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Analysis of Determinants Influencing Transfer Pricing

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Abstract

This study seeks to investigate how taxes, bonus structures, tunneling incentives, and company size collectively impact the choice of transfer pricing among mining companies listed on the Indonesia Stock Exchange (BEI) during the period from 2018 to 2020. The research falls into the category of descriptive research with a verification methodology, relying on quantitative data analysis. The research population consisted of 47 entities, while the sample included 35 companies. Data collection was conducted through non-participatory observation using logistic regression analysis. The findings indicate that taxes, bonus mechanisms, tunneling incentives, and company size jointly influence the decision regarding transfer pricing. Additionally, the individual effects reveal that taxes, bonus mechanisms, and company size significantly and positively affect the adoption of transfer pricing, whereas tunneling incentives also have a significant positive impact on such decisions.

Keywords: Bonus mechanisms, Firm size, Taxes, Transfer pricing, Tunneling

Abstrak

Penelitian ini bertujuan mnguji peran pajak, mekanisme bonus, insentif tunneling, dan ukuran perusahaan terhadap pilihan melakukan transfer pricing pada perusahaan pertambangan di Bursa Efek Indonesia (BEI) 2018-2020. Penelitian ini tergolong penelitian deskriptif dan metodologi verifikasi dengan data kuantitatif. Adapun populasi penelitian berjumlah 47 sedangkan sampel ppenelitian berjumlah 35 perusahaan. Metode pengumpulan data yang digunakan adalah observasi non-partisan melalui analisis regresi logistik. Pajak, mekanisme bonus, insentif tunneling, dan ukuran perusahaan berpengaruh secara simultan pada transfer pricing. Selanjutnya hasil pengaruh parsial antaralain; Pajak, Mekanisme bonus dan ukuran perusahaan mempunyai pengaruh positif yang signifikan terhadap keputusan melakukan transfer pricing. Insentif tunneling mempunyai dampak positif yang signifikan pada transfer pricing.

Kata Kunci: Mekanisme bonus, Ukuran perusahaan, Pajak, Penetapan harga transfer, *Tunneling*

1. Introduction

In its development, especially in the economic and business fields, which have seen a significant increase, companies compete to dominate both domestic and international markets. One of the efforts made by companies to dominate the market is by establishing subsidiary companies in other countries, in other words, making the company a multinational corporation. In carrying out transactions, multinational companies often face several problems related to differences in tax tariffs in each country.

The Directorate General of Taxes of the Ministry of Finance (DJP Kemenkeu) stated Indicated that a considerable number of 2,000 multinational corporations in Indonesia evaded corporate income tax payments (PPh) Article 25 and 29 because of the reason of losses with the modus operandi of transferring excessive profits from one country to another that applies lower tax rates (tax haven). This transfer of burden is done by manipulating prices in an unreasonable manner, so many multinational companies in Indonesia engage in transfer pricing (Budiraharjo and Orbaningsih 2022; Dian Eka Prangga 2022; Muhammad Sakinul Firdaus 2019;www.liputan6.com).

Based on the analysis findings, it can be elucidated that among the 47 mining Companies that were publicly traded on the Indonesia Stock Exchange (BEI) from 2018 to 2020, 11 companies abstain from participating in transfer pricing activities, while the remaining 36 are involved in transfer pricing. Among these 36 companies, it can be inferred that multinational corporations are employing transfer pricing as a means of engaging in tax avoidance. This engagement becomes evident by examining whether these companies conduct transactions involving the purchase and sale of tangible or intangible assets with other entities, regardless of whether they share special relationships or not. As per Statement of Financial Accounting Standards (PSAK) number 7, parties are deemed to have a special relationship if one party wields substantial influence over the other in determining financial and operational decisions.

In a research conducted by Fuadah and Nazihah (2019), they identified that the determinants affecting transfer pricing include tax, tunneling incentive, bonus mechanism, and company size. Conversely, a study by Rafgia (2017) found that factors influencing transfer pricing activities encompass tax, bonus mechanism, company size, foreign ownership, and tunneling incentive. This current study focuses on tax, bonus mechanism, tunneling incentive, and company size as the key factors under examination.

Tax is one of the factors that influence transfer pricing. Tax is a mandatory contribution of individuals or entities to the state based on the law without receiving direct compensation and is used for the benefit of the country (Fuadah and Nazihah 2019). From the government's point of view, companies are required to pay taxes to the state

every year. As a result of tax payment, management tends to choose to minimize tax burden through tax avoidance practices, one of which is through transfer pricing (Fuadah and Nazihah 2019). In the study conducted by Fuadah and Nazihah (2019), it was stated that tax has a positive effect on the decision to engage in transfer pricing. Conversely, the study by (Ginting and Hidayat 2019) stated that tax has a negative effect on the decision to engage in transfer pricing.

Apart from taxes, another factor that encourages companies to engage in transfer pricing is the bonus system. The bonus mechanism constitutes a form of remuneration bestowed upon board members by shareholders during the Annual General Meeting, provided they have achieved commendable performance and the company has recorded profits. The quantification of this bonus mechanism is contingent upon profit levels, motivating the board of directors to potentially manipulate financial reports with the aim of maximizing their bonus earnings. Consequently, this may lead to fraudulent activities for personal gain. Research conducted by (Fuadah and Nazihah 2019) states that the bonus mechanism has a positive effect on the decision to engage in transfer pricing. On the other hand, according to (Haliyah, Saebani, and Setiawan 2021), the bonus mechanism has a negative effect on the decision to engage in transfer pricing.

Another influential factor driving companies to partake in transfer pricing is tunneling incentive. Tunneling incentive refers to a behavior that primarily benefits majority shareholders by transferring assets and profits for their personal gain, often at the expense of minority shareholders (Solikhah, Aryani, and Widiatami 2021). This transfer of assets can occur between companies, whether they share special relationships or not, and is often executed in jurisdictions with varying tax rates, thereby potentially leading to the practice of transfer pricing. Research conducted by Hamzah and Suhendar (2020) suggests that tunneling incentive positively impacts the decision to engage in transfer pricing. Conversely, Putri and Mulyani (2020) Putri and Mulyani's research in 2020 argues that tunneling incentive has a negative influence on the choice to partake in transfer pricing.

The final factor influencing companies to engage in transfer pricing activities is the company's size, which is a metric reflecting the scale of the company, typically assessed based on its total assets. A company's size is directly correlated with the magnitude of its total assets; the greater the value of a company's assets, the larger its size (Nuraeni and Rakhmawati 2016). Companies boasting substantial total assets often signal promising prospects over a relatively extended period. Such large companies tend to be involved in transfer pricing practices through earnings management (Rafgia 2017). In a study conducted by (Fuadah and Nazihah 2019), it was reported that the size of the company

has a positive impact on the decision to engage in transfer pricing. Conversely, a study conducted by (Joseph and Elda 2019) contended that the size of the company has a negative influence on the choice to participate in transfer pricing.

The research concept of transfer pricing in multinational companies is grounded in several fundamental economic and financial theories. Transfer pricing essentially involves setting prices for transactions between related entities within the same multinational corporation. The following theories underpin the selection of key constructs for this research: Taxation is a fundamental aspect of any economy. Companies are legally obliged to pay taxes, and the tax system plays a pivotal role in government revenue generation. The manipulation of transfer prices can influence the tax liability of multinational companies, leading to tax avoidance or minimization strategies.

Agency theory deals with the relationship between shareholders (owners) and managers (those who run the company). The bonus mechanism is closely related to agency theory as it addresses the alignment of interests between shareholders and management. The potential for bonus manipulation is a crucial aspect of agency theory. Ownership structure theory explores how the distribution of ownership in a company can influence its behavior. Tunneling incentive, which involves the transfer of assets and profits to benefit majority shareholders at the expense of minority shareholders, is a behavior influenced by ownership structure. Firm size can impact the behavior and decision-making processes of companies. Large companies may have different motivations and capabilities compared to smaller ones. In the context of transfer pricing, the size of a company can affect its ability to engage in such practices.

The significance of this research lies in its investigation into the factors influencing transfer pricing activities among multinational companies operating in Indonesia. The novelty of this study is reflected in its comprehensive analysis of the interplay between tax, bonus mechanisms, tunneling incentives, and company size in shaping the decisions of multinational companies regarding transfer pricing practices. This research is particularly relevant in the contemporary business landscape, where globalization has led to increased competition and the need for companies to expand their operations globally. The study sheds light on the complex dynamics and motivations behind transfer pricing, which can have significant implications for both corporate profitability and government revenue.

The primary objectives of this research are as follows: (1) To examine the impact of tax on the decision-making process of multinational companies regarding engagement in transfer pricing practices. (2) To assess the influence of bonus mechanisms on the likelihood of multinational companies engaging in transfer pricing. (3) To investigate the

role of tunneling incentives in shaping the transfer pricing decisions of multinational companies. (4)To explore the relationship between the size of multinational companies and their propensity to engage in transfer pricing activities. By achieving these objectives, this research aims to contribute valuable insights into the factors driving transfer pricing decisions among multinational corporations, thereby enhancing our understanding of this complex and often controversial practice.

2. Theoretical Framework

2.1. Agency theory

Agency theory is used by companies in underlying their business practices that focus on the relationship between company owners and company managers. According to Jensen and Meckling (1976) in Hafizil dalam Hafizil Azhar & Setiawan, (2021), agency theory is a relationship between shareholders (principals) that gives mandate and responsibility to company management (agents) to carry out and make decisions in accordance with the interests of shareholders (principals). Managers as managers of the company have full information about the condition of the company, both internal and external information. The manager is responsible for the management of the company by providing information about the condition of the company to the owner of the company. Differences in interests between the principal and the agent can trigger deviant actions by the agent by manipulating financial statements. This deviant action will cause an information asymmetry between the two. (Apriyanti, Permatasari, and Fuad 2020).

2.2. Positive Accounting Theory

According to Watts and Zimmerman (1986) in Hafizil Azhar & Setiawan, (2021), mentioning that positive accounting theory can explain how accounting policies become problematic for interested parties and companies with financial statements. This theory is also used to predict the accounting policies that should be chosen by the company at the time of certain conditions. Where managers make a selection of accounting policies that are more optimal and suitable for certain purposes.

2.3. The Effect of Taxes on the Decision to Make Transfer Pricing

Tax is a mandatory payment made by an individual or an agency to the state is coercive in accordance with the regulations legislation without receiving direct rewards and used for the benefit of the people at large. The presence of a high tax burden can trigger transfer pricing action. Usually transfer pricing activities are carried out with How to reduce the selling price to companies in a group or have privileged relationships as well as

transferring the profits earned. By agency theory, companies want the minimum possible payment Meanwhile, the government presses to pay taxes in accordance with the provisions legislation.This is supported by research conducted by (Rafgia 2017), Indriaswari & Nita, (2018), (Amidu, Coffie, and Acquah 2019), (Indriaswari and Aprilia 2017), (Joseph and Elda 2019),(Minh et al. 2019) and (Rogers et al. 2022) which states that there is a positive effect of taxes on transfer pricing.

H1 : Taxes have a positive affect on transfer pricing

2.4. Effect of Bonus Mechanism on Conducting Decisions Transfer Pricing.

The awarding of bonuses is given by the owner of the company to the directors because of its good performance results because it has managed the company as well as obtaining high profits. The bonus mechanism is based on the hypothesis bonus plan, which explains that managers tend to choose procedures good accounting. Usually the board of directors will engineer the financial statements So that it will get the maximum bonus. The greater the desire the board of directors to get bonuses, then it is also very likely that the directors will engineering financial statements by increasing overall profits One of them is by conducting transfer pricing practices So, to get a bonus the directors will carry out manipulations profit in the overall financial statements. It is supported by research conducted by (Fuadah and Nazihah 2019) and (Putri and Mulyani 2020) stating that there is a positive effect of the bonus mechanism on transfer pricing.

H2 : Bonus mechanism have a positive affect Transfer Pricing

2.5. Effect of Tunneling Incentive on Decisions to Perform Transfer Pricing.

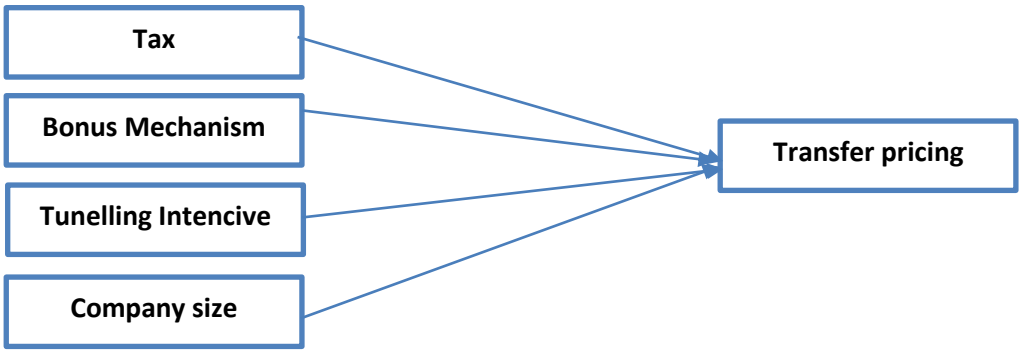
Activities to transfer assets or profits that occur between shareholders majority with minority shareholders. The existence of a transfer of assets or the company's profits, so that the profits obtained by the company became inferior. As a result of the transfer, shareholders The minority does not gain or lose. In other words activities tunneling will encourage majority shareholders to get Advantages that are more one way by performing transfer actions pricing. In line with agency theory, where there is a conflict between the two Divide parties who have different goals and interests, where the majority shareholder wants his interests to be fulfilled in a full so that the profits of minority shareholders have decreased.So, to get a high probability profit The majority shareholder will sacrifice the rights owned by minority shareholders one way is by conducting transfer practices pricing. This is supported by the results of research from Ginting and Hidayat (2019); Hafizil Azhar and Setiawan (2021); Indriaswari and Aprilia (2017); Rafgia (2017) which states that there is a positive influence of tunneling incentive to transfer pricing.

H3 : Tunneling Incentives have a positive effect on transfer pricing

2.6. Effect of Company Size on Conducting Decisions Transfer Pricing.

The magnitude of a company's size can be ascertained by examining the total assets presented in its financial statements. When a company possesses substantial total assets, it signifies that the company has reached a level of maturity, which is evident in its age and cash flow, thereby indicating promising long-term prospects. Large companies engage in extensive business operations and significant financial transactions, which may lead to cost-minimization practices, including the implementation of transfer pricing. This aligns with the principles of positive accounting theory, where companies endeavor to reduce their expenditure. Consequently, larger companies are more inclined to adopt transfer pricing strategies in an effort to mitigate their tax liabilities. This assertion is corroborated by research conducted by Nazihah, Azwardi, and Fuadah (2017); Sulistyowati and Kananto (2019), both of which affirm the positive influence of company size on the adoption of transfer pricing practices.

H4 : Company size positively affects transfer pricing



Source: (Rafgia 2017; Indriaswari and Aprilia 2017; Amidu et al. 2019; Joseph and Elda 2019; Minh et al. 2019; Rogers et al. 2022; Fuadah and Nazihah 2019; Putri and Mulyani 2020; Ginting and Hidayat 2019; Hafizil Azhar and Setiawan 2021; Nazihah, Azwardi, and Fuadah 2017; Sulistyowati and Kananto 2019).

Figure 1. Thinking Framework

3. Method

This study utilizes descriptive and verification methods. The dataset employed in this research comprises the yearly financial reports of mining firms that are publicly traded on the Indonesia Stock Exchange (IDX) during the period spanning from 2018 to 2020, with a total of 47 companies x 3 years = 141 annual financial statements. The sampling technique used is purposive sampling with a total of 35 companies x 3 years = 105 data

for the research. The sample criteria you provided are: Having complete financial statements for the years 2018 to 2020 and having reports with variable data. In this study, the secondary data utilized encompasses financial documents, including balance sheets, income statements, notes to financial statements, and annual reports, obtained from mining companies that are publicly traded on the Indonesia Stock Exchange (IDX). The analysis methodology employed involves descriptive analysis and verification analysis, with the stages of logistic regression analysis, including the assessment of the regression model's suitability, overall model evaluation, and so on. coefficient of determination, and hypothesis testing.The analysis tool used is the SPSS software.

a) Transfer Pricing (Y): Transfer pricing refers to a company's approach to establishing the cost or terms of transactions involving the exchange of goods, services, intangible assets, or financial dealings conducted within the company among its divisions or with related parties (Putri and Mulyani 2020). “The transfer pricing variable is measured with a dummy variable calculated using a dichotomous approach, namely by looking at the existence of sales to related parties. Companies that engage in transfer pricing activities are given a value of 1, while those that do not are given a value of 0.”
b) Tax (X1): Tax is defined as a mandatory contribution from the community, both individuals and entities, to the state without receiving direct compensation but is fully used for the interests of the state and people's welfare (Taxation Law Number 36 of 2008).

ETR= (Tax Expense-Deferred Tax)/(Taxable Income)

c) Bonus Mechanism (X2): The bonus mechanism denotes an extra form of compensation or incentive granted to employees within a company as a reward for their exemplary performance and successful attainment of corporate objectives. (Rafgia 2017).

ITRENDLB=(Net Income in Year t)/(Net Income in Year t-1)

d) Tunneling Incentive (X3): Tunneling incentive represents the conduct of the dominant shareholder in relocating a company's assets and earnings for their own benefit (Haliyah et al. 2021)

TNC= (Largest Share Ownership)/(Total Shares Outstanding)

e) Company Size (X4): Company size is a scale that can be clarified by the size of a company that can be measured by total assets, log size, market value of shares, and so on(Solikhah et al. 2021)

SIZE=LN (Total Assets)

4. Results and Disscussion

Table 1. Results of Hosmer and Lemeshow's Goodness Test

Hosmer and Lemeshow Test			
Step	Chi-square	Df	Sig.
1	.631	8	1.000

Source: Data Analysis, 2022

The outcome of the Hosmer and Lemeshow's Goodness Test revealed a Chi-square statistic of 0.631, accompanied by a significance level of 1.000. From these findings, it becomes evident that the significance value of 1.000 exceeds the threshold of 0.05. This suggests that the null hypothesis is accepted, signifying that there is no discernible distinction between the anticipated and actual classifications. Consequently, it can be inferred that the logistic regression model utilized adequately fits the data, enabling the acceptance of hypothesis testing.

Table 2. Block 0 Test Results

Iteration History[a,b,c]

Iteration		-2 Log likelihood	Coefficients Constant
Step 0	**1**	54.244	1.771
	2	46.642	2.482
	3	46.006	2.763
	4	45.997	2.803
	5	45.997	2.803

Source: Data Analysis, 2022

Next, based on the table above, the result of the last calculation of the -2 Log Likelihood value (block number = 1) is 17.978.

Table 3. Block 1 Test Results

Iteration History[a,b,c,d]

Iteration		-2 Log likelihood	Coefficients Constant	ETR	ITREND LB	TNC	SIZE
Step 1	**1**	51.220	1.370	.346	.011	.526	-.005
	2	37.805	.959	1.073	.091	1.728	-.001
	3	28.092	-2.045	2.656	.442	4.970	.049
	4	21.888	-6.475	4.672	1.038	9.196	.149
	5	19.107	-10.742	6.625	1.850	13.283	.253
	6	18.145	-14.311	8.243	2.754	17.086	.333
	7	17.985	-16.374	9.212	3.213	19.290	.383
	8	17.978	-16.897	9.460	3.302	19.826	.397
	9	17.978	-16.924	9.473	3.306	19.853	.397
	10	17.978	-16.924	9.473	3.306	19.853	.397

Source: Data Analysis, 2022

Table 4. Wald Test Results

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	**ETR**	9.473	3.905	5.884	1	.000	13001.261
	ITRENDLB	3.306	3.352	3.977	1	.012	27.284
	TNC	19.853	8.078	6.041	1	.000	171.640
	SIZE	4.397	.239	3.876	1	.016	1.488
	Constant	16.924	7.720	4.805	1	.010	.000

Source: Data Analysis, 2022

The logistic regression equation obtained in this study is as follows:

The constant regression coefficient is 16.924, meaning that if tax, bonus mechanism, tunneling incentive, and company size are considered constant (valued at 0), then the regression coefficient value of 16.924 means that the company prefers to conduct transfer pricing of 16.924. Therefore, the results obtained from the logistic regression model in this study are as follows:

$$Ln\left[\frac{Y}{1-Y}\right] = 16.924 + 9{,}473X1 + 3{,}306X2 + 19{,}853X3 + 4{,}397X4 + \boldsymbol{\varepsilon}$$

Explanation:
X1 = Tax (ETR)
X2 = Bonus Mechanism (ITRENDLB)
X3 = Tunneling Incentive (TNC)
X4 = Company Size (SIZE)

Table 5. Coefficient of Determination Test Results

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	17.978[a]	.234	.660

Source: Data Analysis, 2022

The Nagelkerke's R^2 coefficient displayed in the table is a modified version of the Cox and Snell R^2 coefficient, designed to have a maximum value of one, ensuring that it falls within the range of 0 to 1, similar to the R^2 coefficient in multiple linear regression. As per the table, R^2 value is 0.660, equivalent to 66%. This suggests that the variables such as tax, bonus mechanism, tunneling incentive, and company size can explain approximately 66% of the variability in transfer pricing. The remaining 0.34 or 34% of the variance is attributable to other variables not examined in this study.

4.1 The Effect of Tax on the Decision to Perform Transfer Pricing

Based on the partial test outcomes, it is clear that taxes have a positive and substantial effect on the choice to participate in transfer pricing. The favorable influence of the tax variable implies that companies dealing with higher tax rates are more inclined to select

profit manipulation techniques, such as transfer pricing. The significance of these findings implies that the outcomes of this study can be broadly applied to the entire population. Tax, in this context, denotes the compulsory financial contribution that taxpayers or companies provide to the government in the form of monetary payments. In this study, tax was assessed using effective tax rates. When companies are burdened with substantial tax payments, they may resort to activities that could be detrimental to the nation, such as engaging in transfer pricing. This practice involves transferring tax obligations to countries with lower tax rates. One of the catalysts prompting companies to embrace transfer pricing is the tax burden, which has the potential to diminish state tax revenues. In accordance with agency theory, a conflict emerges between companies and the government. The government seeks tax payments in adherence to established regulations, while companies tend to minimize their tax burdens to optimize their profits. These findings align with previous research conducted by Rafgia (2017); Fuadah and Nazihah (2019); Herawati and Dewi (2020), all of which assert that tax positively influences the likelihood of companies engaging in transfer pricing practices.

4.2 The Effect of Bonus Mechanism on the Decision to Conduct Transfer Pricing

The results from the partial testing reveal that the bonus mechanism exhibits a positive and substantial impact on the decision to engage in transfer pricing. The positive effect associated with the bonus mechanism variable implies that companies generating higher profits are more inclined to adopt profit manipulation tactics through transfer pricing. The significance of these findings suggests that the conclusions drawn from this study can be broadly applicable to the entire population. The bonus mechanism represents a strategy for augmenting director bonuses by increasing the company's earnings. In this study, the bonus mechanism is quantified using the net income trend index. By offering bonuses, directors are incentivized to enhance the company's profits, which in turn can influence the bonuses they receive. This influence may extend to manipulating financial statements. In accordance with positive accounting theory, which establishes a link between profits and bonuses, directors are likely to choose favorable accounting methods when reporting future and current period earnings, including determining transfer pricing strategies. The larger the profits attained by the company, the greater the bonuses awarded to directors. These findings are consistent with prior research conducted by Darmawati & Muslichah, (2022);Indriaswari and Aprilia (2017); Fuadah and Nazihah (2019), both of which assert that the bonus mechanism has a positive impact on the likelihood of companies engaging in transfer pricing practices.

4.3 The Effect of Tunneling Incentive on the Decision to Conduct Transfer Pricing

The partial test outcomes reveal that the tunneling incentive exerts a favorable impact on the decision to engage in transfer pricing. The positive influence associated with the tunneling incentive variable suggests that companies with a larger ownership stake are more inclined to direct management to carry out related-party transactions, including transfer pricing. The significance of these results implies that the conclusions drawn from this study can be broadly applicable to the entire population. Tunneling incentive pertains to the action of controlling shareholders transferring the company's assets or profits for their personal gain, with the financial burden borne by non-controlling shareholders. In this study, the tunneling incentive is quantified by dividing the number of shares owned by the total number of outstanding shares. In situations characterized by heightened levels of tunneling activity, most minority shareholders may utilize their control rights to instruct management to transfer assets and profits, including through the use of transfer pricing.

According to agency theory, a conflict emerges between minority and majority shareholders due to their divergent interests and objectives. In such scenarios, minority shareholders may instruct the company's management to shift assets and profits to related parties, while majority shareholders bear the losses incurred by minority shareholders. These findings align with prior research conducted by Darmawati & Muslichah, (2022); Rafgia (2017); Indriaswari and Aprilia (2017); Mulyani, Prihartini, and Sudirno (2020); Bhudiyantia and Suryarini (2022); Amidu et al. (2019); (Chan, Mo, and Tang 2016), all of which affirm that the tunneling incentive positively influences the likelihood of a company engaging in transfer pricing activities.

4.4 The Influence of Company Size on Transfer Pricing Decisions

According to the findings from the partial test, it is evident that the company size exerts a positive and substantial influence on the decision to partake in transfer pricing. The positive impact associated with the company size variable indicates that larger corporations are more inclined to adopt transfer pricing as a means of cost minimization. The significance of these results implies that the conclusions drawn from this research can be widely applied to the entire population. Company size is a measure that can be categorized as either small or large. In this study, company size was quantified using the natural logarithm of total assets. Multinational corporations with substantial total assets typically signify a higher level of complexity, prompting them to explore various methods to curtail expenses, one of which is engaging in transfer pricing. Aligned with positive accounting theory, the political cost hypothesis posits that larger companies face heightened scrutiny from governmental authorities and the public. Consequently, companies are subject to increased political costs in accordance with regulations. To mitigate these costs, companies may resort to avoidance strategies or reduce their profits,

with transfer pricing being one of the tactics employed. This aligns with research conducted by Darmawati & Muslichah, (2022); Nazihah, Azwardi, and Fuadah (2017); Rogers et al. (2022), both of which suggest that company size has a positive effect on the likelihood of companies engaging in transfer pricing.

5. Conclusion and Recommendation

Based on the findings and discussions presented in the preceding chapter, the researcher can formulate the following conclusions: first, Taxes exert a significant positive impact on the inclination to engage in transfer pricing. This implies that as the tax rate increases, companies are more likely to participate in transfer pricing activities. Conversely, when the tax rate is low, the likelihood of companies engaging in transfer pricing diminishes. Second, Bonus mechanisms play a significant positive role in influencing the decision to engage in transfer pricing. Thus, a higher bonus mechanism correlates with an increased likelihood of companies engaging in transfer pricing. Conversely, a smaller bonus mechanism is associated with a reduced likelihood of companies participating in transfer pricing. Third, Tunneling incentives exhibit a significant positive effect on the decision to engage in transfer pricing. This implies that as tunneling incentives increase, companies are more inclined to partake in transfer pricing. Conversely, when tunneling incentives are minimal, the likelihood of companies engaging in transfer pricing decreases. Fourth, Company size demonstrates a significant positive influence on the decision to engage in transfer pricing. In essence, larger companies are more predisposed to engage in transfer pricing activities. Conversely, smaller companies are less likely to engage in transfer pricing. Fifth, future researchers, it is advisable to diversify research subjects, expand sample sizes, and extend research durations to enhance knowledge and continue supporting various theories. The Nagelkerke's R^2 value in this study indicates that 66% of the variance is explained by the variables under investigation, leaving 34% unexplained. Thus, future research may consider introducing or exploring additional diverse variables, such as tax avoidance, tax burden, income tax rates, leverage, and other economic factors.

Notwithstanding the significant findings of this study, several limitations warrant acknowledgment. Firstly, the research exclusively examines the impact of four variables on transfer pricing decisions, leaving potential unexplored factors. Secondly, the relatively modest sample size utilized in this research may limit the applicability of the findings. Thirdly, the study is confined to a specific timeframe and geographical region, potentially failing to capture the full spectrum of transfer pricing behaviors among multinational corporations in different countries or over various time periods. To address these

limitations, future research could embrace larger and more diverse sample sizes, while also investigating a broader array of variables influencing transfer pricing decisions. Expanding the scope to include different countries or time periods could enhance the generalizability of findings. Moreover, incorporating interviews or surveys with tax professionals or multinational corporations might yield deeper insights into transfer pricing behavior and uncover additional variables impacting such decisions. Overall, the field calls for more comprehensive and diverse research to unravel the intricacies of transfer pricing determinants.

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