

The Effect Of Taxes, Tunneling Incentives, Bonus Mechanism, Leverage On Transfer Pricing

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Abstract: This study examines the effect of taxes, tunnelling incentives, bonus mechanisms and leverage on transfer pricing decisions in manufacturing companies listed on the Indonesia Stock Exchange (IDX). The study population included listed manufacturing companies on IDX from 2017 to 2021 and had their financial statements published on the IDX. The sampling technique used was purposive sampling, taking thirteen companies with a study period of five years, thus obtaining a total of sixty-five study samples. The statistics used in this examination are taken from the company's financial statements. This study uses a quantitative design combined with data analysis techniques using classical hypothesis testing, descriptive statistics testing and hypothesis testing. The results show that tax, tunnelling incentive and leverage variables significantly impact the transfer pricing indication. The bonus mechanism variable has no impact on the indication of transfer pricing.

Keywords: Transfer Pricing; Tax; Tunneling Incentive; Bonus Mechanism; Leverage.

Abstrak: Menguji pengaruh dari peran pajak, tunneling incentive, mekanisme bonus serta leverage pada keputusan perusahaan untuk melakukan transfer pricing di perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia (BEI) sebagai tujuan dilakukannya penelitian ini. Populasinya perusahaan manufaktur yang terdaftar di BEI antara tahun 2017 dan 2021 dan mempublikasikan laporan keuangan tahunannya di BEI. Metode pengambilan sampel menggunakan Purposive Sampling dan diambil sampel sebanyak tiga belas perusahaan selama periode penelitian lima tahun sehingga total sampel penelitian berjumlah enam puluh lima. Data dalam penelitian ini diperoleh dari laporan keuangan perusahaan. Penelitian ini menggunakan desain atau pendekatan kuantitatif dengan jenis asosiatif dengan teknik analisis data menggunakan uji asumsi klasik, uji statistik deskriptif, dan uji hipotesis. Hasil penelitian menunjukkan bahwa variabel pajak, tunneling incentive dan leverage berpengaruh signifikan terhadap indikasi transfer pricing. Sedangkan variabel mekanisme bonus tidak berpengaruh terhadap indikasi transfer pricing.

Kata Kunci: Transfer Pricing; Pajak; Tunneling Incentive; Mekanisme Bonus; Leverage.

INTRODUCTION

Developed and developing countries are faced with various economic changes. This is evident in the realm of domestic, regional and world trade. When the economic situation improves, businesses can no longer develop in one country but expand to other countries, forming multinational companies. The most frequent goal of multinational companies is to generate profits that are expected to continue to increase from the previous level; hence, the organisation should expand the product distribution to other countries. Taxation is one of the problems that cannot be separated from this type of problem because tax rates vary in each country, impacting the operations of multinational



companies. Multinational companies have unique relationships (affiliations) among companies in the same group because of the spread of their operations. Certain relationships exist when a corporation depends on or has ties to a group of companies because of the phrase controlling shareholder with equity involvement, control, or family or marital ties to the company. The occurrence of business transactions in the form of products and services as a result of the company's operational operations, including this special relationship, is the reason for the transfer pricing practice. Transfer pricing is a neutral term, but in practice, it is often interpreted as a way to minimise the tax burden that must be paid by shifting prices or transferring profits between companies within a group.

Director General of Taxes Ken Dwijugiasteady revealed that two thousand multinational companies operating in Indonesia still need to submit Articles 25 and 29 of Corporate Income Tax due to losses. These companies are foreign investment companies (PMA) regulated by a unique regional tax authority (Kanwil). Not paying taxes implies not paying Corporate Income Tax Articles 25 and 29 due to ongoing losses. However, the company still exists. This tax avoidance is carried out through a transfer pricing scheme or the transfer of taxable profit from Indonesia to other countries. This tax avoidance is carried out by transferring prices or taxable profits from Indonesia to other countries. There are three main reasons. First, the company is associated with a parent company abroad, so the transfer pricing process easily influences it. Second, thousands of multinational companies suffer losses because many enjoy tax incentives such as tax exemptions and tax subsidies when applying for permits from the Investment Coordinating Board (BKPM). When filing a complaint, this company often increases the cost of purchasing its production equipment. Third, companies often change names to regain tax incentives, and in the end, the company can lose money again.

With this in mind, the government has introduced new rules regarding transfer pricing. This means that companies with a certain number of sales need to prepare transfer pricing documents. The document needs to contain the number of transactions with affiliates. Minister of Finance Regulation (PMK) No.213/PMK.03/2016 regulates this.

Whether the issuance of the PMK will increase tax revenue or not can be seen from the tax ratio. One indicator of assessing the government's ability to collect tax revenue is the tax ratio, namely the comparison of tax revenue to Gross Domestic Product (GDP), where the higher a country's tax revenue, the greater its tax ratio. Minister of Finance Sri Mulyani revealed that Indonesia's tax ratio is the lowest among the G20 and ASEAN countries. Indonesia's tax ratio was 9.110 per cent at the end of 2021. This figure increased from the 2020 realisation of 8.330 per cent (CNN Indonesia, 21 July 2022). This achievement still needs to be higher when compared to before the pandemic, namely 9.760 per cent in 2019 and 10.240 per cent in 2018. The achievement of the tax ratio in 2016 reached 10.360 per cent but decreased in 2017 to 9.890 per cent.

The condition of tax revenue, which still needs to improve after the regulation issuance on the obligation to prepare Transfer Pricing Documents, is one of the reasons why this research on transfer pricing needs to be done. Indonesia's tax ratio from year to year remains relatively high and tends to decrease.

Several studies on the effect of taxes on transfer pricing have been conducted, including a study by (Hertanto et al., 2023), which found that taxes have a beneficial impact on companies' decisions about implementing transfer pricing. According to (Cledy



& Amin, 2020), taxes have a beneficial and substantial impact on a company's choice to use transfer pricing. According to the findings of Novira et al. (Novira et al., 2020), taxes do not substantially impact transfer pricing choices.

Multinational companies expand maximally to accelerate their growth, leading to much conglomeration. Conglomerates are a common phenomenon in Indonesia and are a significant cause of the national economic crisis as they dominate the economy while concentrating shareholding in Indonesian public companies. The majority of shareholders tend to tunnel. The ability of one party to oversee the operations of the company it owns is the result of the concentration of share ownership of one party. The existence of a unique relationship allows one party to exercise substantial control or influence over the other party's financial and business decisions and activities. Tunnelling will be a viable alternative for majority shareholders due to the concentration of share ownership on one side.

Various studies on the effect of tunnelling incentives on transfer pricing have been carried out, including the research of (Azhar & Setiyawan, 2021), which concludes that tunnelling incentives affect transfer prices. According to the results of (Purwanto & Tumewu, 2018), tunnelling incentives have an impact on transfer pricing decisions. While research by (Ayshinta et al., 2019) shows tunnelling incentives have little effect on firms' transfer pricing decisions, this does not mean tunnelling incentives do not exist.

The most common technique business owners use is compensating executives and managers with profit-based bonuses. Suppose the company's performance appraisal is based on profit. In that case, managers will be motivated to improve the company's performance to receive the expected bonus by manipulating or limiting net income using the transfer pricing method. Various studies, such as (Istiqomah & Fanani, 2020), show that the bonus mechanism positively and statistically significantly impacts transfer pricing transactions. According to the results of (Rachmat, 2019), the bonus system can affect the application of the company's transfer pricing rules. This conclusion is based on a probability value of 0.000, which is below the 0.050 significance threshold. However, according to the findings of (Prayudiawan & Pamungkas, 2020), the bonus system has no impact on transfer pricing. This study revisits the effect of the variable bonus system on transfer price indications in light of the differences between these findings.

This research is a continuation of previous research conducted by (Rifqiyati et al., 2021) entitled Effects of Taxes, Multinationality, and Tunneling Incentives on Transfer Pricing Decisions. The author includes additional independent variables, namely the bonus mechanism mentioned in (Rachmat, 2019) entitled Taxes, Bonus Mechanisms, and Transfer Pricing.

This analysis includes the bonus method variable because previous research by (Prayudiawan & Pamungkas, 2020) concluded that the bonus mechanism has no impact on transfer pricing. Meanwhile, according to (Rachmat, 2019), the bonus system impacts how corporations implement transfer pricing rules. In addition, there are differences in the study period between (Istiqomah & Fanani, 2020), conducted from 2014 to 2018, and this study, conducted from 2017 to 2021, which may have impacted the results. There are contradictory previous studies conducted by (Prayudiawan & Pamungkas, 2020), (Rachmat, 2019) and (Istiqomah & Fanani, 2020), both on the different research results (accepted and rejected hypotheses), research observation periods, research locations or objects, and several research variables that differentiate this research.



Leverage is another reason why companies use transfer pricing. According to (Nahdhiyah & Alliyah, 2023), leverage is a ratio regarding the company's operational financing from its debt that reflects the value and shows its ability to pay debts with company capital. Increasing debt can give rise to interest expenses for the company. This component can reduce profits before tax, then causing the tax to be paid to decrease. This situation encourages companies to manage debt through transfer pricing to reduce their tax liability and concludes that leverage has a negligible effect on transfer pricing decisions. Unlike the research by (Nahdhiyah & Alliyah, 2023) and (Cledy & Amin 2020), which use the Debt to Equity Ratio (DER) and Debt to Assets Ratio (DAR) to measure the leverage variable, this study uses the Debt ratio to EBITDA (Earning Before Interest, Taxes, Depreciation, and Amortisation). Debt to EBITDA was chosen because the dependent variable studied is related to transfer pricing, which is directly related to sales to related parties and ultimately results in receivables from related parties. At the same time, these sales will be related to calculating the increase and decrease in EBITDA.

Since the manufacturing business is the most listed sector on the Indonesian Stock Exchange and the most active sector in stock trading, this study focuses on manufacturing companies. In addition, industrial companies enjoy the most significant average share price increase compared to other sectors. Manufacturing companies produce sustainably, which requires effective management of company capital and assets to generate substantial revenues and high returns on investment. This is what can encourage investment from investors. The manufacturing industry as an industrial sector is growing rapidly and has a significant transaction value, as can be concluded. This is because stock prices represent a high level of corporate value.

In conclusion, the manufacturing industry as an industrial sector with significant transaction value is growing rapidly. The high level of stock prices illustrates a considerable company value. Therefore, the rapid expansion of the manufacturing business indicates that the stock price will continue to increase.

The research problem is that transfer pricing is a practice prone to shortcuts through existing regulatory loopholes in the framework of profit-making strategies. This makes transfer pricing essential to study and determine what variables can influence it. This study limits the problem to indications of transfer pricing, taxes, tunnelling incentives, bonus mechanisms and leverages that occur in manufacturing companies in Indonesia.

Based on the formulation of the abovementioned problem, this study has four objectives. The first objective is to examine the effect of taxes on transfer pricing indications. The second objective is to examine the effect of tunnelling incentives on transfer pricing indications. The third objective is to examine the effect of the bonus mechanism on transfer pricing indications. The fourth objective is to examine the effect of leverage on transfer pricing indications.

THEORETICAL REVIEW

Definition of Agency Theory. Agency theory explains that an agent fights over the work he has done for the principal. In the cooperative relationship, the principal and agent have goals and expectations of the collaborative relationship. In agency theory, it is known that there is a work contract that regulates the proportion of utility for each party while still taking into account overall benefits. An employment contract is a set of rules

that regulate the mechanism for profit sharing, both in the form of approved profits (returns) and risks by the principal and agent. Apart from that, an optimal work contract is a balanced contract between the principal and the principal. This agent systematically shows optimal implementation of obligations by the agent and the provision of rewards specifically by the principal to the agent. In agency theory, all individuals act in their interests. Shareholders as principals are usually only oriented towards increasing financial results or their investment in the company.

Meanwhile, agents are assumed to receive satisfaction through financial compensation with conditions accompanying the relationship. Because of these differences in interests, each party is trying to increase profits. The principal wants the maximum return as soon as possible on investment, one of which is reflected in the increase in the dividend portion of each share owned through reports presented by management. However, there is often a tendency for management to polish reports. This is to look good so that management performance can look good in the eyes of the company owner (Lesmono & Siregar, 2021).

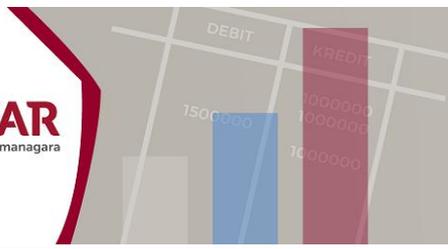
There is the potential for conflict between a company's shareholders and its management because the ownership structure of the organisation affects how the company is managed. Information-based conflicts can arise because managers (agents) can access more information than shareholders. Agency difficulties will manifest differently when the company's shareholder structure is concentrated, i.e., when one party controls the company. When this happens, a conflict of interest occurs between the majority shareholder and the minority, not the manager and the company owner.

Internally, especially with related parties, agents are capable of committing fraud. According to PSAK No. 7 of 2020, parties with the power to influence the decision-making process are considered related. Agency theory views interactions between connected parties as opportunistic transactions. According to this view, transactions can create a conflict of interest between the parties.

The relationship between agency theory and transfer pricing argues that human nature prioritises individual interests. As a result, agency problems occur when parties collaborate in groups with different interests. This can be done, but the actual task is very different. Principals who are not directly involved in agency operations are disadvantaged regarding access to information compared to agents who are actively involved in running the business because agency problems can harm business operations. Agents authorised to manage company assets can damage shareholder interests by using transfer pricing incentives to reduce the tax burden. Therefore, agency theory should reduce the problem of principal-agent conflicts of interest and demand appropriate controls to balance principal-agent conflicts of interest.

Definition of Transfer Pricing. Transfer Pricing in PSAK NO. 7 2010 is a company policy to determine the transfer price of transactions such as goods, services, intangible assets and financial transactions between related parties to maximise profits. On the other hand, the Republic of Indonesia Finance Minister Regulation No. 7/PMK.03/2015 states that transfer pricing determines prices in transactions between parties in a special relationship. This transfer pricing determination is contained in Article 18(3) of the Income Tax Act No. 36 Year 2008 on Income Tax, which gives the Directorate General of Taxation (DGT) the power to determine the taxable income of a





particular taxpayer. Is given. By the ordinary course of business (arm's length principle) unaffected by fair value and privileged relationships, tax business relationship.

Transfer pricing can also be seen as the value of transferring goods or services from one entity to another in a business transaction involving two or more parties with pre-existing business relationships. Transfer pricing reduces the tax burden by shifting company income received in one country to companies connected in another country with lower tax rates to reduce the amount of money the company has to pay in taxes. Transfer pricing can be divided into intra-company and inter-company transfer pricing. Transactions between different departments within a company are known as intra-company transfer pricing. Transactions known as intercompany transfer pricing occur between two businesses that have a unique relationship with each other. Domestic transfer pricing refers to prices used for transactions in one country, while international transfer pricing refers to prices used for transactions involving many countries.

Definition of Tax. According to the Tax Law (Article 1 No. 28 of 2007), a tax is a compulsory contribution to the state for both natural and legal persons, which they are obligated to pay without direct compensation and which can be avoided. It cannot be used for the country's needs and human prosperity. Taxes are defined as public contributions to the state treasury, collected by law and used to pay government expenditures for the benefit of the people without direct compensation. Taxes play an essential role in implementing a country's development because they provide the money the government needs to fund all expenditures, including development expenditures.

By PSAK 46 (2020), the amount of tax expense (tax revenue) for an accounting period is equal to the amount of adjusted accounting profit, current tax and deferred tax (income from deferred tax), which is calculated to determine whether profit or loss is realised for the period accountancy. The main objective of tax strategies for multinational companies is to reduce the global tax burden imposed. Where taxes have a significant impact on a company's net profit and cash flow as a result of its influence on several business decisions, such as those relating to foreign investment, financing, and capital costs. The tax rate is the value used to calculate the amount of tax that taxpayers still have to pay in the country by applicable laws and regulations. This research uses the effective tax rate as the tax rate.

The Effective Tax Rate, or the ETR, is part of the company's total tax rate. Many stakeholders often use ETR to make choices, develop policies, and determine businesses' tax policies. The effective tax rate used to determine tax liability reflects the difference between accounting profit and taxable (fiscal) profit calculation. ETR can be used to set corporate tax rates because it comes from the company's financial data.

Definition of Tunneling Incentive. A tunnelling incentive is the act of a controlling shareholder transferring a company's assets and interests for the benefit of a third party, as well as sharing the burden with minority shareholders. Efforts are made to maximise profits for the majority shareholder. The existence of agency problems between dominant owners and minority shareholders can result in tunnelling because each party has different interests and goals. Tunnelling can be done by selling the company's products to companies that have relationships with managers, using higher prices low compared to market prices, maintaining a position or position their job even if they no longer have it competent again in carrying out business or in selling assets company to the company have a relationship with the party affiliated (Mineri & Paramitha, 2021).



Corporations can divert resources in the direction desired by the primary owner using transactions with related parties. Shifting resources, services or liabilities from a reporting entity to a related party is considered a related party transaction, regardless of whether the reporting entity receives payment for the transfer (PSAK No. 7 of 2020). Through transactions involving related parties, corporations can transfer other assets outside the company at unreasonable prices, especially for the benefit of controlling shareholders. One tunnelling tactic is purchasing goods or services at above-fair prices and reselling them at below-fair prices.

This study's tunnelling incentive variable is based on a majority ownership percentage greater than 25 per cent. Under Article 36 (18) (4) of the Income Tax Act 2008, a special relationship exists if a taxpayer has a direct or indirect interest of at least 25 per cent in another taxpayer. With two or more taxpayers, the ratio between taxpayers with a minimum interest rate is 25 per cent. Alternatively, last, it is two or more taxpayer relationships.

Definition of Bonus Mechanism. Bonuses are part of a permanent employee's income, which is irregular. The regulations are contained in PER-16/PJ/2016 (PER-16/PJ/2016) Article 1 Paragraph 16 of the Director General of Taxes Regulation. According to Article 70 (1) of Law No. 40 of 2007 concerning Limited Liability Companies, tandem is part of the income given to business employees when the company earns a net profit. In SE16/PJ.44/1992 Circular Letter of the Director General of Taxes regarding the distribution of bonuses, gratuities, grants, production services, and bonuses; it is stated that bonuses are part of the profits shareholders give to the directors.

Moreover, commissioners have calculations based on a specific percentage or amount of the company's profits after tax. In addition, the Circular notes that the debate around the distribution of incentives includes gratuities and grants. According to (Mineri & Paramitha, 2021), Bonus awards are determined by the company leader adjusted to the position. One example is the bonus given to company managers or directors. Usually, bonuses are given to managers or directors in the form of a commission, allowances, intensive sales and others. The bonus mechanism calculates the annual bonus amount that will be distributed to board members through the General Meeting of Shareholders (GMS) if the company makes a profit.

In this study, the bonus mechanism variable is measured using the Net Profit Trend Index (ITRENDLB) component, calculated based on the current year's net profit attainment compared to the previous year's. This figure is determined by comparing the current year's performance with the previous year's achievement level. Bases or references, which may be in the form of theories or insights obtained from previous investigations, are fundamental and can serve as sources of support. In this case, the orientation of past research is used as a reference for issues related to transfer pricing. Therefore, researchers use the internet to search for research findings published in papers and journals. Based on previous research, it is proven that most of the transfer pricing variables can affect other variables.

Definition of Leverage. Debt funds are used to increase equipment purchases to increase production, employee numbers, or business expansion. Therefore, the results obtained are more significant. Leverage, proxied by the ratio of total debt to total assets, is applied to estimate the amount of company assets financed by debt funding sources. The high ratio reflects the increasing level of loans for investment in assets. This also



reflects that the company is at high financial risk, and payment difficulties may occur, which can reduce the quality of profits if accompanied by optimal debt and asset management (Desyana et al., 2023).

An entity is said to be highly leveraged if its total assets are less than the total assets of its creditors. (Nahdhiyah & Alliyah, 2023) stated in their research paper that leverage can be used to determine whether an entity is performing well or not. The higher the leverage, the higher the risk of the company defaulting on its creditors; therefore, transfer pricing arrangements are needed.

The Effect of Taxes on Transfer Pricing Indications. Tax payment is one of the reasons why companies charge transfer prices. Companies implement transfer pricing to evade taxes due to high tax rates in a country. Transfer pricing practices are frequently used to lessen the tax that must be paid. Increased tax pressures encourage companies to transfer pricing, hoping to reduce the burden. According to (Rachmat, 2019), one of the reasons for business actors to implement transfer pricing is to lessen tax obligations. Through transfer pricing, businesses can increase their profits while reducing their tax burden. Tax motivation for transfer pricing in multinational companies is done by shifting tax obligations to lower tax rate countries where the company has a functioning group or division. When a corporation has a subsidiary in the country concerned, transfer pricing is used by multinational corporations to reduce their tax burden obligations imposed on companies worldwide.

Based on the conclusions of the research by (Yulia et al., 2019), taxes impact the application of transfer pricing in manufacturing corporations. According to (Cledy & Amin, 2020), tax significantly and positively influences corporate transfer pricing decisions. However, according to the conclusion of a study conducted by Novira, Suzan, and Asalam (Novira et al., 2020), taxes have little effect on transfer pricing. Consequently, the following hypotheses can be presented based on the findings of several previous studies:

H1: Taxes have a significant effect on transfer pricing indications.

Effect of Tunneling Incentive on Transfer Pricing Indications. According to research by (Istiqomah & Fanani, 2020), tunnelling incentives significantly impact transfer pricing. The tunnelling incentive symbolised by the majority share indicates if the presence of the controlling shareholder influences the transfer price decisions made by management. The majority owner of the corporation can take advantage of transactions involving related parties as a tunnelling opportunity. Related party transactions for the benefit of the controlling shareholder may take the form of a sale or acquisition to transfer cash or short-term assets of the company at an excessive price. Research by (Purwanto & Tumewu, 2018) shows that tunnelling incentives influence transfer pricing estimates. However, according to a study by (Ayshinta et al., 2019), tunnelling incentives do not significantly impact a corporation's decisions to do transfer pricing. Based on many previous studies, the following hypotheses can be developed:

H2: Tunneling incentive has a significant effect on transfer pricing indications.



The Effect of the Bonus Mechanism on Transfer Pricing Indications. According to the research findings of (Rachmat & Abdul, 2019), the bonus system can influence transfer pricing decisions made by companies. Giving bonuses to management can be a practical approach to motivate management or directors to improve company performance. Meanwhile, management improves the corporation's financial performance by affecting its bonuses and overall performance. Directors may use the company's annual profit increase to improve company performance. Therefore, earnings management, or financial statement engineering, is the simplest method to achieve this goal. Generally, transfer pricing is considered a tactic that can be used to increase the predicted revenue. Managers will increase their earnings reporting by increasing their net profit if bonuses are linked to company profits and the Net Profit Trend Index (ITRENDLB) is used to calculate it. One is changing the structure of related party transactions (RPT) or transactions between related parties. Among the strategies for generating these profits are related party transactions. Based on the conclusions of the research by (Istiqomah & Fanani, 2020), the bonus mechanism has a significant positive effect on transfer pricing transactions. However, according to a study conducted by (Prayudiawan & Pamungkas, 2020), the bonus system does not affect transfer pricing decisions. Referring to the findings of previous studies, the following hypotheses can be formulated:

H3: The bonus mechanism has a significant effect on transfer pricing indications.

Effect of Leverage on Transfer Pricing. Leverage is a debt policy carried out by the entity for business progress both in terms of finance and in achieving the overall objectives of the entity. The entity carries out leverage with the risk of paying debt interest obligations. In a previous study, (Cledy & Amin, 2020) showed that leverage had a negative but insignificant effect on the company's decision to do transfer pricing. (Azhar & Setiawan, 2021) observed in a previous study that leverage does not positively affect transfer pricing.

On the other hand, (Louw, 2020) stated that leverage positively affects transfer pricing decisions. The greater the leverage, the less likely the company will be involved in transfer pricing indications. The purpose of this study is to investigate the effect of leverage on the transfer pricing indicator so that it can be postulated:

H4: Leverage has a significant effect on transfer pricing indications.

Research Model. The previous discussion regarding the big picture of taxes, tunnelling incentives, bonus mechanisms and leverage in a company's decision to apply transfer prices led to the development of the following framework, whose research model is presented in **Figure 1**. This framework is based on the findings presented in the previous discussion. According to the research model, the independent factors, namely taxes, tunnelling incentives, bonus mechanisms, and leverage, are expected to significantly affect the dependent variable, referred to as transfer pricing.

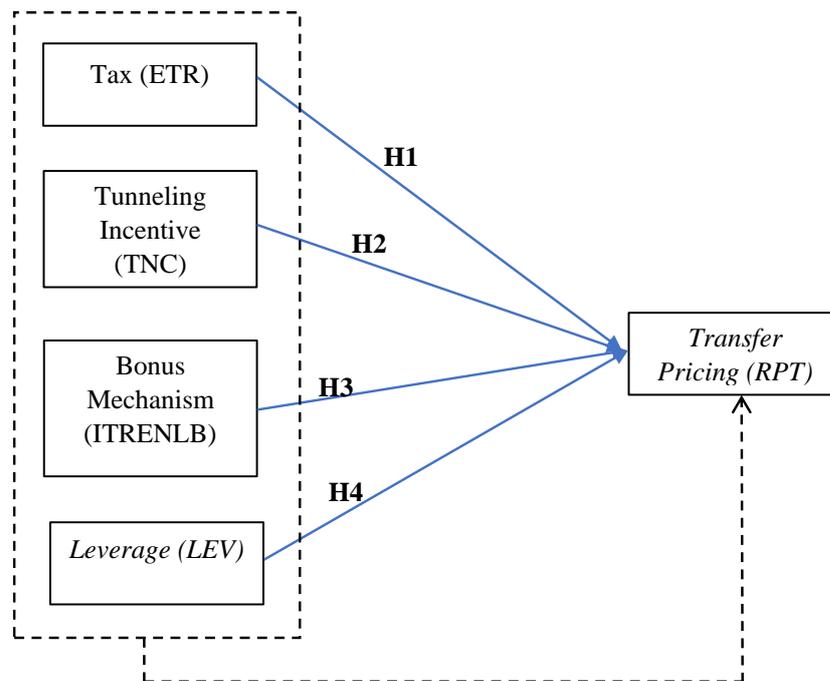


Figure 1. Research Model

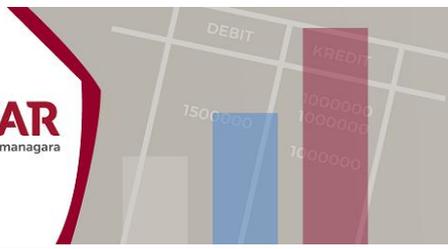
METHODS

Research Design. This research project uses an associative quantitative design. Associative design is a study formulation that investigates the relationship between two or more variables. According to (Sekaran, 2017), quantitative research methods involve using random sampling procedures, research tools for data collection, and quantitative or statistical data analysis for problem-solving, which aims to evaluate hypotheses derived from calculations and measurements.

Data Types and Sources. Secondary data refers to this type of research data. Secondary data includes information from existing sources, such as original data collection (Sekaran, 2017). The secondary data comes from the annual financial reports of manufacturing companies listed on the Indonesian Stock Exchange between 2017 and 2021. The report is available online at www.idx.co.id. In addition, additional data and materials were collected from additional studies, journals, and websites.

Method of Collecting Data. The data collection method uses documentary techniques, namely collecting, recording, and reviewing the financial statements of manufacturing companies published on the Stock Exchange Indonesian securities and various other sources relevant to transfer pricing. The documentary method is a data collection process that captures, collects, and validates financial report data, using the website URL www.idx.co.id to search for information online and obtain secondary data, including annual financial reports.

Population and Research Sample Population. The population is a broad category that can be further divided into individuals or subjects with specific qualities and characteristics identified by the researcher so that they can be analysed and then



concluded (Sekaran, 2017). Manufacturing companies listed on the Indonesian Stock Exchange from 2017 to 2021 and publishing their annual financial statements on the Indonesian Stock Exchange constitute the population of this study.

Sample. The sample represents the population in terms of its number and characteristics. It may be necessary for a researcher to use a sample obtained from a population if the population is large and he or she cannot examine every aspect of that population for some reason, such as limited resources (financial, human, or time), or because the population itself is too large. Purposive sampling, also known as a sampling method that is carried out based on the determination of the criteria and characteristics of the population that has been carried out previously to produce data that represents the population, is used in the sample collection process (Sekaran, 2017). Select samples according to the following criteria: (1) Manufacturing companies listed on the Indonesia Stock Exchange for 2017 to 2021; (2) The Company routinely prepares financial reports for 2017 to 2021; (3) A majority shareholder owns the corporation with at least 25 per cent of the shares; (4) In the 2017 to 2021 financial year the company does not lose money; and (5) The company has receivables from related parties during the research period.

Operational Definition of Variable-Transfer Pricing (RPT). Transfer pricing is determined based on the Related Party Transaction (RPT) value. A related party transaction transfers resources, services or obligations between the reporting entity and the related party, whether billed or not (PSAK Number 7. Year 2010). The RPT indicators are Receivables from Related Party Transactions / Total Account Receivable.

Operational Definition of Variable - Tax (ETR). Tax variables are measured using the effective tax rate (ETR). ETR is the percentage of the tax rate charged by the entity. ETRs are also often used by stakeholders as a basis for decision-making and policy-making, as well as to determine the tax management applied by an entity. ETRs are evaluated based on financial information prepared by the company. ETRs are a form of corporate tax rate calculation. The effective tax rates are used to measure the effect of tax policy changes on a company's tax burden. The ETR indicators used are Income Tax / Income Before Tax.

Operational Definition of Variable - Tunneling Incentive (TNC). The tunnelling incentive variable in this study is based on capital levels above 25 per cent. This is based on Article 18(3) of Income Tax Act No.36 of 2008. A special relationship occurs when there is direct or indirect ownership in the form of 25 per cent or more equity participation. This tunnelling incentive (TNC) amount is measured using a ratio scale described below (Ratna & Wibowo, 2018). The TNC indicator is The Largest Number of Shareholdings / Number of Shares Outstanding.

Operational Definition of Variable - Bonus Mechanism (ITRENLB). Bonuses are additional compensation given by company owners to directors for achieving the targeted goals. Bonuses granted may be commissions, benefits, employee benefits, and sales incentives. The bonus mechanism is measured by calculating the Net Profit Trend Index (ITRENDLB). The net income change index is calculated based on a percentage of net income for years t to $t-1$. The ITRENLB indicators are $(\text{Net Profit for the Year } t / \text{Net Profit for Year } t-1) \times 100$ per cent (Istiqomah & Fanani, 2020).

Operational Definition of Variable - Leverage (LEV). Financial Leverage Ratios help measure a company's ability to repay long-term and short-term debt. High levels of



debt indicate that the company is very dependent on outside capital to finance the company's assets. So, the more debt the company has, the more interest it pays. This variable is measured with the ratio of Debt to EBITDA (Earning Before Interest, Taxes, Depreciation, and Amortisation) (Kania, 2022). The leverage used is Debt / EBITDA.

Data Analysis Technique. Multiple regression analysis was used for analysis. Multiple regression analysis looks at the linear relationship between two or more independent variables and the variable being analysed (the dependent variable). This analysis determines whether each independent variable has a positive or negative relationship with the dependent variable. If it is determined that each independent variable does have such a relationship, it can determine the direction of the relationship between the independent and dependent variables. We can also predict the value of the dependent variable depending on whether the values of the independent variables are increasing. When data are used, they are often presented on an interval or ratio scale. The multiple linear regression model is correct to apply to data that meet normative standards without several assumptions because the model best represents reality. The multiple linear regression equation in this study is as follows:

$$RPT = \alpha + \beta_1 ETR + \beta_2 TNC + \beta_3 ITRENDLB + \beta_4 LEV + \varepsilon \dots\dots\dots (1)$$

Explanation. RPT is equal to Transfer Pricing (Dependent Variable). α is equal to Konstanta. β_1 , β_2 , β_3 and β_4 are equal to Regression Coefficient. ETR is equal to Tax (Independent Variable). TNC is equal to the Tunneling Incentive (Independent Variable). ITRENDLB is equal to the Bonus Mechanism (Independent Variable). LEV is equal to Leverage (Independent Variable). ε is equal to Error.

RESULTS

Descriptive Statistics. The transfer pricing variable (RPT) produces an average value of 0.386 with a standard deviation 0.308. The deviation values are smaller than the average, so the transfer pricing variable varies. The tax variable (ETR) produces an average value of 0.246 with a standard deviation 0.062. The deviation value is smaller than the average value, which means the tax has a slight deviation. The tunnelling incentive variable (TNC) has an average value of 0.551 with a slight deviation of 0.230. The bonus mechanism variable (ITRENDLB) produces an average value of 1.120 with a smaller deviation of 0.431. Meanwhile, the leverage variable (LEV) has an average value of 3,219 with a smaller deviation value of 1.591. The variables have deviation values smaller than the average, meaning the model varies significantly.

Classical Assumption Test Results. Normal Probability Plot and Kolmogorov-Smirnov Test using a significance threshold of 0.050 to determine whether the residuals are normally distributed; see the following p-plot illustration below:



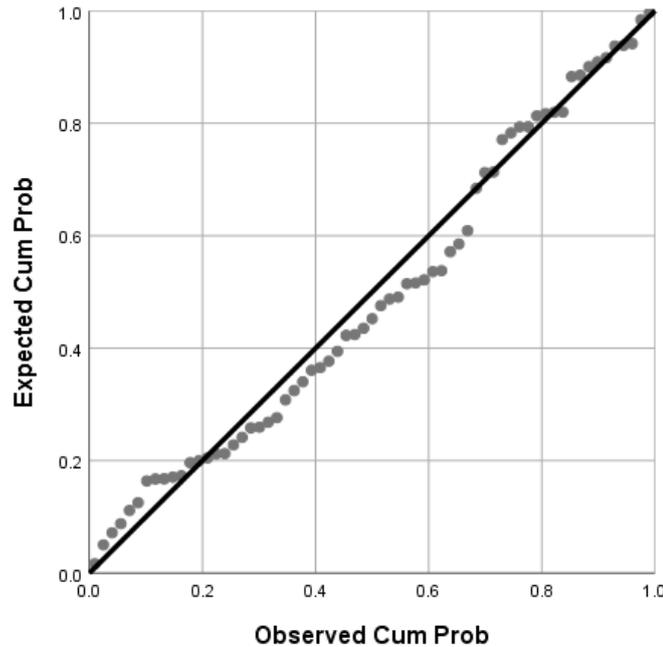


Figure 2. P-Plot Normality
 Source: Results of Data Processing 2022

Figure 2 shows the plot values on the P-Plot graph around and along the diagonal. Kolmogorov-Smirnov Asymp test value. Sig (2-tailed) 0.200 greater than 0.050. The data or residuals for this study are normally distributed.

Multicollinearity test by looking at the VIF value. The VIF value of the tax variable (ETR) is 1.047; The VIF of the tunnelling incentive variable (TNC) is 1.311; The VIF of the bonus mechanism variable (ITRENDLB) is 1.053, and the VIF of the leverage variable (LEV) is 1.307. VIF value for all independent variables smaller than ten means that the research model does not occur multicollinearity between independent variables with each tolerance value being above 0.100, namely ETR worth 0.955; TNC worth 0.763; ITRENLB is worth 0.950, and LEV is worth 0.765.

Hypothesis Test Results. Hypothesis testing is done to determine whether a hypothesis is rejected or accepted, specifically its impact contribution. The results of this test are summarised in **Table 1**, which explains the results of the regression equation as follows:

$$RPT = \alpha + \beta_1ETR + \beta_2TNC + \beta_3ITRENDLB + \beta_4LEV + \varepsilon \dots\dots\dots (2)$$

$$RPT = 1.216+(1.530ETR) + (0.698TNC) + (0.140ITRENDLB) + (0.071LEV) + \varepsilon \dots (3)$$



Table 1. Summary of R2 Test Results², F-Test and T-Test

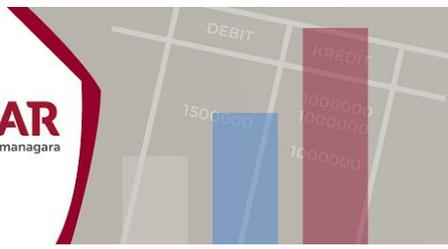
N = 65	F	Probability F	R-squared	Adj. R-squared
Score	7.984	0.000	0.347	0.304
Model RPT	Coefficient B	Std. Error	t- statistics	Probability (Sig.)
(Constant)	1.216	0.206	5.901	0.000
ETR	-1.530	0.531	-2.881	0.005
TNC	-0.698	0.160	-4.364	0.000
ITRENDLB	0.140	0.077	1.835	0.071
LEV	-0.071	0.023	-3.056	0.003

The multiple linear regression equation results produce a constant value of 1.216 with a positive sign, indicating that if the variables of tax, tunnelling incentive, bonus mechanism, and leverage are 0 or constant, the transfer pricing value will increase by 1.216. Tax variable coefficient -1.530; it can be explained that if this variable increases by 1 per cent or 1 unit, transfer pricing will decrease by 1.530, assuming other variables are constant. Tunnelling incentive variable coefficient -0.698 shows that if there is an increase in this variable by 1 per cent or 1 unit, the transfer pricing will decrease by 0.698, assuming other variables are constant. The coefficient of the bonus mechanism variable is 0.140; it shows that if this variable increases by 1 per cent or 1 unit, transfer pricing will increase by 0.140, assuming other variables are constant. The leverage variable coefficient -0.071 shows that if this variable increases by 1 per cent or 1 unit, transfer pricing will decrease by 0.071, assuming other variables are constant.

Coefficient Determination Test. The percentage of the influence of the independent variable on the dependent variable with an Adjusted R Square value of 0.304 explains that the coefficient of multiple determination is 0.304 x 100 per cent, which is equal to 30.400 per cent, meaning the remaining 100 per cent minus 30.400 per cent is equal to 69.600 per cent. This means that the independent variables affect the transfer pricing dependent variable's increase or decrease, namely tax, tunnel incentive, and 30.400 per cent bonus mechanism. Other variables influence the remaining 69.600 per cent.

Simultaneous Effect Test. The significance of the F test is 0.000 below 0.050, which means that the independent variables simultaneously affect the indication of transfer pricing. Based on table 1 with $df = n - k - 1$ (65 - 4 - 1), the F table is 2.513, so the calculated F value is 7.984, greater than the F table 2.513. Therefore, this research model is viable.

Partial Effect Test. The criterion for this t-test is a significance smaller than 0.050, and the hypothesis is accepted. This means that the independent variable significantly influences the dependent variable. The following are the t-test results, as shown in Table 1. The significant value of the tax variable (Sig.) is 0.005, smaller than 0.050. This means that taxes have a significant impact on transfer pricing disclosures. H1 accepted, and there are similarities with the previous hypothesis, namely that taxes significantly impact transfer pricing disclosures. The tunnelling incentive variable has significant values (Sig.) 0.000 smaller than 0.050. The 0.050 tunnelling incentive variable has a significant impact on transfer pricing indications. H2 accepted, and there are similarities with the previous hypothesis; this means that tunnelling incentives significantly impact transfer pricing disclosures. The significance value (Sig.) of the bonus mechanism variable is 0.071,



which is greater than 0.050, which means the bonus mechanism variable does not affect the transfer pricing indications. H3 was rejected, and there is a difference with the previous hypothesis that bonus mechanisms significantly impact transfer pricing indications. The leverage variable has a significant value (Sig.) of 0.003, smaller than 0.050, meaning that the leverage variable significantly impacts transfer pricing indications. H4 is accepted, and there are similarities with the previous hypothesis, namely, that leverage significantly impacts transfer pricing indications.

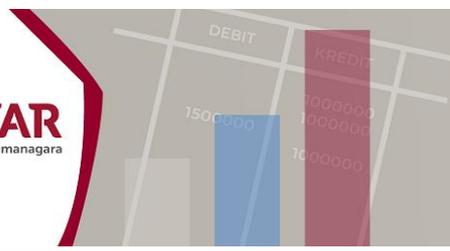
DISCUSSION

The Effect of Taxes on Transfer Pricing Indications. Hypothesis testing on the tax variable obtained a significant value of 0.005, smaller than 0.050. Therefore, H1 is accepted; taxes significantly impact transfer pricing indications. At PT Aneka Gas Industri, Tbk (AGII) in 2020, which has a low ETR (Effective Tax Rate) value of 3.829 per cent, there is an indication of transfer pricing as measured by a reasonably high RPT (Related Party Transaction) value of 40.320 per cent during PT. Indopoly Swakarsa Industry, Tbk (IPOL) in 2018, which has a higher ETR (Effective Tax Rate) value of 33.576 per cent, there is an indication of transfer pricing as measured by a low RPT (Related Party Transaction) value of 9.204 per cent. When the tax burden is high, the indication of transfer pricing is low because increasing receivables from related parties by increasing sales to related parties results in an increase in profit, which leads to an increase in tax burden. Companies reduce sales to related parties, lowering RPT and tax burden.

By using the ETR proxy to calculate the percentage of the tax rate borne by the company, the increase in the value of ETR is followed by an indication that companies will tend to do tax avoidance to minimise the tax burden they pay by doing transfer pricing because the company has to pay high tax rates (Hertanto et al., 2023). The results are consistent with the study by (Rachmat, 2019), showing that taxes influence transfer pricing—many multinational companies practice transfer pricing to minimise the taxes they have to pay. As for companies, transfer pricing is said to increase company profits because it can reduce the tax burden (Rachmat & Abdul, 2019). The results contradict Novira, Suzan, and Asalam (Novira et al., 2020) research.

Effect of Tunneling Incentive on Transfer Pricing Indications. Testing hypotheses about tunnelling incentive variables yielded significant values (Sig.) of 0.000, smaller than 0.050. Therefore, H2 was accepted. This means that tunnelling incentives have a significant impact on transfer pricing indications. The results are consistent with the study of (Istiqomah & Fanani, 2020), showing that tunnelling incentives influence transfer pricing in the sample company PT. Unilever Indonesia, Tbk (UNVR) in 2021, which has the most significant share ownership proportion of 84.991 per cent, indicates low transfer pricing as measured by the RPT (Related Party Transaction) value of 9.670 per cent while PT. Mayora Indah, Tbk (MYOR) in 2021, which has the most significant share ownership proportion of 32.931 per cent, there is an indication of transfer pricing with a high RPT value of 91.339 per cent. When the tunnelling incentive is high, the indication of transfer pricing is low because increasing receivables from related parties by increasing sales to related parties results in an increase in profit, which leads to a high tax burden which is not in line with the original tunnelling objective, namely minimising





transaction costs. This will reduce the value of the assets owned. Companies reduce sales to related parties, lowering RPT and tax burden.

Agency theory explains that agency problems arise from conflicts between majority and minority shareholders. In multinational corporations, the company's major shareholders and management can take actions that may harm the government and minority shareholders. Companies with concentrated ownership or partial ownership tend to have a tunnelling effect. If shareholders have large shares in a company, they naturally also want large profits or dividends. Thus, when dividends are distributed to minority shareholders, majority shareholders prefer to pass the price by transferring company assets to their benefit rather than paying dividends to other shareholders.

Major shareholders apply tunnelling incentives to achieve personal gain and transfer of resources from the company. Companies run this tunnelling with the goal of minimising transaction costs. Stakeholder tunnelling can reduce costs and is economical compared to unrelated parties (Hertanto et al., 2023). The results contradict the study of (Ayshinta et al., 2019), which shows that tunnelling incentives do not have a material impact on the company's decisions on transfer pricing.

The Effect of the Bonus Mechanism on Transfer Pricing Indications. The hypothesis test for the bonus mechanism variable was significant (Sig.) 0.071, greater than 0.050. So, H3 was rejected; the bonus mechanism does not affect the price transfer indications. The results of this study support the study of (Prayudiawan & Pamungkas, 2020), which shows that the reward mechanism does not affect the transfer pricing decision. This shows that the monetary bonus does not affect the decision to implement transfer pricing. Management cannot use the bonus mechanism as a strong reason when considering implementing transfer pricing. The company's owner will see the directors' performance in managing the company as a whole as a consideration in giving bonuses. However, this result differs from research by (Istiqomah & Fanani, 2020), which shows the opposite: the bonus mechanism affects transfer pricing. Management applies transfer pricing to maximise company profits. High profits will show good management performance. If the performance is good, management can get a big bonus.

In the sample company PT. Fajar Surya Wisesa, Tbk (FASW), there are indications of transfer pricing with an RPT value in the 2017 period of 21.219 per cent and the 2018 period decreasing to 13.076 per cent, while the company's profit tends to increase with the ITRENDLB value (Net Profit Trend Index) in 2017 of 76.588 per cent to 235.852 per cent in 2018. Different conditions occurred in 2020 and 2021, where RPT increased from 15.003 per cent to 24.351 per cent, and ITRENDLB also increased from 36.466 per cent in 2020 to 174.052 per cent in 2021. This suggests that the bonus mechanism has no impact on transfer pricing indications. This happens because the company's profits are not the basis for giving bonuses. High profits do not necessarily lead to high bonuses for directors. In addition, carrying out transfer pricing practices to get a bonus does not benefit the company but only benefits the bonus recipient (Istiqomah & Fanani, 2020).

Effect of Leverage on Transfer Pricing Indications. Hypothesis testing on the leverage variable obtained a significant value (Sig.) of 0.003, smaller than 0.050. So, H4 is accepted, meaning that leverage significantly impacts transfer pricing indications. This result is consistent with (Rachmat, 2019), which shows that leverage impacts transfer pricing. The greater the company's debt, the smaller the transfer pricing. This result also aligns with the research of (Louw, 2020), who concluded that leverage significantly



impacts transfer pricing. However, these results are inconsistent with the study of (Azhar & Setiawan, 2021), where leverage is not a driving factor for multinational companies to practice transfer pricing.

The sample company PT Indofood Sukses Makmur, Tbk (INDF) in 2019 has a leverage value of 331.474 per cent; there is an indication of transfer pricing as measured by an RPT value of 25.229 per cent while PT Wilmar Cahaya Indonesia, Tbk (CEKA) in 2019 which has a lower leverage value of 84.468 per cent there is an indication of transfer pricing with a higher RPT value of 70.319 per cent. Using a leveraged proxy to calculate the percentage of debt borne compared to EBITDA, high leverage will lead to a tendency to increase EBITDA or reduce debt so that leverage decreases. When there is a tendency to increase profits, the company will think about the risk of the tax burden, which will also increase, then conducting sales transactions to related parties will be limited and more focused on reducing purchases from related parties so that the leverage value also decreases.

CONCLUSION

Three of the four proposed hypotheses are accepted, and one is rejected. The accepted hypotheses are the first, second and fourth hypotheses. The first hypothesis is that taxes significantly impact transfer pricing indications. The second hypothesis is that tunnelling incentives significantly impact transfer pricing indications. Likewise, leverage has a significant impact on transfer pricing indications. In contrast, the third hypothesis is that the bonus mechanism does not affect transfer pricing indications. Simultaneous test results on the four variables produce a significance value of less than 0.050, and the value of the coefficient of determination Adjusted R Square is 0.304 or 30.400 per cent, which means that taxes, tunnelling incentives, bonus mechanisms and leverage simultaneously have a significant effect on transfer pricing indications.

In conducting this research, some obstacles caused gaps that must be addressed. In addition, this study also has some limitations. The first limitation is that this study's transfer pricing representation differs from the metric used to measure transfer pricing. The size of the RPT with the indicator of receivables with related parties as a proxy for transfer pricing in this study is not considered an accurate measure because it is a perception. The second limitation is more theory and resources regarding transfer pricing and bonus mechanisms. Researchers need help identifying the theory that can underlie this research. The third limitation is that the Adjusted R Square value of this study is still relatively low, namely 0.304, indicating that the variables of tax, tunnelling incentive, bonus mechanism and leverage only affect the company's decision to transfer pricing by 30.400 per cent, meaning that there are other variables of 69.600 per cent outside of this study which can still affect the transfer pricing variable.

Based on the limitations of this study, future researchers are likely to present better research results. Further researchers can involve research samples from other non-manufacturing sectors such as trade, mining, finance, and others. It is hoped that further researchers can add other variables to improve the results of Adjusted R Square. With a higher Adjusted R Square, the variables studied in one study can be assumed to have a more significant impact than other variables not examined. Future researchers may add other variables influencing transfer pricing decisions, such as exchange rates and debt



covenants. In addition to the two things mentioned above, future researchers can use a more extended research period because the longer the research period, the more likely it is to get better results and further enrich our knowledge, especially regarding transfer pricing.

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