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TAX MINIMIZATION MODERATES THE INFLUENCE OF PROFITABILITY, TUNNELING INCENTIVE AND DEBT COVENANT ON TRANSFER PRICING

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ABSTRACT

The aim of this research is to determine the factors that influence transfer pricing in small companies listed on the Indonesia Stock Exchange (IDX). This research is a quantitative study, with a sample of 46 annual reports of mining companies listed on the Indonesia Stock Exchange (IDX) and obtained through purposive sampling technique. The analysis technique used in this study is multiple linear regression and moderated regression analysis (MRA). The results of this study indicate that profitability and debt covenants have no effect on transfer pricing, tunneling incentives have a significant positive effect on transfer pricing. Tax minimization is not able to moderate profitability, tunneling incentives, and debt covenants to transfer pricing. This study specifically explains how the effect of profitability, tunneling incentives, and debt covenants on transfer pricing. The following is the effect of tax minimization as a moderator of profitability variables, tunneling incentives, and debt covenants on transfer pricing, so the results of this study are expected to contribute as considerations for investors and the public regarding the transfer pricing practices of multinational companies that still occurs in Indonesia. This research is only limited to mining companies listed on the Indonesia Stock Exchange (IDX) so that further researchers are advised to extend the study period and expand the research population

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INTRODUCTION

Economic developments in this era of globalization have encouraged many companies to expand their business expansion overseas by establishing subsidiaries and branch companies in various countries that are different from their country of origin. In this case, the company is called a multinational corporation (MNC). Currently, multinational companies are increasingly growing and developing as a result of the internationalization of the economy, business and investment which has a positive impact on anticipating differences in the resources and capabilities of various countries. In multinational companies, various international transactions occur between divisions. Most of these business transactions occur between related companies or companies that have a special relationship.

Transfer pricing or transfer prices are closely related to the transaction prices of goods, services or intangible assets between companies in a multinational company. The impact of transfer prices is prices that are too high (overpricing) or prices that are too low (under pricing) traded with subsidiaries and affiliated entities in foreign markets (Mineri & Kartika, 2021). This often happens in dumpling cases for international trading companies (Puren Noor Azizah, nd)(Maulida & Wahyudin, 2020). Transfer pricing is carried out as a form of minimizing the tax burden by transferring company costs and income from one company to another company that has a special relationship and has a lower tax rate. One method used by companies, for example, is by transferring debt to affiliated companies that experience profits. The interest expense charged becomes a deduction from Taxable Income, so that the tax burden owed becomes lower (Maulida & Wahyudin, 2020). Transfer pricing can result in a reduction or loss

of a country's potential tax revenue, which causes a reduction in the function of implementing the tax itself.

There are several factors why multinational companies carry out transfer pricing practices. One of the factors that multinational companies carry out transfer pricing practices is profitability. (Cahyadi & Noviari, 2018) profitability is a performance indicator carried out by management to improve the company's financial performance as shown by the profits generated. Previous research was conducted by (Islam et al., 2019) which stated that profitability had a significant positive effect on transfer pricing, in contrast to research conducted by (Martinda Lestari, 2020) which stated that profitability had an insignificant negative effect on transfer pricing and research conducted conducted by (Ilmi & Prastiwi, 2020.) stated that profitability has no effect on transfer pricing.

A company's decision to carry out transfer pricing is also influenced by tunneling incentives, namely behavior that benefits majority shareholders by transferring assets and profits for their own benefit. Meanwhile, if costs arise during the transaction, the minority shareholder will also bear the burden (Mintorogo & Djaddang, 2019). Previous research with the tunneling incentive variable was conducted by (Rahma & Wahjudi, 2021) which stated that tunneling incentives had a significant positive effect on transfer pricing, in contrast to research conducted by (Rahmawati et al., 2020) which stated that tunneling incentives had a significant negative effect. on transfer pricing and research conducted by (Sari et al, 2019) states that tunneling incentives have no effect on transfer pricing.

Debt covenants are the next factor for multinational companies to carry out transfer pricing practices. A debt covenant or long-term contract is an agreement to protect the lender from manager behavior towards the interests of creditors, where this agreement limits company activities that could damage the value of the loan (Syahputri et al., 2021). The existence of these limitations can trigger companies to commit violations. To avoid these violations, companies in increasing profits tend to carry out transfer pricing practices. This is in accordance with positive accounting theory, debt covenants will encourage majority shareholders to carry out transfer pricing. Previous research conducted by (Yulianti & Rachmawati, 2019) stated that debt covenants had a significant positive effect on transfer pricing, in contrast to research conducted by (Tjandrakirana, 2020) which stated that debt covenants had an effect on transfer pricing, and research conducted by (Natasha et al, 2022) state that debt covenants have no effect on transfer pricing.

The moderating variable in this research is tax minimization. Tax minimization is a strategy to minimize the tax burden through cost transfers (Rahma & Wahjudi, 2021). Based on the transfer pricing practice literature, tax minimization is carried out by transferring the income or costs of a company that has a special relationship to its affiliated company in another country with a lower tax rate (Yulianti & Rachmawati, 2019). Transfer pricing is carried out by engineering transaction price charges between companies that have a special relationship, with the aim of minimizing the overall tax burden owed (Lestari, 2020). Previous research regarding the effect of tax minimization on transfer pricing was carried out by Hartati (2015) stating that tax minimization had a significant positive effect on transfer pricing, in contrast to research conducted by (Adam, 2020) which stated that tax minimization had a negative effect on transfer pricing and Research conducted by Handayani (2020) states that tax minimization has no effect on transfer pricing.

LITERATURE REVIEW

Agency Theory (Agency Theory)

Agency theory is a theory that arises between two parties involving both parties agreeing on the country where the service will be used. An agency relationship is a contract in which one or more people (the principal) employs another person or one party (the agent) to perform various services and empower decision makers. This shows that management has a responsibility to be responsible for all decisions regarding users of financial statements, including investors, stakeholders, shareholders and creditors. For example, in an employee contract, the company owner is the principal and top management is the agent, employed to run the company on behalf of the owner (for the owner).

In the case of transfer pricing, this can occur if there are transactions between business entities that have a special relationship. This is an opportunity for transactions with related entities that cause conflicts of interest, this is in accordance with agency theory. In certain companies that have many divisions in one group, they will certainly have various interests that conflict with various different tasks. This can cause shareholders to suffer losses, this is because shareholders are not directly involved in managing the company so it is related to the transfer pricing practices carried out by the company (Puren Noor Azizah, 2014)

Transfer Pricing

Transfer pricing is a price manipulation activity for product transactions carried out by multinational companies that collaborate with subsidiary companies or departments within the company by selling products below market prices with the aim of reducing company profits to avoid taxes (Katharina, 2021). This variable is determined by looking at whether or not there is sales transaction data to parties who have a special relationship (Oktaviyanti et al., 2021).

$$Transfer\ Pricing \frac{Total\ Piutang\ Pihak\ Berelasi}{Total\ Piutang}$$

Profitability

Profitability is a measuring tool used by companies to manage company assets which is shown by the profits earned. Profitability shows the level of operational effectiveness carried out by a manager of a company (Mineri & Kartika, 2021)(. There are four measuring tools used to assess the profitability of a company, namely the profit margin ratio, the return on total assets ratio, and the return on total equity ratio. . In this research, the ratio of return on total assets is used. The ratio of return on total assets or commonly known as Return on Assets (ROA) is a ratio that shows a company's ability to generate net profits obtained from the use of a company's assets. The following is the calculation of the ratio return on total assets:

$$\mathrm{ROA} = \frac{\text{Laba Bersih}}{\text{Total Aset}}$$

Tunneling Incentives

According to Hartati et al (2015), tunneling incentive is an action by controlling shareholders who transfer company assets and profits for their own benefit, but the burden will also be borne by non-controlling shareholders. There are several examples of tunneling, namely, selling company assets to other companies at prices below market prices, not providing dividends, and choosing family members to occupy important positions in the company (Apriyanti et al., 2020). This variable is measured using the percentage of those who have share ownership above 20% as controlling shareholders by foreign companies listed in PSAK No. 15. The scale used is ratio with proxy (Natasha et al, 2022)

$$TNC = \frac{Jumlah\ Kepemilikan\ Saham\ Terbesar}{Jumlah\ saham\ beredar}$$

Debt Covenant

A debt covenant or long-term contract is an agreement to protect lenders from manager behavior against creditor interests, where this agreement limits company activities that could damage the value of the loan. In this research, debt covenant is proxied by the Debt To Equity Ratio (DER) debt level ratio.

$$DER = \frac{Total\ Hutang}{Total\ Ekuitas}$$

Tax Minimization

Tax minimization is a strategy to minimize the tax burden owed, through the act of transferring costs between companies that have a special relationship which causes tax payments to the state to be reduced (Hartati et al, 2015). Tax minimization in this research is proxied by the Effective Tax Rate (ETR),

$$ETR = \frac{Beban\ Pajak}{Laba\ Sebelum\ Pajak}$$

RESEARCH METHODS

Quantitative research was used as the design of this research. This quantitative research aims to test hypotheses through testing the application of a theory or through the validity of the theory. The independent variables of this research include profitability (X1), tunneling incentive (X2), debt covenant (X3), moderating variables that use tax minimization (Z) and transfer pricing (Y) as the dependent variables of this research. The object of this research was carried out through indirect observation in the form of secondary data on financial reports on the Indonesia Stock Exchange (BEI). Mining sector companies listed on the Indonesia Stock Exchange in 2017-2021 are used as the focus of this research.

The population of this research is all mining sector companies listed on the IDX from 2017 to 2021, 46 companies are used as the population of this research, but the sample that meets the criteria is 8 companies.

The variables in this research are the variables that will be tested, including 3 (three) types of variables as follows:

1. Dependent Variable, a variable that is influenced by the independent variable, which in this research is transfer pricing (Y)
2. Independent variables, variables that influence or cause changes or the emergence of dependent variables, which in this research consist of profitability (X1), tunneling incentive (X2) and debt covenant (X3).
3. Directing Variables, Moderating variables are variables that influence (weaken or strengthen) the bond between the independent variable and the dependent variable, which in this research is tax minimization (Z). The analytical tool used in this research is Eviews.12 software

RESEARCH RESULTS AND DISCUSSION

This research uses data in panel data format which is analyzed using three estimation models, namely common effect, fixed effect and random effect. These estimates are used to select an estimation model that is more accurate in explaining this research model.

The Chow test is the first test carried out in analyzing the estimation model that will be needed in selecting a common effect or fixed effect model. The chow test value can be seen from the Prob value. "Chi-square cross-section".

Table I Chow Test Results

Test period fixed effects

Effects Test	Statistics	df	Prob.
Period F	0.229380	(4.31)	0.9198
Period Chi-square	1.166715	4	0.8835

Based on the table above, the test results in the Chow test show the value of Prob. Cross-section "Chi-square is 0.8835" which is greater than 0.05, it can be stated that the selected model is the Common Effect Model. After carrying out the first test, the second test is then carried out, namely the Hausman test to choose between the Fixed Effect Model or Random Model.

Table II Hausman Test Results

Test period random effects

Test Summary	Chi-Sq. Statistics	Chi-Sq. df	Prob.
Period random	0.917520	4	0.9220

Based on the table above, the test results of the Hausman test show the value of Prob. The cross section "Chi square is 0.9220" which is greater than 0.05, so it is stated that the selected model is the Random Effect Model. After the second test is carried out, the third test is then carried out, namely the test

Langrange mutupler to choose between Random Effect Model or Common Effect Model.

Table III Langrange Multipler Test Results

(all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	44.23237 (0.0000)	1.912885 (0.1666)	46.14525 (0.0000)
Honda	6.650742 (0.0000)	-1.383071 (0.9167)	3.724806 (0.0001)
King-Wu	6.650742 (0.0000)	-1.383071 (0.9167)	2.907239 (0.0018)
Standardized Honda	8.404271 (0.0000)	-1.201983 (0.8853)	1.877005 (0.0303)
Standardized King-Wu	8.404271 (0.0000)	-1.201983 (0.8853)	0.931680 (0.1758)
Gourieroux, et al.	--	--	44.23237 (0.0000)

Based on the table above, the test results of the Hausman test show the value of Prob. The "Breusch-Pagan cross section is 0.000" which is smaller than 0.05, so it is stated that the selected model is the Random Effect Model. Thus, the model used in this research is the Random Effect Model. Also attached is the classical assumption test.

Coefficient of Determination Test

The coefficient of determination (R2) test aims to test how the ability of the dependent variable (response) is explained by the predictor variable by looking at the magnitude of the Adjusted R2 value. the ability of the independent variable to explain the dependent variable. Table 4.3 below shows the results of testing the coefficient of determination.

Table IV Coefficient of Determination Test Results

R-Squared	Adjusted R Squared
0.322742	0.245342

Based on table 4.3 above, the results of the coefficient of determination (Goodness of Fit) test in panel data regression obtained an Adjusted R2 value of 0.24 "meaning that all independent variables are less able to explain the variation of the dependent variable by 24%", while the remaining is 76% (100% - 24%) can be seen with other factors not in the model.

Simultaneous Regression Coefficient Significance Test (F-test)

The simultaneous regression coefficient significance test (F-test) aims to test together how much influence the predictor variables contained in the regression model have on the dependent variable (response). Table 4.4 shows the results of testing the significance of the simultaneous regression coefficient (F-test).

Table V Simultaneous Test Results (F-Test)

Regression Model	FStatistics	Prob F Statistics	Information
Panel Data Regression	123.45	0.007259	Significant

Based on table 4.1.5 above, the F-statistic value is 4.169753 with a prob value. (F-statistic), namely 0.007259 < alpha 0.05, which means that simultaneously all independent variables, namely profitability, tunneling incentive and debt covenant with tax minimization as a moderator, have an influence on transfer pricing. This is in accordance with the decision-making criteria in the statistical F test, if the significance figure for F is lower than the confidence figure of 0.05 then the independent variable practically simultaneously symbolizes the significance of the dependent variable.

The partial regression coefficient significance test (T-test) was carried out to determine the direction of the relationship and whether or not there was an influence of each independent variable on the dependent variable. The following table 4.1.7 shows the results of testing the significance of the partial regression coefficient (T-test).

Table VI Random Effect Model Test Results

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	-0.203058	0.117422	-1.729299	0.0926
X1	-0.001860	0.000907	-2.049257	0.0480
X2	0.112473	0.036459	3.084924	0.0040
X3	0.000303	0.002234	0.135488	0.8930
Z	0.024176	0.036203	0.667803	0.5086

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	0.133097	0.042904	3.102185	0.0037
X1	-0.002112	0.001122	-1.882501	0.0679
Z	0.010182	0.043701	0.233001	0.8171
M1	0.000308	0.005132	0.060052	0.9524

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	-0.069944	0.159020	-0.439844	0.6627
X2	0.066403	0.050915	1.304176	0.2005
Z	-0.517088	0.357290	-1.447251	0.1565
M2	0.174138	0.117746	1.478930	0.1479

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	0.126112	0.047567	2.651251	0.0118
X3	-0.000802	0.005278	-0.151959	0.8801
Z	0.002144	0.060734	0.035304	0.9720
M3	-0.002983	0.017866	-0.166968	0.8683

DISCUSSION

The Effect of Profitability on Transfer Pricing

In the results of the analysis using the REM panel regression method, the t-count value was -2.049257 with a t-table value of 1.68957 and a probability value of 0.0926 in sig. 0.05, so it can be concluded that the profitability variable has no significant effect on transfer pricing. This is in line with research conducted by Arifin et al (2020) which states that profitability has no effect on transfer pricing. This is because companies have other alternatives to overcome agency problems with investors who want to invest their capital other than using a transfer pricing scheme (Adam, 2020).

The Effect of Tunneling Incentives on Transfer Pricing

In the results of the analysis using the REM panel regression method, the t-count value was 3.084924 with a t-table value of 1.68957 and a probability value of 0.0480 in sig. 0.05, so it can be concluded that the tunneling incentive variable has a significant positive effect on transfer pricing. This is in line with research conducted by Rahma (2021) which states that tunneling incentives have a significant positive effect on transfer pricing. This can be done by selling assets, providing loans and so on. Also, controlling shareholders can increase their share of the company without transferring assets through the issuance of dilutive shares which could result in losses for minority shareholders.

The Effect of Debt Covenants on Transfer Pricing

In the results of the analysis using the REM panel regression method, a t-count value of 0.135488 was obtained with a t-table value of 1.68957 and a probability value of 0.5086 in sig. 0.05, so it can be concluded that the debt covenant variable has no significant effect on transfer pricing. This is in line with research conducted by Oktaviani et al (2021) which states that debt covenants have no effect on transfer pricing.

Tax Minimization as a Moderating Effect of Profitability on Transfer Pricing

In the results of the analysis using the REM panel regression method, the t-count value was 0.000308 with a t-table value of 1.68957 and a probability value of 0.9524 in sig. 0.05, so it can be concluded that the tax minimization variable is unable to moderate the effect of profitability on transfer pricing. This is in line with research conducted by Amanah and Suyono (2020) which states that tax minimization does not moderate the effect of profitability on transfer pricing.

Tax Minimization as a Moderating Effect of Tunneling Incentives on Transfer Pricing

In the results of the analysis using the REM panel regression method, a t-count value of 0.174138 was obtained with a t-table value of 1.68957 and a probability value of 0.1479 in sig. 0.05, so it can be concluded that the tax minimization variable does not significantly moderate the effect of tunneling incentives on transfer pricing. This is in line with research conducted by Amanah and Suyono (2020) which states that tax minimization does not significantly moderate the effect of tunneling incentives on transfer pricing.

Tax Minimization as a Moderating Influence of the Debt Covenant on Transfer Pricing

In the results of the analysis using the REM panel regression method, the t-count value was -0.002983 with a t-table value of 1.68957 and a probability value of 0.8683 in sig. 0.05, so it can be concluded that the tax minimization variable cannot moderate the influence of debt covenants on transfer pricing. This is in line with research conducted by Amanah and Suyono (2020) which states that tax minimization does not moderate the effect of debt covenants on transfer pricing.

CONCLUSION

Based on the results of statistical testing, it can be concluded as follows:

a. Profitability has no effect on transfer pricing (H1 is rejected).
b. Tunneling incentives have a significant positive effect on transfer pricing (H2 is accepted).
c. Debt covenants have no effect on transfer pricing (H3 is rejected).
d. Tax minimization does not moderate the effect of profitability on transfer pricing (H4 is rejected).
e. Tax minimization does not moderate the effect of tunneling incentives on transfer pricing

(H5 is rejected).

f. Tax minimization does not moderate the effect of debt covenants on transfer pricing (H6 is rejected).

SUGGESTION

Based on the conclusions above, the recommended goal is for companies in the research sample to be able to work more cleanly by suppressing or even eliminating transfer pricing behavior so that the optimization of tax revenues by the government can run smoothly. Because taxes are still the country's largest source of income.

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