significant effect on transfer pricing. Another problem in agency theory is that tax minimisation can cause more conflicts between management and shareholders due to information asymmetry, moral hazard, and conflicts of interest. However, with proper supervision, transparency, and the use of effective incentive mechanisms, these conflicts can be avoided. This is done to ensure that the tax strategy implemented is in line with the company's objectives and the interests of all stakeholders

The effect of Tax Havens (X9) on Transfer Pricing (Y) has a significance value of $0.1382 > 0.05$, this means that the tax haven variable has no effect on transfer pricing due to restrictions on the use of tax havens to shift profits through transfer pricing. In addition, tax authorities in various countries have increased transparency and cooperation in dealing with tax avoidance practices so that the use of tax havens is less effective in influencing transfer pricing. The results of this study are in line with research of (Syahputri & Rachmawati, 2021) which found that tax haven has no significant effect on transfer pricing and contrary to research by (Anh et al., 2018) shows the result that tax haven has a significant effect on transfer pricing and Devi & Noviani (2022) which shows that tax haven has a positive effect on transfer pricing. The use of tax havens can increase the risk of conflict between principals and agents due to information asymmetry, moral hazard, and the possibility of misuse of company assets. However, with higher transparency, good supervision, and proper control mechanisms, these risks can be minimized. This means that decisions relating to tax havens are made in a way that ensures that they are made in the best interest of the company as a whole.

The influence of the Audit Committee (X10) on Transfer Pricing (Y) has a significance value of $0.0065 < 0.05$, the audit committee variable has an influence on transfer pricing, this is because the audit committee plays a very important role in corporate governance, especially in overseeing financial reports and company compliance with regulations so as to prevent aggressive or manipulative transfer pricing practices for tax avoidance. The results of this study are in line with the research of Sari & Puryandani (2019) which shows that the audit committee has an influence on transfer pricing and contrary to the research of Putra & Rizkillah (2022) which shows that the audit committee has no influence on transfer pricing. The audit committee plays a crucial role in reducing agency conflicts by overseeing management to ensure that they act in the interests of shareholders and in accordance with applicable regulations. Audit committees reduce information asymmetry, oversee ethical financial practices, and maintain transparency in the company's financial statements. Thus, audit committees help create a balance between the interests of management and shareholders, and reduce the risk of abuse of power that could harm shareholders.

The effect of Independent Commissioners (X11) on Transfer Pricing (Y) has a significance value of $0.0000 < 0.05$, so the independent commissioner variable has an effect on transfer pricing, This means that independent commissioners play a very important role in improving corporate governance by ensuring that transfer pricing policies comply with the arm's length principle and are not used for tax manipulation or improper profit shifting, ensuring that transfer pricing policies are more transparent, fair and regulatory compliant. The results of this study are in line with the research of Putra & Rizkillah (2022) which found that independent commissioners have a positive

influence on transfer pricing and contradict research conducted by Pratama (2020) which states that independent commissioners have a negative effect on transfer pricing and research by Sa'diah & Afriyenti (2021). Independent commissioners play a very important role in reducing agency conflicts by ensuring that management acts in the interests of the company and shareholders. They help reduce information asymmetry, resolve conflicts of interest, and ensure that the management of the company is transparent and accountable. By doing this, independent commissioners provide objective and responsible oversight, which in turn can reduce agency conflicts.

The influence of Institutional Ownership (X12) on Transfer Pricing (Y) has a significance value of $0.00027 < 0.05$, the institutional ownership variable has an effect on transfer pricing, this means that a strong institutional ownership structure can increase transparency, accountability and compliance with transfer pricing regulations. The results of this study are in line with research (Purnamasari, 2020), institutional ownership has a negative effect on transfer pricing and contradict research conducted by Sa'diah & Afriyenti (2021); Putra & Rizkillah (2022) show the results of institutional ownership have no significant impact on transfer pricing. Efforts to improve management oversight, reduce information asymmetry, and improve company performance, institutional ownership is very helpful in reducing agency conflicts by acting as an external supervisor, institutional investors can encourage management to act in accordance with the interests of shareholders. However, to ensure that management decisions benefit all shareholders, there may be conflicts of interest between institutions and minority shareholders.

The influence of Managerial Ownership (X13) on Transfer Pricing (Y) has a significance value of $0.01744 > 0.05$, meaning that there is no influence between the Managerial Ownership variable (X13) and Transfer Pricing (Y), which means that transfer pricing decisions are usually influenced by tax policies, company regulations and financial strategies, not share ownership by managers, so share ownership by management does not always influence transfer pricing policies. The results of this study contradict research conducted by (Rejeki et al., 2019), managerial ownership has no negative effect on transfer pricing. Efforts to align management and shareholder incentives, managerial ownership reduces agency conflicts. When managers own shares, they are more motivated to improve company performance and ensure that the decisions they make are in line with the long-term goals of shareholders. However, to maintain the sustainability of the company and avoid abuse of power, management shareholding must be balanced.

CONCLUSION

The results of the analysis show that the variables of profitability (X1), bonus mechanism (X2), company size (X4), audit committee (X10), independent commissioner (X11), institutional ownership (X12) have an effect on transfer pricing, while the exchange rate (X3), debt covenant (X5), tunneling incentive (X6), intangible assets (X7), tax minimization (X8), tax haven (X9), and managerial ownership (X13) have no effect on transfer pricing. This study still has various limitations, including the object studied is limited to companies engaged in the manufacturing sector listed on the IDX with the observation period 2017-2021, so that the sample obtained is only 60 companies. Future researchers can develop research by adding more updated objects and observation periods, besides that, they can also add other independent variables that have a relationship or influence on transfer pricing.

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