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TRANSFER PRICING IMPLEMENTATION ON TAX AVOIDANCE

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ABSTRACT

Transfer Pricing is a company policy in determining the transfer price of a transaction whether it is goods, services, intangible assets, or financial transactions conducted by the company. Transfer Pricing can be done with tax motivation, which aims to shift the tax burden from countries with high tax rates to countries with low tax rates. This research aims to conduct a literature review related to Transfer Pricing on Tax avoidance. The research method used is SLR (Systematic Literature Review). Data collection is done by identifying or reviewing all articles that have the same research topic in this study. The articles used in this research are 20 national articles. From this research, it is found that the implementation of Transfer Pricing has a positive effect on Tax avoidance with the indicator of profitability calculation (ROA

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INTRODUCTION

Tax is a mandatory contribution to the government owed by a person or entity that is compelling in nature. Based on the latest tax law, tax payment is not only an obligation, but also the right of all people to play a role in state financing and national development. In multinational companies, there are various transactions between members (divisions), one of which is the sale of goods or services. Most of these business transactions usually occur between related companies or between companies that have a special relationship. The determination of prices for various transactions between members (divisions) is known as transfer pricing (Mardiasmo, 2008: 1-2).

Transfer pricing by multinational companies is driven by both tax and non-tax reasons. Along with the times, transfer pricing practices are often done to minimize the amount of tax to be paid (Mangoting, 2000: 80). The increasing tax burden triggers companies to conduct transfer pricing in the hope of reducing the burden. Transfer pricing in sales transactions of goods or services is done by minimizing the selling price between companies in one group and transferring the profits earned to companies domiciled in countries that apply low tax rates. Therefore, transfer pricing then becomes a classic issue in the field of taxation, especially concerning international transactions conducted by multinational companies (Lingga, 2012: 220).

There are several studies on the factors that influence transfer pricing, including: tax, bonus mechanism, company size, foreign ownership, and tunneling incentive. These factors will be used as independent variables in this study.

Tax avoidance is one way to avoid taxes legally that does not violate tax regulations (Igusti Ayu and Ketut Alit, 2014). According to Gusti Maya Sari (2014) tax avoidance is a transaction scheme that is shown by minimizing the tax burden by taking advantage of the weaknesses (loopholes) of a country's tax provisions. Tax avoidance that is carried out is said not to conflict with the tax law because it is considered that practices related to tax avoidance are more utilizing the loopholes in the tax law which will affect state revenue from the tax sector (Matgoting, 1999 in Ni Nyoman and I Ketut, 2014).

The phenomenon of tax avoidance in Indonesia can be seen from the tax ratio of the Indonesian state (Darmawan and Sukartha, 2014). The tax ratio shows the government's ability to collect tax revenue or reabsorb GDP from the community in the form of taxes. The higher a country's tax ratio, the better the country's tax collection performance. Indonesia's average tax ratio in the last six years was 12.14 percent. The ratio shows that Indonesia's state revenue from taxes is not optimal, considering that Indonesia is now included in the lower middle income country category and the average tax ratio in countries in this category is 19 percent (Darmawan and Sukartha, 2014).

LITERATUR REVIEW

Tax Avoidance

According to Wang (2010) in Butje & Tjondro (2014) Tax avoidance is a tactic to minimize the company's tax burden which is carried out legally and safely for taxpayers because it does not conflict with tax provisions.

Tax avoidance is a legal reduction effort carried out by optimally utilizing the provisions in the field of taxation such as, exceptions and deductions that are allowed as well as the benefits of things that have not been regulated and the weaknesses that exist in the applicable tax regulations (Suandy, 2016: 21).

Panjalusman, et al, (2018) explain that Tax avoidance is a legal action in the eyes of the law because this practice reduces the tax owned by the company by using the loopholes in the tax regulations in force in Indonesia.

Tax avoidance is an effort made by taxpayers to avoid legal and safe taxes without contradicting the applicable tax provisions, because taxpayers do this by utilizing the weaknesses contained in the laws and regulations to reduce the amount of tax (Pohan, 2018).

Tax avoidance is a tax avoidance strategy and technique carried out by taxpayers legally and safely because it does not violate tax provisions. Tax avoidance is done by utilizing the weaknesses contained in tax laws and regulations (Pohan, 2016).

Transfer Pricing

According to Gunadi in Suandy (2016: 78) Transfer Pricing is a strategy to manipulate prices in a structured manner to minimize artificial profits, create the appearance that the company is losing money, and avoid a country's taxes.

Exposure from Karianton Tampubolon & Zulham (2018: 10) Transfer Pricing is a product or service exchange transaction that occurs between two different entities within a company group.

Transfer Pricing is the setting of special selling prices in business transactions between divisions to determine the revenue of the selling division and the costs of the buying division (Hansen & Mowen, 2007).

According to the description of Putri & Mulyani (2020) Transfer Pricing is an effort made by the company in the purpose of tax avoidance.

Transfer Pricing is an activity that is closely related to tax avoidance. Several studies have been conducted to examine management's efforts to reduce the tax burden through Transfer Pricing by allocating company profits to family companies in other countries that have low tax rates, either without violating the rules (tax avoidance) or by reducing tax debt by violating the rules (tax avoidance) (Barker et al., 2016; Lin et al., 2016; Liu et al., 2017).

Transfer Pricing is the determination of transfer prices in transactions made between related parties. Transfer Pricing practice has three important objectives in determining the international transfer price, namely managing the tax burden which dominates other objectives but in the operational use of Transfer Pricing such as maintaining the company's competitive position, promoting equal performance evaluation, and motivating employees (Panjalusman et al., 2018).

Profitability

(Wijayani, 2016) explains "profitability is a measuring tool in assessing the company's capability in creating profits in utilizing its assets or what is termed as Return On Asset (ROA)". All asset wealth utilized by the company is assessed for its effectiveness using ROA.

RESEARCH METHODS

The method used in this research is Systematic Literature Review (SLR) by using this method, researchers will conduct research by identifying, reviewing, evaluating and interpreting all the research that researchers have obtained. Researchers will later conduct a review by identifying articles properly and thoroughly.

In collecting data, researchers used 20 articles on the implementation of transfer pricing on tax avoidance and profitability of the company. Articles obtained from national journal, namely from Google Scholar. Articles reviewed in the range of 2019 to 2023 and in accordance with the topic that researchers studied, namely the implementation of Transfer Pricing on Tax avoidance. The articles used are then analyzed and tabulated in a table in the form of titles, names of researchers, journal publishers, and results of research. This article is a discussion of the articles reviewed and compared then conclusions are drawn from all the results of the article.

RESULTS AND DISCUSSION

The implementation of transfer pricing for tax avoidance is an important issue because companies often carry out this practice to minimize the taxes they have to pay. Transfer pricing is a practice where companies located in countries with higher production costs compared to other countries set the price of products sold before tax references. This causes many companies to carry out transfer pricing practices, which only threaten the problem of tax avoidance

Some of the negative impacts of implementing transfer pricing on tax avoidance include:

1) Reduction of Tax Income
   Transfer pricing policies can reduce the tax income that must be paid by the company. This happens because the company sets the price of the product sold above the production value, thereby reducing the tax that must be paid.

2) Lack of Fairness
   The implementation of transfer pricing can result in a lack of fairness in the company that does it. This is because companies have to adjust product prices to the taxes they have to pay, and transfer pricing can reduce the percentage of profits the company has to receive
3) Legal Uncertainty
   Transfer pricing policies can threaten the law if the company does not comply with applicable legal regulations
4) Tax Aspects
   The implementation of transfer pricing can affect the company's tax aspects, because the company must adjust product prices to the taxes that must be paid

To overcome transfer pricing practices, tax authorities must increase monitoring and distribution of data about company transactions, as well as impose sanctions on companies that carry out transfer pricing practices that are not in accordance with legal regulations. Apart from that, the government also needs to increase cooperation with related countries, such as developing countries and developed countries, to overcome transfer pricing practices that threaten the law.

Based on the identification and review of the articles that have been collected, it can be seen that the implementation of Transfer Pricing on Tax Avoidance can be measured by Profitability. From 20 articles that have been reviewed, it is known that 11 articles have research results stating that Tax Pricing affects Tax Avoidance, and 9 articles have research results stating that Tax Pricing affects Tax Avoidance.

Factors that can make transfer pricing not significantly affect tax avoidance are:

1) Strict Tax Regulations
   Some jurisdictions have implemented strict regulations on transfer pricing to prevent tax avoidance practices. If these regulations are strong enough and well enforced, companies may be restricted from engaging in transfer pricing that is detrimental from a tax perspective.
2) Compliance and Legal Certainty

The company's compliance with tax regulations and legal uncertainty related to transfer pricing can reduce tax avoidance practices. If companies choose to comply with the law and practice transfer pricing in accordance with the rules, the potential for tax avoidance is limited.

3) Inability to Manipulate Prices
In some cases, the goods or services transacted between subsidiaries have prices that have been set by market or industry standards. This can make the practice of tax avoidance through transfer pricing difficult to do.

CONCLUSION

Based on the results of the literature review analyzed, it proves that the application of transfer pricing has no effect on tax avoidance because in Indonesia the applicable accounting standards do not explain in detail about transactions with related parties. Company size is able to weaken the positive effect of capital intensity and sales growth on tax avoidance, but company size is not able to moderate transfer pricing on tax avoidance.

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