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The Effect of Tax Minimization and Bonus Mechanism on Transfer Pricing with the Independent Board of Commissioners as a Moderating Variable.

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ABSTRACT

"This type of research is quantitative research with an explanatory design. The sampling technique in this study was carried out using the purposive sampling method, the data used was secondary data in the form of annual reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period. The data analysis method used in this study is panel data regression analysis using Eviews Version 12. The purpose of this study is to analyze the effect of tax minimization and bonus mechanism on transfer pricing with an independent board of commissioners as a moderation variable. The conclusion is that the tax minimization variable in this study has no influence on transfer pricing. The variable of the bonus mechanism in this study has a positive influence on transfer pricing. The variables of the Independent Board of Commissioners in this study were not able to moderate the influence of tax minimization on transfer pricing. The variables of the Independent Board of Commissioners in this study were able to reduce the influence of the bonus mechanism on transfer pricing."

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Introduction

The rapid economic and business growth that occurs in various countries is due to the impact of globalization that makes economic trade penetrate the international market. Companies around the world, including local companies, can develop into multinational companies, which are companies that have many branches in different countries. Operational activities carried out by multinational companies involve various countries that have different tax rates (Prananda & Triyanto, 2020). The difference in tax rates is what makes multinational companies make tax avoidance efforts, one of which is by utilizing transfer pricing activities. Through the transfer pricing scheme, multinational companies can launch the practice of Base Erosion and Profit Shifting (BEPS). is a tax planning strategy used by companies by taking advantage of loopholes and weaknesses in tax laws and regulations to divert profits to subsidiaries located in countries with low tax rates or even tax havens so that the taxes paid by the company become smaller or even do not need to pay taxes at all (Rakhmindyarto, 2013).

Transfer pricing is the price of transferring the selling price of goods, services, and intangible assets to subsidiaries or to parties with special relationships located abroad. Transfer price transactions can occur in divisions within a company, between local companies, or local companies with companies located abroad (Marfuah et al., 2021). Many companies commit fraud by manipulating the selling price and purchase price of transactions made with affiliated companies so that the profits generated are larger. In addition, transfer pricing is also used as an effort to avoid taxes by moving the profits obtained from the transaction to countries with low tax rates. Such actions are what make the tax revenue received by a country decrease.

With the existence of regulations regarding transfer pricing, it can reduce the abuse of transfer pricing practices, although there are still many loopholes or weaknesses in these rules used by multinational companies to commit fraud and tax evasion with transfer pricing schemes. The practice of transfer pricing is not an illegal activity, as long as it does not violate the applicable laws and regulations, both stipulated by the OECD and those determined by the country concerned and in accordance with the principle of fairness and business practice (arm's length principle). However, it has become a global issue that many companies practice transfer pricing that violates tax regulations, causing losses to the state because their sources of income are reduced.

Tax minimization is one of the factors that can affect a company's decision to carry out transfer pricing practices. Tax minimization is a strategy used to minimize the amount of tax that must be paid through the act of transfer pricing, then the profits obtained are transferred to countries with low tax rates (Hidayati et al., 2021). The company will avoid a large tax burden because taxes are an expense that can reduce profits, so the company will minimize taxes to maximize the profits generated, one of which is through transfer pricing. In agency theory, differences in interests between the principal (company owner) and agent (management) can trigger conflicts between the two, one of the factors is regarding the company's tax policy. The conflict is in the form of information asymmetry, the agent hides information from the principal which is suspected of being detrimental to the principal The management (agent) prefers to transact a special relationship with its affiliates who are in a country with a low tax rate (tax haven) with the aim of minimizing the company's tax burden (Maulida & Wahyudin, 2020).

LITERATURE REVIEW

Agency Theory

Agency theory relates to the relationship between the company's management (agent) and the company's shareholders or owners (principal). Jensen and Meckling (1976), explained that an agency relationship is a contract in which the principal involves the agent to perform several services on behalf of the principal and gives some authority to the agent in the company's decision-making. This agency relationship is what causes an information gap (information asymmetry), where the management has more information about the actual state of the company than the shareholders as information users, so that there is a conflict between the two, because the agent wants to use the information only for its own interests and the information is suspected to be detrimental to shareholders.

Information asymmetry is divided into two, namely adverse selection (managers have more information than shareholders) and moral hazards (managers do things that violate contracts and ethics without the knowledge of shareholders) (Prawibowo & Juliarto, 2014).

Contingency Theory

Contingency theory states that the design and control system depend on the organizational context in which the control is implemented (Purwati & Zulaikha, 2006). The use of contingency theory is due to the existence of other variables that move as moderation variables or intervening variables. In this study, it is the moderation variable that is the contingency factor. The moderation variable is another independent variable that is included in the model because it has a contingency effect from the relationship between the dependent variable and the previous independent variable (W. R. Putri & Dwirandra, 2018). In the context of this study, the moderation variable of the independent board of commissioners will be used to see its effect on the relationship between tax minimization and the bonus mechanism on transfer pricing.

Transfer Pricing

Transfer pricing is a company's policy in setting transfer prices for products, services, intangible assets, or other financial transactions when conducting transactions between divisions in one company (intra-company transfer pricing) or between companies that have a special relationship (inter-company transfer pricing) based on the principle of fairness and business practice (arm's length principle / ALP) (Widiyastuti & Asalam, 2021).

The government regulates several tax regulations regarding transfer pricing, one of which is Law Number 36 of 2008 concerning Income Tax in Article 18 paragraph (3) which states that the Director General of Taxes (DGT) is authorized to redetermine the amount of income and deduction and determine debt as capital to calculate the amount of Taxable Income for

Taxpayers who have a special relationship with other Taxpayers in accordance with fairness and business practices that are not affected by a privileged relationship by using the price comparison method between independent parties, the resale price method, the cost-plus method, or other methods..

Tax Minimization

Tax minimization is a strategy used to minimize the amount of tax that must be paid through the act of transfer pricing, then the profits obtained are transferred to countries with low tax rates (Hidayati et al., 2021). Tax minimization can be done in various ways, both legal and illegal. Multinational companies often make efforts to minimize taxes through transfer pricing practices that cause global tax payments to be lower in general (Maulida & Wahyudin, 2020).

Bonus Mechanism

The bonus mechanism is a calculation of the amount of bonus that will be given by shareholders through the GMS to managers and directors for their achievements and performance towards the achievement of the company's targets (Ayshinta et al., 2019). The bonuses given are usually based on the net profit earned by the company, therefore managers and directors will make every effort to maximize the company's profits so that the amount of bonuses obtained by them becomes higher. There are various ways to maximize a company's profits, one of which is by utilizing transfer pricing practices. The greater the profit obtained by the company, the better the image of managers and directors in the eyes of shareholders (Refgia, 2017).

The independent board of commissioners is tasked with overseeing the company's operational activities as well as policies made by the board of directors and management, including policies in making decisions to carry out transfer pricing practices. With the existence of an independent board of commissioners, the management and the board of directors always consider every policy that they will make and are always careful in acting, so that the company runs in accordance with the principles of good corporate governance.

HYPOTHESIS DEVELOPMENT

The effect of tax minimization on transfer pricing

In the business world, the tax burden is an expense that can reduce the company's profit, the greater the tax burden, the smaller the profit earned by the company. Multinational companies carry out transfer pricing to minimize the taxes that companies must pay globally (Marfuah et al., 2021)

H1: Tax minimization has a positive effect on transfer pricing.

Effect of bonus mechanism on transfer pricing

The amount of bonus given to the management (managers and directors) is based on the company's net profit, so that managers and directors as bonus recipients will make every effort so that the company's net profit reaches maximum profit even though it has to sacrifice the interests of the company owner (principal). research conducted by Ayem & Ningsih (2021) which shows that tax minimization has a significant positive effect on the decision to carry out transfer pricing practices. The research conducted by Aryati (2021), Badri et al. (2021), Astuti & Yulianti (2018), and Ayshinta et al. (2019) stated that the bonus mechanism has no effect on a company's decision to carry out transfer pricing practices

H2: The bonus mechanism has a positive effect on transfer pricing.

The effect of tax minimization on transfer pricing with an independent board of commissioners as a moderation variable

Based on the contingency theory, the independent board of commissioners acts as a moderator who is tasked with supervising every policy of the board of directors, so as to minimize unwanted bad things (Rejeki et al., 2019).

H3: The independent board of commissioners can reduce the effect of tax minimization on transfer pricing.

The effect of the bonus mechanism on transfer pricing with an independent board of commissioners as a moderation variable

Based on the theory of contingency, a good management supervision and control system indicates that the system is able to maximize the influence of management (Idawati, 2017). This is in accordance with the presence of a professional independent board of commissioners as a supervisor in every action and policy of the management (directors and managers) will make the management always carefully consider every decision it will take and make the company implement good corporate governance in accordance with applicable regulations.

Q4: The independent board of commissioners can reduce the influence of the bonus mechanism on transfer pricing.

RESEARCH METHODS

This research is included in a quantitative research with an explanatory design that examines the Effect of Tax Minimization and Bonus Mechanism on Transfer Pricing with the Independent Board of Commissioners as a Moderating Variable. The measurements of these variables are detailed in Table 3.1. There are several criteria in determining samples using the purposive sampling technique: (1) Manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2017-2021. (2) Manufacturing companies that publish financial statements consistently for the period 2017-2021. (3) Manufacturing companies that did not suffer losses in the 2017-2021 period. (4) Manufacturing companies that have related party receivables for the period 2017-2021. The sample results are 20 companies detailed in Table 4.1. The documentation method is carried out by collecting an annual report accompanied by an audit report by an independent auditor issued by the IDX for the 2017-2021 period. The sample results are 20 companies detailed in Table 4.1. The documentation method is carried out by collecting an annual report accompanied by an audit report by an independent auditor issued by the IDX for the 2017-2021 period. This study uses data processing for panel data regression analysis using Eviews Version 12.

RESULTS AND DISCUSSION

The population in this study is manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period. The sampling method used in this study is purposive sampling. Based on the method used, the selected sample was 20 companies. The sampling process based on the criteria that have been set can be seen in the following table 4.1.

Table 4.1

Research Sampling Criteria

No	Kriteria	Jumlah
1.	Perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia (BEI) tahun 2017-2021.	193
2.	Perusahaan yang tidak mempublikasikan laporan keuangan secara konsisten periode 2017-2021.	(38)
3.	Perusahaan yang menggunakan mata uang asing dalam pelaporannya periode 2017-2021.	(29)
4.	Perusahaan yang mengalami kerugian periode 2017-2021.	(60)
5.	Perusahaan yang tidak memiliki piutang pihak berelasi periode 2017-2021.	(26)
6.	Perusahaan yang tidak memiliki beban pajak periode 2017-2021.	(4)
7.	Perusahaan yang tidak multinasional periode 2017-2021.	(16)
8.	Perusahaan yang tidak memiliki dewan komisaris independen periode 2017-2021.	(0)
Jumlah sampel penelitian		20
Jumlah periode penelitian (tahun)		5
Jumlah data observasi penelitian (20 x 5)		100

Sumber: Data processed by researchers, 2022

The Effect of Tax Minimization Research shows that tax minimization has a significant positive effect on transfer pricing. Companies tend to use transfer pricing practices to minimize taxes payable by shifting profits to countries with low tax rates. The effect of the Bonus Mechanism also has a positive effect on transfer pricing. Managers who strive to achieve profit targets in order to get bonuses often practice transfer pricing that is not in accordance with the principle of fairness. Moderation by the Independent Board of Commissioners The independent Board of Commissioners functions as a supervisor and can moderate the influence of tax minimization and bonus mechanisms on transfer pricing. The existence of an independent board of commissioners can reduce the negative influence of the two independent variables. Tax minimization and bonus mechanisms have a positive influence on transfer pricing practices in manufacturing companies listed on the Indonesia Stock Exchange. The independent board of commissioners plays an important role in overseeing and moderating transfer pricing practices, so it can help prevent abuse and ensure compliance with tax regulations. The company needs to improve its corporate governance practices, particularly by involving an independent board of commissioners, to reduce the risk of fraud in transfer pricing and maintain the integrity of financial statements.

CONCLUSION

Therefore, it can be concluded that the tax minimization variable in this study has no influence on transfer pricing, the bonus mechanism variable in this study has a positive influence on transfer pricing, the independent board of commissioners variable in this study is unable to moderate the influence of tax minimization on transfer pricing and the independent board of commissioners variable in this study is able to reduce the influence of the bonus mechanism on transfer pricing.

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