Transfer Pricing Decisions: Tax Income, Exchange Rate, Tunneling Incentive And Multinational

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Abstract: Transfer pricing can be misapplied by the company by transferring taxable income to subsidiaries and companies with special relationships to significantly push down the tax expense. This research aims to determine factors that can affect transfer pricing decisions. Those factors include tax income, exchange rates, tunnelling incentives, and multinationals. The research object of this research is a company from the consumer non-cyclical sector listed on the Indonesia Stock Exchange (IDX) from 2017 to 2021. The samples are eight companies selected with purposive sampling technique, resulting in 40 observation data. The analysis technique implemented in this research is panel data regression tested Eviews12. This research reveals that tax income and tunnelling incentives negatively influence transfer pricing decisions. At the same time, the exchange rate and multi-nationality do not affect transfer pricing decisions. Variable tax income, exchange rate, tunnelling incentives, and multinationals have simultaneously affected transfer pricing decisions.
Keywords: Tax Income; Exchange Rate; Tunneling Incentive; Multinationality; Transfer Pricing.

Abstrak: *Transfer pricing* dapat disalahgunakan oleh perusahaan dengan cara mengalihkan penghasilan kena pajak pada anak perusahaan dan perusahaan dengan hubungan istimewa untuk menekan beban pajak secara signifikan. Tujuan dari dilakukannya penelitian ini yaitu untuk melakukan analisa terhadap faktor-faktor yang dapat memberikan pengaruh pada keputusan *transfer pricing*. Faktor-faktor tersebut yakni *tax income*, *exchange rates*, *tunneling incentives*, dan *multinationality*. Penelitian ini menggunakan objek penelitian dari perusahaan sektor *consumer non-cyclicals* yang masuk dalam daftar Bursa Efek Indonesia (IDX) tahun 2017-2021. Penelitian ini memiliki sampel dengan total 8 perusahaan bersumber dari pemilihan dengan teknik *purposive sampling* yang menghasilkan 40 data observasi. Regresi data panel diterapkan sebagai alat teknik analisis data yang diuji dengan *Eviews*12. Penelitian ini memberikan hasil uji yaitu *tax income* dan *tunneling incentive* memiliki pengaruh secara negatif pada *transfer pricing decisions*. *Exchange rate* dan *multinationality* tidak memiliki pengaruh terhadap *transfer pricing decisions*. *Tax income*, *exchange rates*, *tunneling incentives*, dan *multinationality* berpengaruh simultan terhadap *transfer pricing decisions*.
Kata Kunci: Pajak Penghasilan; Nilai Tukar; *Tunneling Incentive*; Multinasionalitas; *Transfer Pricing*.

INTRODUCTION

Globalisation can significantly impact economic development and business competition between countries. Economic developments can facilitate transactions between countries, especially for multinational companies, so they can still be competitive in the industry. Multinational companies will generally transact with their subsidiaries in countries with lower tax rates. The difference in tax rates can allow multinational companies to use transfer pricing practices to reduce the tax expenses imposed.

According to (Wisanggeni, 2019), transfer pricing serves as a policy set by a company to establish transfer prices for goods, services and financial transactions. Transfer pricing can be used if the company have a special relationship with another company. The

special relationship can impact impropriety in transfer pricing decisions about fees for transactions by the company with parties with special relationships (Novira et al., 2020). Companies tend to use transfer pricing practices to optimise company performance so the profit that the company earns can stay high. 2018, the *Organisation for Economic Cooperation and Development* (OECD) released *the Mutual Agreement Procedure* (MAP). In the statistics released, it can be seen that 2018 transfer pricing cases continued to increase by almost 20 per cent compared to the other cases, which were only 10 per cent (DDTCNews, 2019).

Generally, transfer pricing practices are carried out by multinational companies, and transactions involve special relationships between domestic and foreign companies. Sixty per cent to 80 per cent of international businesses run by multinational companies make transactions with affiliated companies to allocate profit to other countries that have lower tax rates (C. Putri, 2021). Reporting from (Prakoso, 2021), Febrio said that based on taxpayer reports show the results that 37 per cent to 42 per cent of Gross Domestic Product (GDP) came from transactions with affiliated companies. Therefore, if this happens continuously, it will be detrimental to the country.

The object examined in this research is companies from consumer non-cyclical registered on the Indonesia Stock Exchange (IDX) from 2017 to 2021. Consumer non-cyclicals produce and distribute products and services to consumers (Awal, 2022). According to Sucofindo.co.id (2018), the consumer non-cyclical sector is an industry that produces the daily basic needs of people. Therefore, the non-cyclical consumer sector is among the other sectors that significantly contribute to economic growth in Indonesia multinational companies from the consumer non-cyclical sector support value growth in the manufacturing sector. Multinational companies can increase foreign direct investment significantly. Foreign direct investment in multinational companies positively impacts Indonesia because it can elevate economic growth, employment, and the quality of human resources (Febrantara, 2020).

From that explanation, it can be interpreted that multinational companies have a strong connection with transfer pricing practices in Indonesia. An example of the transfer pricing cases in multinational companies in the consumer non-cyclical sector, listed on the IDX, is the case from PT Bentoel Internasional Investama Tbk that case impacts the loss of tax revenue in Indonesia around US\$ 2.700 per year. PT Bentoel Internasional Investama Tbk has indications of using the transfer pricing practices by utilising the tax treaty between Indonesia and England for royalty payments, technical service fees, and I.T. costs. All of that cost should be subject to a tax rate in Indonesia, which is 25 per cent, but these payments are transferred to a subsidiary, namely BAT Holding Ltd in England. So PT Bentoel Internasional Investama Tbk only charges a tax rate of 15 per cent because of the tax treaty policy (Prima & Dewi, 2019).

Transfer pricing is an operation allowed to be executed but should be applied to the principles of fairness and prevalence (Arm's Length Principle/ALP). According to the Regulation of the Minister of Finance of the Republic of Indonesia Number 22/PMK.03/2020, fairness and prevalence (Arm's Length Principle/ALP) are used to run a healthy business with transactions carried out independently. However, many companies carry out transfer pricing practices without implementing the ALP. That can give rise to negative connotations on transfer pricing practices (abuse transfer pricing).

The principle of fairness and prevalence (ALP) that is not applied to transfer pricing practices is performed by transferring taxable income by multinational companies to subsidiaries and related parties based in nations with a smaller tax rate to reduce the tax

expenses that a company will bear. In addition, transfer pricing additionally can be done by manipulating prices on selling prices, purchase prices, charging interest on loans from shareholders, payments of commissions, licenses, royalties, leases, franchises, technical service fees, management service fees and rewards for other services (Pohan, 2019).

However, transfer pricing is a practice that can benefit a company in buying or selling transactions. However, several factors can influence companies to abuse transfer pricing decisions. These factors are tax income, exchange rates, tunnelling incentives, and multinationals.

Tax income partially significantly affects transfer pricing decisions (V. R. Putri, 2019). That research shows that the quantity of tax expense can influence a company's income it pays; the greater the tax expense, the smaller the revenue. These results contrast with other research that mentions taxes not affect transfer pricing decisions (Louw, 2020).

The exchange rate significantly affects transfer pricing decisions (Ayshinta et al., 2019). The research says that a stronger foreign currency against the exchange rate will increase foreign exchange rate earnings, which can affect companies' decisions about transfer pricing. These results contrast with other studies that show the exchange rate does not affect transfer pricing (Pandia & Gultom, 2022) and (Liza, 2020).

They are tunnelling incentives that positively affect transfer pricing decisions (Azhar & Setiawan, 2021). The research shows that majority shareholders have control over giving orders to management to make transfer pricing decisions that will be used for personal gain and may pose a risk for minority shareholders. However, these results contrast those of other studies, which state that tunnelling incentives do not affect transfer pricing decisions (Wijaya & Amalia, 2020).

Multinationality significantly affects transfer pricing decisions (Rifqiyati et al., 2021). The study shows that transfer pricing decisions can increase if the company has transactions with many subsidiaries and affiliated companies abroad. These results contrast those of other studies, which show that multinationals do not affect transfer pricing decisions (Maulina et al., 2021).

This study differs from the previous research that used companies from the IDX IC sector, which no longer use the IDX JASICA sector. This could cause differences in the results that researchers obtain. In research conducted by (Azhar & Setiawan, 2021), the limitations faced by the authors were that the resulting R-Square value was very low, which is 6.400 per cent, using tunnelling incentive, bonus mechanisms and leverage as an independent variable. Therefore, researchers change the variables and proxies used on dependent variable transfer pricing based on the existing gap to get maximum results.

The phenomena described in the background and an explanation of several variables show that those variables may influence a company's transfer pricing decision. Researchers will conduct a review of some of these factors. Researchers still find differences in results from previous studies related to variables that can motivate company management to make transfer pricing decisions. Therefore, the authors want to seek additional insights about the effect of tax income, exchange rates, tunnelling incentives, and multinationals on transfer pricing decisions, which are supported by evidence that will support the research's results on the consumer non-cyclical sector.

THEORETICAL REVIEW

Agency Theory. An agency theory is based on agency problems when agents inside a company have different interests from the principal (Hendrawaty, 2017). The agent

(manager) can have more complete information than the principal (shareholder) because the manager can manage the company's assets. Besides that, managers can maximise personal utility by using report information relating to the principal (shareholder). It can cause information asymmetry, which causes conflict between the agent and the principal. Suppose a company has an ownership structure with one party who has authority over the company. In that case, different agency problems will arise, such as the emergence of problems between managers and majority and minority shareholders.

Agency problems involving majority and minority shareholders can arise because the majority shareholders have strong incentives to supervise managers so the company can be run in accordance with the interests of the majority shareholders. This is detrimental to minority shareholders because majority shareholders can play a direct role in managing the company so that majority shareholders will act contrary to the interests of minority shareholders (Hendrawaty, 2017). Therefore, majority shareholders may engage in transfer pricing practices for personal gain, which may be detrimental to minority shareholders and managers. Transferring pricing can be done by transferring the company's assets and profits managed by the majority shareholder; this affects profits from the original company, which will decrease. So, the profits obtained by the minority shareholders will also decrease due to the actions of the majority shareholders.

Transfer Pricing. Transfer pricing is the amount set for transferring products, services, or intangible assets between one company and another, and it has special relations grounded on the principle of fairness (Pohan, 2019). According to the Regulation of the Minister of Finance of the Republic of Indonesia, Number 22/PMK.03/2020, transfer pricing can be interpreted as determining the price of transactions carried out under companies with exclusive parties. Determination of the transfer price must be carried out based on the principles of fairness and prevalence (ALP) because transactions involving taxpayers with related parties can be used as a way to do tax transfers to another country. Transfer pricing decisions can be taken by a company because of the possibility that the company wants to reduce the tax expenses borne to a minimum. This causes the management to make transfer pricing decisions by not applying the principle of fairness and prevalence for transfer income tax to affiliated companies abroad.

Tax Income. Law No. 36 of 2008 states that tax income is a fee for individuals or entities for all income earned within one year. According to (Resmi, 2019), tax income is a tax imposed on income earned by a tax subject in one tax year. It can be concluded that tax income is a tax imposed on individual and corporate tax subjects because income is in one tax year. High tax rates will motivate corporate tax subjects to transfer company profits to associated companies based in other countries that have smaller tax rates. The tax income earned by the company can be utilised as a reference for observing the effectiveness of company initiatives in managing their tax expenses. The smaller the tax income charged, the better the financial performance in managing the efficiency of the company's tax expenses.

Exchange Rate. An Exchange rate represents a value from a local currency over a foreign currency (Kuncoro, 2020). In international trade relations, the exchange rate stands closely related to the value of the currency in every single country because cash flows in multinational companies will have a nominal value in several currencies, each of which is relatively pegged to the value of the dollar so that it can cause a currency to be worthless and the dollar will fluctuate. Multinational companies will find problems with exchange rates if the exchange rate continues to fluctuate; fluctuating exchange rates will affect the price of selling products or services that the company will trade. Exchange rates that

constantly fluctuate might affect the amount of the company's profits as a whole; therefore, to anticipate losses that will occur as a result of different exchange rates, companies take advantage of transfer pricing practices to make transactions and transfer funds to countries with stronger exchange rates (Cahyadi & Noviari, 2018).

Tunneling Incentive. Tunnelling Incentive transfers company assets owned by a subsidiary from one country to another or a company run by the majority shareholder for the personal benefit of the majority shareholder (Kurniawan et al., 2018). Tunnelling incentives are carried out by not distributing dividends and selling company assets to majority shareholders cheaper than the actual price. This causes tunnelling incentives to raise agency problems among majority and minority shareholders since the majority shareholder has absolute power over the management level in a company (Wijaya & Amalia, 2020). Tunnelling incentives can be divided into two types. First, resources from the company can be transferred by the majority shareholder using a transaction process from the company with the majority shareholder. Then, these resources can be diverted to companies abroad by using transfer pricing practices. Second, the majority shareholder will increase their share without transferring assets by issuing dilutive shares or by using another financial transaction, which may lead to losses experienced by the minority shareholders (Liza, 2020).

Multinationality. Multinational companies have businesses in various countries, generally having a head office to coordinate internationally with branch offices and subsidiaries abroad (Moridu et al., 2021). Multinational companies generally need assistance from affiliated companies to produce the goods needed by the company. Multinational companies can conduct related party transactions in countries with two different authorities (Maulina et al., 2021). Multinational companies can utilise this difference in authority to perform transfer pricing. The difference in authority multinational companies utilise to maximise profit is the tax rate. Multinational companies will use subsidiaries or affiliated companies in different nations with lower taxation rates to practice transfer pricing to minimise tax expenses imposed on branches and primary companies based in nations with greater tax rates.

Effect of Tax Income on Transfer Pricing Decision. Tax income is a tax charged to taxpayers for corporations' income (V. R. Putri, 2019). Transfer pricing practices are generally used to avoid imposing high-income tax rates. Using transfer pricing practices, a country can shift the tax expenses owed on high-tax-rate countries to lower-tax-rate countries to maximise overall company profits marked by a low value from the Effective Tax Rate (ETR).

Therefore, tax income can negatively affect transfer pricing decisions. If tax expenses to be paid are high, a company is expected to be more encouraged to practice transfer pricing, which is indicated by a low Effective Tax Rate. A low effective tax rate means the company significantly reduces tax expenses. So, it can be concluded that the smaller the share of the Effective Tax Rate, the higher the potential for a company to execute transfer pricing practices to reduce imposed tax expenses.

H1: Tax income has a negative effect on transfer pricing decisions.

Effect of Exchange Rate on Transfer Pricing Decisions. The existence of an exchange rate may influence a company's decision to perform transfer pricing practices. Exchange rates that constantly fluctuate will make an uncertain amount of money that will be used to make payments. So, it can affect the price that must be paid to make purchases

of goods at the origin, which will continue to change, although the supplier has already set the price of the goods. Therefore, the exchange rate has a positive effect towards transfer pricing. That is because the higher the fluctuation in the exchange rate, the more the company's management will want to minimise losses caused by the exchange rate. So, it can be assumed that the higher the exchange rate, the more it will influence management in performing transfer pricing practices (Cahyadi & Noviari, 2018).

H2: Exchange rate has a positive effect on transfer pricing decisions.

Effect of Tunneling Incentive on Transfer Pricing Decisions. Tunnelling incentives may also be viewed as activities by management or majority shareholders to relocate profits and company assets for personal gain. In contrast, minority shareholders are additionally charged for the transfer fee (Fali Rifan, 2019). So, tunnelling incentives can be interpreted as well as behaviour that majority shareholders have to transfer companies' assets and profit to related parties abroad for their own benefit (Asaff et al., 2022). Tunnelling incentives can trigger agency problems caused by several things, namely weak protection of the rights of minority shareholders so that they can motivate majority shareholders to carry out tunnelling incentives, and majority shareholders have the power to control management in making decisions that only benefit the interests of shareholders majority and give no benefit for minority shareholders.

Therefore, the tunnelling incentives will positively affect transfer pricing decisions. The majority of shareholders can receive advantages from transactions in association with related parties to transfer assets through transfer pricing, which includes prices that are not fair or below market prices for their interests. The majority of shareholders will mark up purchase transactions and mark down sales transactions (Wijaya & Amalia, 2020). So, the greater the share ownership, which is more than 20 per cent in a company, can trigger tunnelling incentives by utilising transfer pricing practices.

H3: Tunneling incentive has a positive effect on transfer pricing decisions.

Effect of Multinationality on Transfer Pricing Decisions. Transfer pricing practices can motivate multinational companies to minimise taxes incurred by companies in various countries (Murhaban & Adnan, 2020). Multinational companies conduct transactions between divisions involving corporate special parties in various countries. The problem arising from these transactions is the different tax rates in every country. This can stimulate multinational companies to practice transfer pricing to maximise profits by minimising tax imposition so that the tax expenses borne by companies in nations with greater tax rates will become lower. Thus, it is likely that multinationality will positively affect transfer pricing decisions. Therefore, the greater the level of multinationality of a company, the greater the occurrence of transfer pricing practices that the management will implement to obtain maximum profit from companies in one group (Rifqiyati et al., 2021).

H4: Tunneling incentive has a positive effect on transfer pricing decisions.
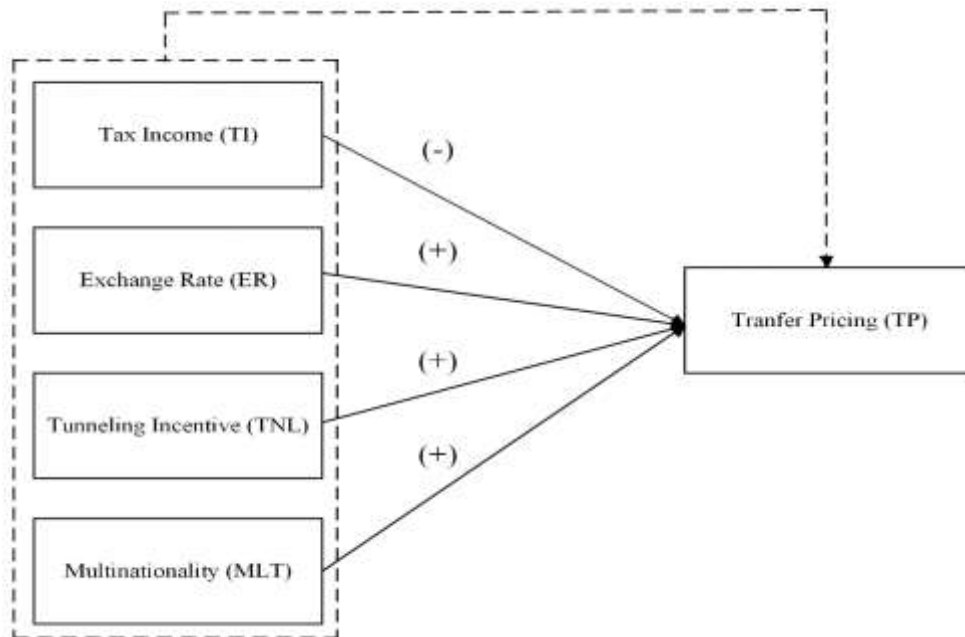
Figure 1. Research Model**.**
Source: Data processed by author (2022)

Notes:
——————————→ : Partial effect
- - - - - - - → : Simultaneous effect

METHODS

This research uses methods of quantitative. Quantitative research is used to research numerical data to describe certain phenomena, and hypotheses will be formed as temporary assumptions about research questions (Pramita et al., 2021). Quantitative research focuses on testing theory using research variables in the form of numbers and analysing data with statistical methods. The data source to be used in this research is secondary data. This study uses financial reports from non-cyclical consumer companies registered on the Indonesia Stock Exchange for 2017 to 2021, scientific journals and books, the official website of the companies, and the IDX website as secondary data.

Population and sample. The population used in this research is 113 companies from the consumer non-cyclical sector listed on the Indonesia Stock Exchange from 2017 until 2021. The purposive sampling technique was used in this research because the sample was chosen based on specific parameters the researcher adjusted to fit the sample. Then, 40 sample observation data were collected from 8 companies during the 5-year study period. Sample criteria from this research are listed in Table 1.

Table 1. Sampling Criteria

No.	Criteria	Total
1.	Consumer non-cyclical companies listed on the Indonesia Stock Exchange (IDX) until 2021	98

2	Inconsistent consumer non-cyclical sector companies listed in 2017-2021 on Indonesia Stock Exchange (IDX)	(36)
3.	Consumer non-cyclical companies sector that did not consistently publish the financial report from 2017 to 2021	(5)
4.	Consumer non-cyclical companies that have losses in 2017 to 2021	(25)
5.	Consumer non-cyclical companies that have incomplete data information related to research variables from 2017 to 2021	(24)
6.	Consumer non-cyclical companies that have ETR value under 1(one) from 2017 to 2021	(0)
	Total samples used	8
	Total observation samples used (8 x 5)	40

Source: Data processed by author (2022)

According to the sampling criteria from Table 1, the sample selected from the criteria will total 40 observations of 8 companies from 2017 to 2021.

Operationalization Variable. A research variable is a value or attribute of an object with defined variations previously conditioned by the researcher to be observed further until outcomes can be determined (Setyawan, 2021). This study uses two variables: the independent variable and the dependent variable. The research to be conducted is to analyse the effect of tax income, exchange rates, tunnelling incentives and multinationals, which are the independent variables on transfer pricing as the dependent variable.

Dependent Variable. A dependent variable represents a variable being influenced or can also be an outcome due to the presence of an independent variable (Setyawan, 2021). For this study, the dependent variable is identified as transfer pricing. The transfer pricing variable is measured to see how much a company has transactions with related parties.

Transfer pricing. This study measures transfer pricing variables using total related party receivables divided by total receivables. Previous research has become a reference for using transfer pricing indicators (Liza, 2020). This proxy is used because transfer pricing can be carried out between companies and related parties, and companies tend to find it easier to determine transfer pricing with related parties—the formula for the transfer pricing variable.

$$Transfer\ Pricing = \frac{Total\ Related\ Parties\ Receivables}{Total\ Receivables} \dots\dots\dots\dots\dots\dots\dots\dots (1)$$

Independent Variable. An Independent variable is a variable that may influence and can cause a change in the dependent variable (Setyawan, 2021). An Independent variable may influence and cause a change in the dependent variable (Setyawan, 2021). Tax income, exchange rates, tunnelling incentives and multinationals are the independent variables for this research.

Tax Income. A proxy Effective Tax Rate (ETR) measures the variable tax income. ETR can operate as a calculation of several taxes that are expected to be charged by a company. The ETR can be utilised to calculate the number of tax rates that are soon to be charged by a company because ETR can be assessed using financial information from levy expenses and taxable profits generated by the company. In addition, ETR helps see the level of effectiveness of a company in managing its tax expenses. The lower the percentage number of ETR, the better the financial performance in managing the efficiency of the company's tax expenses. Previous research which became the reference for using ETR indicators is (Esa Agustin & Hari Stiawan, 2022) the formula of Effective Tax Rate (ETR).

$$Effective\ Tax\ Rate = \frac{Total\ Tax\ Expenses}{Taxable\ Income} \dots\dots\dots (2)$$

Exchange Rate. The exchange rate variable is measured with gain or loss from foreign exchange difference divided by the gain (loss) before tax. Previous research that became the reference for using exchange rate indicators is (Liza, 2020) and (Pandia & Gultom, 2022). This proxy can show how much management tends to take advantage of differences in currency values that companies will use in conducting transactions with companies abroad—the formula for the exchange rate variable.

$$Exchange\ Rate = \frac{gain(Loss)\ Foreign\ Exchange\ Difference}{gain(-loss)\ before\ tax} \dots\dots\dots (3)$$

Tunneling Incentive. The tunnelling incentive variable is measured using the largest shareholdings divided by the total outstanding shares. Previous research that became a reference for tunnelling incentive indicators is (Wijaya & Amalia, 2020) and (Liza, 2020). The tunnelling incentive variable is based on the size of share ownership, which is over 20 per cent, because shareholders can directly or indirectly influence a company if they provide 20 per cent or more capital. The formula for the tunnelling incentive variable is.

$$Tunneling\ Incentive = \frac{The\ largest\ Shareholdings}{Total\ outsatnding\ Shares} \dots\dots\dots (4)$$

Multinationality. The multinational variable is measured using the proxy total of foreign subsidiaries divided by the total subsidiaries. Previous research became the reference for using multinationality indicators (Rifqiyati et al., 2021). Transactions with multinational companies involve affiliated parties abroad because multinational companies carry out their business in several different countries. So, the formula used to measure the multinationality variable is.

$$Multinational\ = \frac{Total\ of\ Foreign\ Subsidiaries}{Total\ Subsidiaries} \dots\dots\dots (5)$$

Panel Data Regressions Method. The research uses descriptive method research. Descriptive research aims to describe and describe data so that conclusions can be drawn (Timotius, 2017). Panel data regression analysis was applied as the analytical method for this study. Panel data analysis is an analysis that is accomplished if the research uses a combination of cross-section data and time series data (Caraka, 2017). This research uses Eviews 12 software to manage data in panel data regression analysis. Regression analysis is applied to analyse which model will be used in the interaction between independent and dependent variables. The equation of the panel data regression analysis method used in this research is as follows.

$$TP = \alpha + \beta_1 TI + \beta_2 ER + \beta_3 TNL + \beta_4 MLT + \varepsilon \dots\dots\dots (6)$$

Based on the equation of the regressions, T.P. is the dependent variable that represents transfer pricing in this research. α used to represent a constant. β_n can represent the regression coefficient for the independent variable within this research, which is tax income (T.I.), exchange rate (E.R.), tunnelling incentive (TNL), and multinational (MLT). Then, ε represents the error.

RESULTS

Descriptive statistics analyse and provide an understanding of data related to circumstances or situations in the form of numbers so that an overview can be drawn in the form of conclusions that are not generally accepted (Trisliantanto, 2020). Descriptive statistics can be presented using tables, graphs, and diagrams, including calculating the mean, maximum, minimum, and standard deviation values the outcomes for the descriptive statistics test in this research.

Table 2. Descriptive Statistics Data Results

	Transfer Pricing	Tax Income	Exchange Rate	Tunneling Incentive	Multinational
Mean	0.602	0.284	0.008	0.520	0.235
Maximum	0.986	0.922	0.832	0.805	0.600
Minimum	0.118	0.185	-0.468	0.263	0.105
Std. Dev	0.249	0.137	0.156	0.155	0.101
Observations	40	40	40	40	40

Source: Output Eviews 12

Table 2 shows that the average (mean) value from the transfer pricing variable for consumer non-cyclical companies listed on the Indonesia Stock Exchange from 2017 to 2021 is 0.602, and the value of the standard deviation is 0.249. So, the transfer pricing variable has grouped data or, in other words, does not vary. The minimum value obtained is 0.118, which belongs to PT Japfa Comfeed Indonesia Tbk in 2020, with a maximum value of 0.986, which belongs to PT Sawit Sumbermas Sarana Tbk in 2020.

The output for tax income variable on descriptive statistical data test in companies from the consumer non-cyclical sector listed on the Indonesia Stock Exchange from 2017 to 2021 shows that the average value (mean) is 0.284 and the value for standard deviation is 0.137. So, it is possible to determine whether the tax income variable has grouped data or does not vary. The minimum value obtained is 0.185, and it was owned under the name of PT Sawit Sumbermas Sarana Tbk in 2021, with a maximum of 0.922 belonging to PT Sawit Sumbermas Sarana Tbk in 2019.

Variable exchange rate from companies in the consumer non-cyclical sector listed on the Indonesia Stock Exchange from 2017 to 2021. It shows that the average value (mean) is 0.008, and the value at the standard deviation is 0.156. The conclusion can be drawn that the exchange rate has data that is not grouped or varied. The value obtained for the minimum is -0.468, held by PT Sawit Sumbermas Sarana Tbk in 2018, with a value for a maximum of 0.832 belonging to PT Sawit Sumbermas Sarana Tbk 2019.

The tunnelling incentive variable for companies in the consumer non-cyclical sector, listed on the Indonesia Stock Exchange from 2017 to 2021, shows that the average value (mean) is 0.520, and the value for the standard deviation is 0.155. So, it can be inferred that the tunnelling incentives variable has grouped data or does not vary. The value for the minimum obtained is 0.263, owned under the name of P.T. Tunas Baru Lampung in 2017, with a maximum value of 0.805 belonging to PT Indofood CBP Sukses Makmur Tbk in 2017 until 2021.

A descriptive statistical data test of the multinational variable for consumer non-cyclical sector companies listed on the Indonesia Stock Exchange from 2017 to 2021 shows that the average value (mean) is 0.235, and the standard deviation is 0.101. So,

whether the multi-nationality variable has grouped data or does not vary can be determined. The minimum value obtained is 0.105, held by PT Indofood CBP Sukses Makmur Tbk in 2018, with a maximum value of 0.600, which belongs to PT Indofood CBP Sukses Makmur Tbk in 2020.

Classical Assumption Test. A classic assumption test will determine the significant relationship of the regression model applied in research. This study also used the classic assumption test because the panel data regression model was used as data analysis, so before testing the hypothesis, the analysis had to test the classical assumptions first. This is because the classical assumption test can identify biased data so that later research can avoid biased data and errors in determining the regression model specification to be applied. The classic assumption test used in this study is multicollinearity and heteroscedasticity.

Multicollinearity Test. Multicollinearity aims to find the same elements between the independent variables. A variable with the same aspects and indicators will produce a biased regression coefficient that becomes meaningless. (Widana & Muliani, 2020). In this study, the multicollinearity test was determined by the Variance Inflation Factor (VIF) value.

Table 3. Multicollinearity Test Result

Variable	Coefficient Variance	Uncentered VIF	Centred VIF
C	0.030	18.568	NA
TI	0.109	6.569	1.216
ER	0.080	1.168	1.165
TNL	0.074	13.266	1.055
MLT	0.184	7.268	1.103

Source: Output Eviews 12

The outputs of the multicollinearity test in **Table 3** disclose that centred VIF values for the independent variables produce values below 10. Thus, this study's independent variables have no multicollinearity.

Heteroscedasticity Test. The test of heteroscedasticity aims to see whether or not there is a presence of bias or deviation in data research (Widana & Muliani, 2020). The regression model is correct if there is no heteroscedasticity. That is if the probability value is more than 0.050.

Table 4. Heteroscedasticity Test Result

F-statistic	0.815	Prob. F (4,35)	0.524
Obs*R-squared	3.408	Prob. Chi-Square (4)	0.492
Scaled explained S S	1.579	Prob. Chi-Square (4)	0.813

Source: Output Eviews 12

Table 4 shows the output of the heteroscedasticity test. The significance value of F on the F-statistic is 0.524 more than 0.050, and the Chi-Square significance on Obs*R-Squared is 0.492 more than 0.050. So, it is reasonable to say that this research has no heteroscedasticity.

Panel Data Model Selection Test. The panel data model is determined using three tests: the Chow test, the Hausman test, and random effects (Lagrange multiplier test)

(Caraka, 2017). The test aims to discover the appropriate or most suitable model for this study.

Chow Test. A chow test was employed to determine the difference between the fixed and common effect models. In case the probability number for the cross-section chi-square is below the number of 0.050, then H_0 is rejected, or it is also possible to be interpreted that a fixed effect model will be utilised. However, when the probability value for the cross-section chi-square is more than the number of 0.050, then H_0 will be accepted, or it is possible to interpret that a common effect model will be used the following data from the Chow test.

Table 5. Chow Test Result

Effect Test	Statistic	d.f	Prob
Cross-section F	36.930	(7.280)	0.000
Cross-section Chi-square	93.022	7	0.000

Source: Output Eviews 12

The Chow test output, placed in **Table 5**, shows that the probability value of the chi-square cross-section is below the significance value of 0.050. This implies that H_0 is being declined, so the fixed effect is the selected regression model. Then, proceed to the Hausman test to see which fixed or random effect regression model will also be employed.

Hausman Test. The Hausman test determines the model between fixed-effect and random-effect models. When the cross-section probability value is less than 0.050, H_0 is rejected, indicating that a fixed-effect model is likely to be applied. However, if the cross-section probability value is greater than 0.050, H_0 will be accepted, indicating that a random-effect model will be used.

The result from the test Hausman shows the test summary is cross-section random, with the value of the Chi-Sq. Statistic is 11.139 and Chi-Sq d.f is 4. The probability value of the Hausman test result in this research is 0.025. So, it indicates that the cross-section probability value exists smaller than the significance value of 0.050. This implies that H_0 is declined, so the regression model that is selected and will be applied has a fixed effect. After carrying out the Hausman and Chow tests, it can be determined that the fixed effect is the ideal panel data regression model to be adopted in this study.

Panel Data Regression Model Result. The Chow and Hausman test outcomes show that the selected model has a fixed effect. Thus, it can be inferred that a fixed effect is the most suitable model for this study, which means that panel data regression analysis will use a fixed effect model. The following result for the fixed effect model is provided.

Table 7. Fixed Effect Model Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob
C	4.080	1.122	3.635	0.001
TI	-0.368	0.179	-2.053	0.050
ER	-0.020	0.102	-0.199	0.844
TNL	-6.457	2.088	-3.092	0.005
MLT	-0.068	0.184	-0.373	0.712
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.907	Mean dependent var		0.602
Adjusted R-squared	0.871	S.D. dependent var		0.249

S.E. of regression	0.090	Akaike info criterion	-1.742
Sum squared resid	0.225	Schwarz criterion	-1.236
Log-likelihood	46.849	Hannan-Quinn criterion	-1.559
F-statistic	24.886	Durbin-Watson stat	1.862
Prob(F-statistic)	0.000		

Source: Output Eviews 12

From the fixed effect model result test in **Table 7**, the equation for the panel data regression analysis method employed in this study can be stated as follows:

$$TP = 4.080 - 0.368(TI) - 0.020(ER) - 6.457(TNL) - 0.068(MLT) \ldots\ldots\ldots\ldots\ldots\ldots (7)$$

The interpretation that can be explained related to the panel data is that the constant value is 4.080, which indicates that if independent variables such as tax income, exchange rate, tunnelling incentive, and multi-nationality are zero (0), Transfer pricing as a dependent variable will have a value of 4.080. The regression coefficient value for the independent variable tax income is -0.368, indicating that every time there is an increase in tax income variable by one unit, other independent variables are assumed to have a constant value. The value for transfer pricing will shrink by 0.368. The regression coefficient value for the independent exchange rate variable is -0.020, implying that every time one unit escalates the variable, other independent variables are assumed to have a constant value. The value for transfer pricing will lessen by 0.020. The regression coefficient value for the independent variable tunnelling incentive is -6.457, indicating that each time a rise is observed in the tunnelling incentive variable by one unit, and it is assumed that other independent variables have a constant value, then the value of transfer pricing will decrease by 6.457. The regression coefficient value for the multinational independent variable is -0.068, representing the rise in the multinational variable by one unit every time, and it is assumed that other independent variables have a constant value. The value for transfer pricing will lessen by 0.068.

Coefficient of Determinan (R^2). The fixed effect model table shows that the value for the Adjusted R-square is 0.871, or 87 per cent. This implies that the independent variables, tax income, exchange rate, tunnelling incentive, and multi-nationality, can explain and describe transfer pricing as the dependent variable by 87 per cent. In contrast, the rest of the percentage, 13 per cent, can be analysed by variables other than those used in this study.

Simultaneous Test Result. The criteria used to examine the hypothesis on the F test are when the probability value (F-Statistic) is not as much as 0.050, then H_0 is dismissed, and H_a is approved, which means the hypothesis is accepted. It is reasonable to say that the independent variables used simultaneously significantly affect the dependent variable. Drawn from the probability value (F-statistic) of 0.000, that number is below the significance level of 0.050. So, the independent variables, tax income, exchange rate, tunnelling incentive and multi-nationality, simultaneously affect transfer pricing decisions for companies from the consumer non-cyclical sector listed on the Indonesia Stock Exchange (IDX) from 2017 to 2021.

Partial Test Result. To see the effect on the partial test (t-test), if the significance value reflects results lower than 0.050, H_0 is declined, and H_a is accepted. This shows that the independent variable partially affects the dependent variable. However, if the significance value reports results above 0.050, H_0 is accepted, and H_a is rejected. This shows that the independent variable has no partial effect on the dependent variable.

The table fixed-effect model discloses that the coefficient for tax income is -0.368, with a probability value of 0.050. Thus, H_{01} is rejected, and H_a is accepted. So, it can be inferred that the tax income variable partially negatively affects transfer pricing decisions. This aligns with the hypothesis in this research, which states that the tax income variable has a negative effect on transfer pricing decisions.

The coefficient value for the exchange rate variable is -0.020, with a probability of 0.844, which surpasses the significance level used, 0.050. Then, H_{02} is accepted, and H_a is declined. The implication is that the exchange rate variable does not affect transfer pricing decisions. That contradicts this research hypothesis, which declares that the exchange rate variable positively affects transfer pricing decisions.

The result shows that the coefficient value of the tunnelling incentive variable is -6.457 with a probability value of 0.005, which happens to be smaller than the significance level used of 0.050. Then, H_{03} is accepted, and H_a is declined. The conclusion can be drawn that the tunnelling incentive has a partial effect with a negative direction on transfer pricing decisions. This does not align with the research hypothesis, which states that the tunnelling incentive variable positively affects transfer pricing decisions.

The outputs on the fixed effect model table show that the coefficient value for the multi-nationality variable is -0.068 with a probability value of 0.712, which happens to be greater than the significance level used, 0.050, then H_{04} is accepted, and H_a is declined. This leads to the conclusion that multinationals do not affect transfer pricing decisions. The test results oppose this research hypothesis, which claims that the multinational variable positively affects transfer pricing decisions.

DISCUSSION

The Effect of Tax Income on Transfer Pricing Decisions. This research found that tax income has a negative effect on transfer pricing decisions for companies that run their business in the consumer non-cyclical sector listed on the Indonesia Stock Exchange from 2017 to 2021. Based on these companies, the Effective Tax Rate (ETR) below the 22 per cent tax rate is dominated by a transfer pricing value above the average of 15 per cent with six observation data consisting of PT PP London Sumatra Indonesia Tbk in 2020 also in 2021, PT Mayora Indah Tbk in 2020 and 2021, PT Sawit Sumbermas Sarana Tbk in 2021 and PT Siantar Top Tbk in 2020. Likewise, the Effective Tax Rate (ETR) below the 25 per cent tax rate is dominated by the transfer pricing value above the average, which is 10 per cent from 4 observation data that is PT PP London Sumatra Indonesia Tbk. in 2017, PT Mayora Indah Tbk in 2019, PT Siantar Top Tbk in 2019 and P.T. Tunas Baru Lampung Tbk in 2017.

The effectiveness of a company in managing its income tax expenses can be seen from the percentage level of the measurement of ETR. If a number percentage or the ETR generated is too small compared to the tax rate. The company can perform transfer pricing by shifting the company's tax expenses to subsidiaries and related parties abroad to enhance company profits. This leads to the conclusion that the lower the Effective Tax Rate (ETR) with a tax rate of 25 per cent or 22 per cent in a company, the higher the indication that the company performs transfer pricing. This can validate that tax income negatively influences transfer pricing decisions. The outcomes of this study are aligned with a study done by (V. R. Putri, 2019), which claims that tax income has a negative effect on transfer pricing decisions because companies try to minimise tax expense by practising transfer pricing so that profits obtained by the company are optimal. However,

this is in contrast to the (Louw, 2020) research, which states that transfer pricing is not done to carry out tax planning by reducing the tax expenses to a minimum because if you want to implement transfer pricing, it must always be based on the arm's length principle.

The Effect of Exchange Rate on Transfer Pricing Decisions. The exchange rate variable does not influence transfer pricing decisions for companies from the consumer non-cyclical sector listed on the Indonesia Stock Exchange from 2017 to 2021. Based on this study's observation data, 21 observations show that the exchange rate values in both companies, on below average and above average, have a greater opportunity to perform transfer pricing practices. Even so, these results are similar to observation data from 19 companies, which show that exchange rate values below average or above average have little opportunity to execute transfer pricing practices. This happens because the profits obtained from increasing the exchange rate value are very small, so it does not motivate management to make decisions for transfer pricing to elevate company profits. Likewise, if the exchange rate value decreases, a low exchange rate value can cause companies to spend more rupiah to buy the same amount of raw materials. So, the low exchange rate value only provides benefits if the company carries out transactions in other countries with different currencies.

Derived from this explanation, it can be determined that the high or low value of the exchange rate has no influence on management in making transfer pricing decisions because both high and low exchange rate values do not provide significant benefits for the company. The outcomes of this research are in harmony with (Cahyadi & Noviari, 2018) which declares that exchange rate does not affect transfer pricing decisions. The study mentions that the proportion of the exchange rate in a company does not influence management to perform transfer pricing or not to perform transfer pricing. However, these results contrast with the research of (Ayshinta et al., 2019), which indicates that management tends to take advantage of exchange rate differences to increase the worth of foreign exchange gains if the value of foreign currencies strengthens by using transfer pricing practices.

The Effect of Tunneling Incentive on Transfer Pricing Decisions. Tunnelling incentive has a negative effect on transfer pricing decisions for corporations from the consumer non-cyclical sector listed on the Indonesia Stock Exchange from 2017 to 2021. Based on the results show that domestic shareholders dominate the most prominent shareholding is 75 per cent from 6 companies consisting of PT Indofood CBP Sukses Makmur Tbk, PT PP London Sumatra Indonesia Tbk, PT Mayora Indah Tbk, PT Sawit Sumbermas Sarana Tbk, PT Siantar Top Tbk and P.T. Tunas Baru Lampung Tbk. Therefore, the transfer of resources in asset sales transactions from the company to the majority shareholder by making a transfer pricing decision can only be done within the country. Because the transfer of assets can only be done within the country, the incentive that the majority shareholder will obtain is manageable and profitable. This can give the majority shareholder little possibility to adopt transfer pricing decisions, which can influence tunnelling incentives on transfer pricing decisions and have a negative effect. Therefore, it can be inferred that the higher the number of shares owned by domestic majority shareholders, the smaller the ability to carry out transfer pricing for the company.

The outcomes derived from this study agree with research performed by (Baiti & Suryani, 2020) which points out that tunnelling incentives negatively affect transfer pricing decisions. However, this research states that tunnelling incentives can occur if shareholders have a large concentration of ownership compared to those with a small concentration. However, In (Wijaya & Amalia, 2020) research, it is stated that large ownership is still

determining the conclusion to implement tunneling incentives using transfer pricing practices. There may be other factors that can further determine the decision to do tunnelling incentives.

The Effect of Multinationality on Transfer Pricing Decisions. The variable of multi-nationality has no effect on transfer pricing decisions for companies from consumer non-cyclical listed on the Indonesia Stock Exchange from 2017 to 2021. That is because this research found that, in general, multinational companies do not fully use subsidiaries in different countries to execute transfer pricing practices to lessen tax expenses imposed on branches and hold companies in nations with high tax rates. The data shows that more multinational companies have overseas subsidiaries with greater tax rates than Indonesia's tax rates, which results in companies not benefiting if they carry out the transfer pricing to foreign subsidiary companies.

Therefore, multinational companies cannot reduce tax expenses by carrying out transfer pricing because subsidiaries abroad have higher tax rates. The data in this study also reveals more subsidiaries in the country than abroad because domestic subsidiary companies have the same tax rates as the parent company. So, if a company carries out transfer pricing practices with domestic subsidiaries, the corporation will lack the ability to reduce tax expenses significantly.

The conclusion is that multinationality does not affect transfer pricing decisions in this study because multinational corporations have more foreign subsidiaries with higher tax rates and dominate domestic subsidiaries. This resulted in management not being motivated to practice transfer pricing to subsidiaries located abroad because if a multinational company transfers its profits to a nation with a larger tax rate, the overall profit that the company will obtain will be smaller. The outputs of this study are aligned with (Maulina et al., 2021), which report that multinationality does not influence transfer pricing decisions. That is because research by (Maulina et al., 2021) states that not all multinational companies reduce their taxes by practising transfer pricing. After all, multinational companies may have subsidiaries in nations with high taxation rates, so companies cannot suppress tax expenses using transfer pricing. However, this statement contrasts (Rifqiyati et al., 2021) research, which states that the more foreign subsidiaries there are, the more expected it is that transfer pricing practices will happen and the other way around when there are fewer foreign subsidiaries, the smaller possibility for the company to do a transfer pricing to reduce tax expenses.

CONCLUSION

This study aims to analyse variables that could influence the indications of a company in conducting transfer pricing. These variables are tax income, exchange rate, tunnelling incentive, and multinational. The objects used for this study are companies from the consumer non-cyclical sector listed on the IDX from 2107 to 2021. Tax income shows a negative effect on transfer pricing decisions. This is caused by the fact that the Effective Tax Rate (ETR) generated is too small when compared to the normal tax rate, so the company has the possibility of carrying out transfer pricing. The exchange rate does not affect transfer pricing decisions because fluctuating exchange rates do not motivate a company to practice transfer pricing. Tunnelling incentives also have a negative effect on transfer pricing decisions; this is because the greater the shares owned by domestic majority shareholders, the smaller the company to implement transfer pricing. Multinationality does not affect transfer pricing decisions; due to the data used in this

study, more multinational companies do have overseas subsidiaries with higher tax rates compared to tax rates in Indonesia, which results in companies not benefiting from transfer pricing.

Advice that can be given to academics is to increase the number of references to international journals to gain more insight, additional information, and new knowledge regarding transfer pricing practices. Then, the next researcher can expand the research object, add years of research, and use another proxy for the dependent variable. The next researcher can use a dummy as an indicator so the data can be obtained and statistical and regression test results can be much better. For minority investors, the suggestion is to analyse related multinational companies with tunnelling incentives with high values above the average of other companies in more detail. It can cause losses to minority shareholders.

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