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THE EFFECT OF TAXES, TUNELLING INCENTIVES, AND BONUS MECHANISMS ON TRANSFER PRICING WITH FOREIGN OWNERSHIP AS A MODERATION VARIABLE

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ABSTRACT

The purpose of this study was to determine the effect of sales growth, tax aggressiviness, operating capacity, on financial distress with institutional ownership as moderating. Researchers use quantitative research. The population in this study were all companies in manufactur sector listed on the Indonesia Stock Exchange totaling 201 companies which were always listed for 4 consecutive years. The sample was selected using purposive sampling and obtained 64 research objects. The results of the study sales growth, and tax have an effect on financial distress, while operating capacity have no effect on financial distress.institutional ownership as moderating is able to strengthen the effect influence of the sales growth, and tax aggressiviness on the financial distress, meanwhile insitutional ownership is not able strengthen the effect infuence of the operating capacity on the financial distress.

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INTRODUCTION

The development of transfer pricing cannot be separated from globalization. Globalization plays a role in reducing or even eliminating barriers between countries in order to facilitate the flow of goods, services, capital and human resources between countries. Rapid advances in technology, transportation and communications make it easy for multinational companies to locate their businesses in any country in the world. In fact, most international trade transactions currently involve multinational companies in one group (intra-group transactions). In its development, international trade transactions involving multinational companies in one group have become increasingly complex, involving not only goods, but also capital, services and immovable property (for example intellectual property). In the end, this complexity results in complexity in analyzing and understanding these transactions, including for tax purposes (Kurniawan, 2015).

Regulations regarding transfer pricing issues related to taxation are contained in Law Number 36 of 2008 article 18 concerning Income Tax (UU PPh). Article 18 paragraph (3) of the Income Tax Law explains that the Directorate General of Taxes has the authority to re-determine the amount of Taxable Income (PKP) for taxpayers who have special relationships with other taxpayers in accordance with the fairness and customs of business which is not influenced by special relationships (arm's length principle) using the price comparison method between independent parties. Usually, a transaction that occurs when it involves parties who are independent of each other (no special relationship) and the price formed is determined by market forces (the law of supply and demand). If the transaction involves parties who have a special relationship (associated enterprises), then the price that is formed could be unreasonable, because market forces do not apply as they are. In such situations, it is important to determine the appropriate transfer price, which can be accepted by all parties if the transaction involves companies in the same group (intra-group transactions) which are affected by a special relationship.

However, in practice transfer pricing is used by several multinational companies to avoid large tax levies by carrying out transactions with related parties from countries with high taxes to countries with lower tax rates. In this research it occurred at PT. Toyota Motor Manufacturing Indonesia (TMMIN) experienced a tax underpayment of 500 billion, due to corrections made by the Director General of Taxes. Initially the company was merged with Toyota Astra Motor (TAM) between assembly and distribution. Where the cars produced by TMMIN are sold to TAM, then TAM sells them to Auto 2000, and from Auto 2000 they sell to consumers. Before splitting, profit before tax increased by 11% - 14% per year, but after splitting, TMMIN's profit before tax was only 1.8% - 3% per year and TAM was 3.8% - 5% per year. This is strange, even though profits fell, production and sales turnover that year increased by 40%. TMMIN as a subsidiary company was burdened with losses because it purchased raw materials at unreasonable prices, and made sales to related parties at unreasonable prices. It can be concluded that the company has carried out transfer pricing practices to reduce the tax burden by playing with transaction prices with related parties.

Several studies on transfer pricing have been carried out by previous researchers, but there are still several differences. The research results of Refgia (2017) and Saraswati & Sujana (2017) show that taxes influence a company's decision to carry out transfer pricing. In contrast, research conducted by Mispiyanti (2015) shows that taxes do not have a significant effect on a company's decision to carry out transfer pricing. The results of research conducted by Mispiyanti (2015) and Noviastika, et al (2016) show that Tunneling Incentive has a significant effect on a company's decision to carry out transfer pricing. In contrast, research conducted by Marisa (2017) shows that tunneling incentives have a negative effect on a company's decision to carry out transfer pricing. The results of research conducted by Hartati, et al (2014) show that the bonus mechanism has a significant influence on the company's decision to carry out transfer pricing. In contrast, research conducted by Wafiroh & Hapsari (2015) and Mispiyanti (2015) shows that the bonus mechanism does not have a significant effect on the company's decision to carry out transfer pricing.

Referring to the phenomenon and previous research, there are still limitations and inconsistent research results. This is what makes the author interested in conducting research on transfer pricing. The aim of this research is to test whether taxes, exchange rates, tunneling incentives and bonus mechanisms influence a company's decision to carry out transfer pricing.

THEORY AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory (Agency Theory) provides an overview of what is possible and what can happen both between the agent (manager) and the principal (shareholder) or between the principal (shareholder) and the lender Sutedi (2012, p. 15). Saraswati & Sujana (2017) say that agency conflict arises due to information asymmetry between company owners and managers where individual goals tend to always be prioritized by managers over company goals. With the authority given by shareholders to managers, the assets of the entity are managed by managers so that managers have the opportunity to carry out special relationship transactions to carry out tax management.

Research conducted by Rahadian (2015), Refgia (2017) shows that foreign ownership has a significant positive effect on transfer pricing practices. This is because the higher the control rights possessed by the controlling shareholder, the more likely it is for the controlling shareholder to order management to carry out transactions with related parties that are expropriative in nature. One way is to carry out transfer pricing. When the controlling shareholder is owned by a foreign company, the foreign controlling shareholder can sell products from the company he controls to his private company at a cheaper price and harm the non-controlling shareholder (Kiswanto, Purwaningsih 2014).

Positive Accounting Theory

Positive accounting theory relates to predictions, namely the act of selecting accounting policies by a company and how the company will respond to proposing new accounting standards. Positive accounting theory explains why companies choose accounting policies as part of the deep problem of minimizing contract costs and to achieve corporate governance efficiency. Positive accounting theory assumes that rational managers (like investors) will choose accounting policies that they think are good Rahmawati (2012, p. 86). Saraswati & Sujana (2017) state that positive accounting theory can also be used as a reference that functions to explain how accounting procedures are chosen by managers so that they can maximize profits to pursue bonuses set by the company owner. If the bonuses received by managers are based on the company's overall profit achievement, it is logical for managers to report the highest possible net profit.

Transfer Pricing

According to Suandy (2016, p. 77), the meaning of transfer prices can be divided into two, namely a neutral meaning and a pejorative meaning. The neutral understanding assumes that transfer pricing is purely a business strategy and tactic without the motive of reducing the tax burden. Meanwhile, the pejorative understanding assumes transfer prices are an effort to save tax burdens with tactics, including shifting profits to countries with low tax rates. Kurniawan (2015, p. 1) states that transfer pricing in general is a company policy in determining the price of a transaction between parties who have a special relationship. Even though the term transfer pricing is actually a neutral term, in practice the term transfer pricing is often interpreted as an effort to minimize taxes by shifting prices or profits between companies in the same group.

Tax

According to Law Number 16 of 2009 concerning General Provisions and Procedures for Taxation: "tax is a mandatory contribution to the state owed by an individual or body that is coercive based on the law, without resulting in a direct imbalance and is used for state needs for the greatest prosperity of the people." Suandy (2016, p. 1) states that for the state, taxes are an important source of revenue which will be used to finance state expenditure, both routine expenditure and development expenditure. On the other hand, for companies, taxes are a burden that will reduce net profit.

Tunneling Incentive

According to Hartati (2014) Tunneling incentive is a behavior of majority shareholders who transfer company assets and profits for their own benefit, but the costs are borne by minority shareholders. According to Wafiroh & Hapsari (2015) Tunneling can be done by selling company products to companies that have relationships with managers at lower prices compared to market prices, maintaining their position/job title even though they are no longer competent or qualified in running their business or selling company assets to companies that have a relationship with the manager (affiliated party).

Bonus Mechanism

Refgia (2017) states that the bonus mechanism is additional compensation or rewards given to employees for successfully achieving the goals targeted by the company. The profit-based bonus mechanism is the method most often used by companies to reward directors or managers. So, based on the level of profit, directors or managers can manipulate these profits to maximize bonus receipts. Hartati, et al (2014) stated that the bonus mechanism is a strategy or calculation motive in accounting to maximize compensation received by directors by increasing overall company profits. Considering that bonuses are given based on the size of profits, it is logical that directors try to take action to regulate and manipulate profits in order to maximize the bonuses and remuneration they receive. However, as a result of transfer pricing practices, it is possible that losses will occur in one of the divisions or submissions.

Foreign Ownership

Article 1 paragraph 6 of Law Number 25 of 2007 states that foreign investors are individuals or foreign citizens, foreign business entities and/or foreign governments who invest in the territory of the Republic of Indonesia. The amount of foreign ownership referred to is the number of shares owned by foreign parties. Meanwhile, the total shares outstanding are the total number of shares issued by the company (Anggraini, 2011).

In this research on transfer pricing, more emphasis is placed on the existence of foreign ownership as controlling shareholders in the company, because transfer pricing is mostly transactions related to foreign parties.

The Influence of Taxes on Company Decisions to Conduct Transfer Pricing

According to Noviastia, et al (2016), tax motivation is one of the reasons manufacturing companies carry out transfer pricing by carrying out transactions with affiliated companies outside national borders where tax rates are lower. Companies carry out transfer pricing in their tax planning to minimize taxes paid. Therefore, the higher the tax burden that a company's savings consume, the more it will trigger transfer pricing practices to minimize the tax burden that will later be paid. Based on previous research conducted by Noviastika, et al (2016), Refgia (2017), and Saraswati & Sujana (2017), it shows that taxes have a positive effect on a company's decision to carry out transfer pricing.
H1: Taxes influence a company's decision to carry out Transfer Pricing.

The Effect of Tunneling Incentives on Company Decisions to Conduct Transfer Pricing

Refgia (2017) states that the emergence of tunneling is due to agency problems between majority shareholders and minority shareholders. This is caused by the different interests and goals of each party. Share ownership that is concentrated in one party or one interest will provide the ability to control the business activities of the company in question

under his control. If the practice of transfer pricing in tunneling is carried out by a subsidiary company by selling supplies to the parent company at prices far below market prices, this will automatically affect the income earned by the subsidiary company, resulting in the company's profits being smaller than they should be. Or even if the subsidiary company buys supplies from the parent company at a price that is much more expensive than the fair price, then charging raw material costs will also greatly affect the profits that will be obtained by the subsidiary company, and this will be very profitable for the parent company, which is none other than majority shareholder of the subsidiary company. Therefore, the greater the shareholder ownership, the more it will trigger transfer pricing practices. These results are supported by research conducted by Mispiyanti (2015), Refgia (2017), and Saraswati & Sujana (2017) that Tunneling Incentive has a positive effect on a company's decision to carry out transfer pricing.
H2: Tunneling Incentive influences the company's decision to carry out Transfer Pricing.

The Influence of the Bonus Mechanism on the Company's Decision to Conduct Transfer Pricing

In carrying out their duties, directors tend to want to show good performance to company owners. Because if the company owner or shareholders have assessed the performance of the directors with a good assessment, the company owner will give awards to the directors who have managed the company well. The award can be in the form of a bonus given to company directors. Mispiyanti (2015) states that the bonus mechanism is a strategy or calculation motive in accounting whose aim is to reward directors or management by looking at overall profits. The higher the company's overall profit achieved, the higher the appreciation given by the owners to the directors. Therefore, transfer pricing practices are chosen by directors to maximize company profits (Saraswati & Sujana, 2017). These results are supported by research conducted by Hartati (2014). that the bonus mechanism has a positive effect on the company's decision to carry out transfer pricing.
H3: The bonus mechanism influences the company's decision to carry out transfer pricing.

Foreign Ownership Can Strengthen the Positive Effect of Taxes on Transfer Pricing

Multinational companies see long-term profit figures through legitimacy obtained from stakeholders based on the stock market in which the company operates (Barkemeyer, 2007). The higher the tax rate in a country, the higher the possibility of a company carrying out transfer pricing actions (Refgia, 2017). So foreign ownership can strengthen the tax relationship with transfer pricing. This is because the higher level of foreign ownership will affect the transfer of profits and will tend to transfer profits earned by the company to other companies in other countries with lower tax rates (Khotimah, 2020). Indrasti (2016) obtained results that foreign ownership had a positive effect on transfer pricing decisions. This is supported by research conducted by Kiswanto & Purwaningsih (2014), Refgia (2017), and Akhadya & Arieftiara (2019). Based on the description above, a hypothesis can be formed:
Y: Foreign ownership can strengthen the positive influence of taxes on transfer pricing

RESEARCH METHODS

Population, Sample, and Sampling Techniques

The population in this research is all companies listed on the Indonesia Stock Exchange from 2017-2021. Meanwhile, the research sample is all manufacturing companies and mining companies in the coal sector listed on the Indonesia Stock Exchange during the 2017-2021 period. The sampling technique in this research uses purposive sampling, which is the technique used in determining samples that are selected based on certain criteria and considerations that are tailored to the research objectives. The conditions that are the criteria for determining the sample are as follows:

a. Manufacturing companies and mining companies listed on the Indonesia Stock Exchange (BEI) during the 2017-2021 period.
b. There was no loss during the 2017-2021 research period, because if it experienced a loss the company was not required to pay tax, so it was not relevant to use as a sample.
c. Manufacturing companies and mining companies under the control of foreign companies with an ownership percentage equal to or exceeding 20% in accordance with PSAK 15 which states that controlling shareholders are parties who own shares or equity securities of 20% or more.

Variable Measurement

1. Dependent Variable
   The measurement used for Transfer Pricing as a dependent variable is proxied by the presence or absence of sales to special parties. Sales to special parties indicate transfer pricing practices. The dummy criteria used is a value of 1 if the company makes sales transactions to special parties located in other countries, while a value of 0 is for entities that do not make sales to special parties located in other countries.
2. Independent Variable
   a. Tax
   The measurement used for tax as an independent variable (X1) is in accordance with research by Saraswati & Sujana (2017) that the tax variable is measured by the effective tax rate (ETR) where ETR is a percentage of the tax rate borne by the company.

$$\frac{\text{tax expense} - \text{deferred tax expense}}{\text{taxable profit}}$$

   b. *Tunneling incentive*
   The measurement used for tunneling incentive as an independent variable (X2) is in accordance with research by Saraswati & Sujana (2017) that the tunneling incentive variable is measured based on the amount of foreign share ownership that exceeds 20%.

$$TUN = \frac{\text{number of outstanding shareholdings}}{\text{number of shares outstanding}}$$

   c. Bonus Mechanism

The bonus mechanism variable will be measured using the net profit trend index formula (ITRENDLB), which is based on the percentage of net profit achieved in year t to net profit in year t-1 (Saraswati & Sujana, 2017). Net Profit Year t-1.

$$ITRENDLB = \frac{\text{Net Profit Year t}}{\text{Net Profit Year t-1}}$$

d. foreign ownership
   Foreign Ownership Structure can be measured according to the proportion of ordinary shares owned by foreigners which can be formulated in a way (Kusumasari, et al 2017)

$$\frac{\text{Amount of Foreign Ownership}}{\text{Total Shares Outstanding}} \times 100$$

RESEARCH RESULTS AND DISCUSSION

This research uses data from manufacturing companies and mining companies in the coal sector for 5 years from the 2017-2021 period with a total of 148 manufacturing companies which are divided into 3 sub-sectors, namely the basic industrial and chemical sectors with 68 companies, the miscellaneous industrial sector with 42 companies, and the consumer goods industry sector with 38 companies. Meanwhile, there are 21 mining companies in the coal sector. The data sample chosen in this research is data obtained from company financial reports. Based on the sample selection process carried out using predetermined criteria, 30 companies were obtained which would be used as samples with the number of years of observation from 2017-2021, so that the total sample obtained was 90 samples.

DATA ANALYSIS

Hypothesis testing in this research was carried out using logistic regression analysis. The reason for using logistic regression analysis is because the independent variable in this study is a categorical (non-metric) variable. Logistic regression analysis does not require a data normality test on the independent variables (Ghozali 2011, p. 333).

Multicollinearity Test

The multicollinearity test aims to test whether the regression model found any correlation between independent variables. Ulticolinearity

Table 1. Multicollinearity Test Results

Model		*Collinearity Statistics*	
		Tolerance	*VIF*
1	(*Constant*)		
	Tax	.988	1.012
	Tunneling Incentive	.998	1.002
	Bonus Mechanism	.986	1.014
Source: SPSS Data Processing Results			

Based on the results from table 3, it can be concluded that there is not one independent variable that has a tolerance value below 0.1 and a Variance Inflation Factor (VIF) above 10. So it can be concluded that there is no multicollinearity between the independent variables.

HYPOTHESIS TEST

Coefficient of Determination Test

Regression coefficient testing can be seen in the *Nagelkerke R Square value*. *Nagelkerke R Square* shows the variability of the dependent variable which can be explained by the variability of the independent variable.

Table 2. Coefficient of Determination Test Results

Model Summary	*Step -2 Log likelihood*	*Cox &Snell R Square*	*Nagelkerke R Square*
1	103.726[a]	.149	.204

Source: SPSS Data Processing Results

Logistic Regression Analysis

The regression model formed is presented in the Variables in the Equation table as follows:

Table 3. Regression Coefficient Test Results (Partial)

Variables in the Equation							
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1a	ETR	-2.930	2.007	2.132	1	.144	.053
	TUN	3.351	1.194	7.876	1	.005	28.536
	ITRENDLB	-.056	.106	.273	1	.602	.946
	Constant	-.171	.881	.038	1	.846	.843

Source: SPSS Data Processing Results

If you look at the results of the regression coefficients in table 3 above, the logistic regression equation can be obtained as follows:

$$\mathbf{LN\left(\frac{P}{1-p}\right) = Y = -0{,}171 - 2{,}930\ ETR + 3{,}351 TUN - 0{,}056\ ITRENDLB}$$

Based on the logistic regression equation, it is possible to analyze the influence of each independent variable, namely Tax (X1), Tunneling Incentive (X2), and Bonus Mechanism (X3) on the dependent variable, namely Transfer Pricing (Y), as follows:

a. The constant value has a negative value of 0.171. This shows that if the Tax, Tunneling Incentive and Bonus Mechanism variables are constant or equal to zero (0), the tendency of the companies sampled in this study to carry out transfer pricing to parties with special relationships will decrease by 0.171.

b. The coefficient value for the tax variable has a negative value of 2.930. A negative coefficient means that there is a negative influence between tax and the company's decision to carry out transfer pricing, which means that the higher the tax burden received by the company, the company's tendency to carry out transfer pricing will decrease by 2.930.

c. The coefficient value for the tunneling incentive variable has a value of 3.351, which means that the greater the shares owned by shareholders, the company's tendency to carry out transfer pricing with parties who have special relationships will increase by 3.351. The greater the share ownership by shareholders, the greater the control and control rights over company management which influence the company's performance.

d. The coefficient value for the bonus mechanism variable has a negative value of 0.056, which means that the greater the company's overall profit, the company's tendency to carry out transfer pricing with parties that have a special relationship will decrease by 0.056.

Regression Coefficient Test (Partial Test)

The partial test is used to measure how far the influence of an independent variable (free variable) individually is in explaining the dependent variable (Ghozali 2016, p. 98). This hypothesis testing is carried out by comparing the probability value (sig) with the significance level (a).

a. **The influence of taxes on a company's decision to carry out transfer pricing**
After carrying out a partial hypothesis test which can be seen in table 5, it was found that the significance value of the tax variable was 0.144, where 0.144 > 0.05 and the results of the logistic test had a negative coefficient value of 2.930, so tax had no effect on the company's decision to carry out transfer pricing. and the first hypothesis (H1) in this study is rejected. The results of this research are contrary to the formulation of the hypothesis which shows that tax influences a company's decision to carry out transfer pricing and is also inconsistent with research conducted by Refgia (2017) and Saraswati & Sujana (2017) which shows that tax influences transfer pricing decisions. However, this research is in line with research conducted by Marisa (2017) and Mispiyanti (2015) which states that taxes do not influence a company's decision to carry out transfer pricing, meaning that to minimize the tax burden paid, companies can carry out good tax management. Managers are obliged to reduce tax costs as optimally as possible to increase the company's efficiency and competitiveness by managing tax obligations. Management of tax obligations is carried out by carrying out tax management which is part of financial management, so that the objectives of tax management must be in line with the objectives of financial management, namely obtaining adequate liquidity and profits.

b. **The influence of tunneling incentives on companies' decisions to carry out transfer pricing**
The tunneling incentive variable shows a positive coefficient of 3.351 with a significance level of 0.005. This significance value is smaller than a = 0.05 (0.005 < 0.05) which means the second hypothesis (H2) in this study is accepted, meaning that the greater the shares owned by shareholders, the tendency of the company to carry out transfer pricing with parties who own it. special relationships will increase by 5,389. The greater the share ownership by shareholders, the greater the control and control rights over company management which influence the company's performance. The results of this research are in line with research conducted by Marfua & Azizah (2014), Refgia (2017), and Saraswati & Sujana (2017) which stated that Tunneling Incentive influences a company's decision to carry out transfer pricing. Tunneling incentives are carried out by controlling shareholders to obtain private benefits, namely the transfer of resources out of the company for the benefit of controlling shareholders. The company carries out this tunneling with the aim of minimizing transaction costs. By tunneling to parties who have a special relationship, costs can be reduced so that it is more economical compared to parties who do not have a special relationship.

c. **The influence of the bonus mechanism on the company's decision to carry out transfer pricing**
The bonus mechanism variable shows a negative coefficient of 0.056 with a significance level of 0.602. This significance value is greater than a = 0.05 (0.602 > 0.05), which means that the third hypothesis (H3) in this research is rejected, meaning that the bonus mechanism has no influence or impact on the company's decision to carry out transfer pricing. This result is contrary to the formulation of the hypothesis which shows that the bonus mechanism influences the company's decision to carry out transfer pricing and is also inconsistent with research conducted by Hartati (2014) which shows that the bonus mechanism has a significant influence on transfer pricing decisions. However, the results of this research are in line with research conducted by Mispiyanti (2015), Refgia (2017), and Saraswati & Sujana (2017) that the Bonus Mechanism does not influence a company's decision to carry out transfer pricing. The lack of influence of the bonus mechanism on the company's decision to carry out transfer pricing may occur because the company has a good stakeholder monitoring mechanism. Wafiroh and Hapsari (2015) say that if it is only because of the motive of wanting to get a bonus that directors dare to carry out transfer pricing transactions in order to provide a temporary increase in profits for the company then this is very unethical considering that there is a much greater interest, namely maintaining the value of the company in the eyes of the community and government. by presenting financial reports that are closer to reality and can be used for more important decision making purposes for the company in the future.

CONCLUSION

The research results show that partially the tax variables and bonus mechanisms have no influence on the company's decision to carry out transfer pricing, while the tunneling incentive has an influence on the company's decision to carry out transfer pricing. The results of testing the coefficient of determination that the *Nagelkerke R Square* value is 0.177 shows that the independent variables in this research, namely Tax, Tunneling Incentive, and Bonus Mechanism, can explain the dependent variable, namely Transfer Pricing, by 20.4%, while the remaining 79.6% is explained by the factors- other factors outside this research such as Tax Minimization, Company Size, Foreign Ownership, Exchange Rate, and other factors.

Research implications

It is hoped that this research can become a basis for further research and can provide scientific contributions and additional empirical evidence related to research, namely empirical evidence related to the importance of supervision and the effectiveness of regulations that have been issued regarding taxes, incentive tunneling, and bonus mechanisms on transfer pricing decisions. multinational companies in Indonesia so that they can minimize conditions and deviations from transfer pricing policies in Indonesia. It is also hoped that this research will serve as material for consideration and provide information, so that it can help in decision making and increase awareness of the importance of business ethics.

Limitations

A limitation in this research is the use of research objects that only focus on manufacturing companies and mining companies in the coal sector which are listed on the Indonesia Stock Exchange, so that in this research there is one hypothesis that is not supported which may be caused by other factors that can influence transfer pricing decisions. There is no foreign ownership and if there is foreign ownership it is less than 20%, a loss occurs in one of the research periods, thereby reducing the number of research samples used.

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