DETERMINATION OF DEBT COVENANT, COMPANY SIZE, AND EFFECTIVE TAX RATE ON TRANSFER PRICING IN COAL SUB-SECTOR MINING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

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ABSTRACT

This study aims to determine the effect of Debt Covenant, Company Size, and Effective Tax Rate on Transfer Pricing in Coal Mining Companies Listed on the Indonesian Stock Exchange. Observations were conducted for 6 (six) years, namely from 2018-2023. This study uses a quantitative approach. The population in this study were 44 coal sector companies listed on the Indonesia Stock Exchange. The sampling technique used Purposive Sampling, for 12 companies for 6 years. The type of data used is secondary data, the data analysis technique used is panel data regression analysis using eviews 12. The results of the study show that Debt covenant has a positive but not significant effect on Transfer Pricing, Company Size has a significant negative effect on Transfer Pricing and Effective Tax Rate has no effect on Transfer Pricing.

Keywords: Debt Covenant, Size, Effective Tax Rate

1. INTRODUCTION

The development of the times and technology in the era of globalization affects the level of growth and development in the business world, the development of globalization has increased international transactions (Cross border transcaction). Many companies, which were previously national in scale, have become multinational in scale by carrying out activities not only within one country but with various countries (Setyaningrum, 2020). Transfer Pricing is one of the important issues faced by the entire world that is connected to the international network, especially in countries with high poverty rates where tax revenue is very important (Huslyanti et al., 2023). Many businesses often use this method to increase their profits and reduce taxes because as reported in Justice, 2020's research on "Tax Justice In The Time Of Covid-19" reports that multinational corporations shift $1.38 trillion worth of profits to tax havens each year, causing governments around the world to lose $245 billion in direct tax revenue per year. The report estimates a direct tax revenue loss of $182 billion due to private tax avoidance abroad, all of which can be attributed to individual countries (Justice, 2020).

Indonesia is also estimated to suffer an annual loss of USD $4.86 billion as a result of tax avoidance. Based on the closing rupiah exchange rate in the spot market on Monday (22/11/2020), this amount is equivalent to IDR 68.7 trillion, the report states that most of the total USD 4.78 billion, or

IDR 67.6 trillion, comes from corporate tax avoidance in Indonesia. However, individual tax liabilities of USD 78.83 million, or around IDR 1.1 trillion, accounted for the rest. The following is the data of transfer pricing cases in Indonesia in The Mutual Agreement Procedure (MAP) according to the Organization for Economic Co-operation and Development (OECD) from 2018 - 2022:

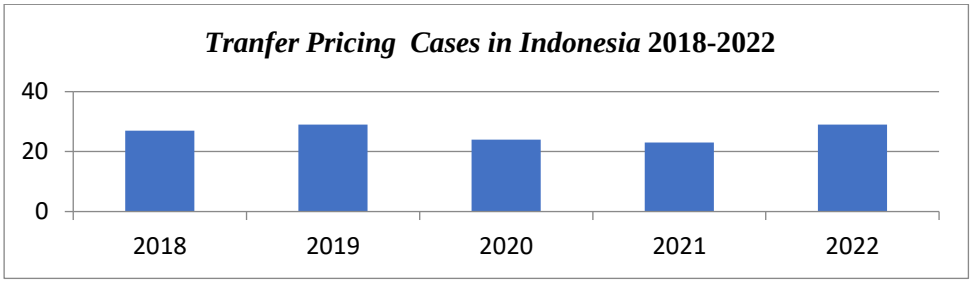

Figure 1 Case Transfer Pricing in Indonesia (2018-2022)
Resource : www.oecd.org

Based on the data above, it shows that transfer pricing cases in Indonesia fluctuate every year, in 2018 there were 27 cases, then in 2019 these cases increased to 29 cases, in 2020 they decreased to 24 cases, and in 2021 they decreased to 23 cases and in 2022 they increased again to 29 cases. There are several factors that influence the occurrence of transfer pricing, one of the main factors in transfer pricing is Debt Covenant. Debt Covenant, also known as "debt covenant", is an agreement that regulates the relationship between the borrower and the lender (Wiharja & Sutandi, 2023). In accordance with positive accounting theory on the debt covenant hypothesis, this hypothesis relates to agreements in debt agreements. Companies that have a high debt scale tend to choose accounting methods that can increase profits. The company will experience difficulties in obtaining additional funds from creditors and has a risk of violating the debt agreement. This hypothesis is in line with research conducted by Aramdhany & Andriana (2021), Fauzizah & Poerwati (2023), and Wiharja & Sutandi (2023) whose results in their research prove that Debt Covenant affects transfer pricing. The results of this study are inversely proportional to the research conducted by Ginting et al. (2020), Sujana et al (2022), and Albani & Gunawan, (2023) whose results in their research state that debt covenants have no effect on transfer pricing.

The second factor that affects transfer pricing is company size. Company size can show the balance and performance of the company in its economic activities. The bigger a company will encourage the directors to control the company better by controlling the profit, so that one of the ways is to use transfer pricing practices. Relatively larger companies have a tendency to show satisfactory abilities which are reflected in large profits by using transfer pricing (Indah & fitria, 2019). This is in line with the research of Afifah & Agustina, (2020) and Adilah et al., (2022). The results of this study state that company size simultaneously has a positive effect on transfer pricing, unlike the research of Wahyudi & Fitriah, (2021) where the results in this study state that company size has a negative effect

on transfer pricing, besides that in research conducted by Santioso & Adelia, (2021) the results of this study are inversely proportional to previous research which states that company size has no effect on transfer pricing.

The last factor that affects transfer pricing is Effective Tax Rate. The difference in tax rates between countries causes companies to choose to suppress taxes by transfer pricing. Transfer pricing is usually done by increasing the purchase price and minimizing the selling price within the company and transferring profits to companies in countries with low tax rates. Transfer pricing is done by transferring profits to affiliated companies in other countries, which results in the total tax paid being low and then the profit earned by the company is high (Yumna et al., 2021). This is in accordance with research conducted by Sarifah et al., (2019) and Hertanto et al., (2023) the results in this study state that the effective tax rate affects transfer pricing, this research is inversely proportional to research conducted by Putri, (2023) and research by Wiharja & Sutandi, (2023) whose research results state that the effective tax rate has no effect on transfer pricing.

2. LITERATURE REVIEW

Agency Theory

According to Jensen & Meckling, (1976) the concept called "agency theory" provides an explanation of the contractual relationship between owners and agents. The decision maker is the party who gives the mandate to the agent to carry out all activities on behalf of the decision maker. To run the business, the company owner provides facilities and funds. As the manager, the management (agent) is responsible for managing the company as entrusted by the owner to increase the owner's prosperity.

Positive Accounting Theory

This accounting theory explains the factors that influence management in choosing optimal accounting procedures and has specific reasons. According to Watts and Zimmerman in Setyaningrum (2020), stating that positive accounting theory aims to explain how the accounting process begins and is processed so that accounting information can be communicated with people in the company that describes the actual situation. The accounting procedures used by one company with other companies are not the same, companies are given the flexibility to choose alternative procedures that can be done to minimize costs and maximize the value of the company's contract so that it is related to transfer pricing by the company. Positive accounting theory proposes three hypotheses of earnings management motivation, namely: The Bonus Plan Hypothesis, The Debt Covenant Hypothesis, The Political Cost Hypothesis.

Transfer Pricing

Transfer Pricing can be defined as the price determined in a transaction made between members in a multinational company, Transfer Pricing practices refer to the amount charged in cross-border or overseas destination delivery services quickly, economically, safely and conveniently that

occurs between legal entities and affiliated parties (Lubis et al., 2023). Transfer pricing is used to evaluate divisional performance and motivate managers of the selling and buying divisions to make decisions that are in line with overall corporate objectives. Another purpose of transfer pricing is to transmit financial data between departments or divisions of a company when they use each other's goods and services. Many companies often use transfer pricing techniques to minimize the amount of tax to be paid (Ausa'ie & As'ari, 2023).

Debt Covenant

According to research by Ratnasari et al., (2021) Debt Covenant is a debt agreement that is useful for protecting debtors from management actions that benefit creditors, such as distributing excessive dividends and allowing equity to be set below fair value. According to the debt covenant hypothesis, company managers with a high liability (equity) ratio tend to choose accounting methods that allow the transfer of profits from future periods to the current period, so that the company's liability ratio becomes smaller.

Size

Company size is the sum of total assets, capital, and total sales of sales owned by a company. Companies are divided into two types, namely small-scale companies and large-scale companies. The size of a company shows how large or small a company is based on total assets, sales, capital, and total assets. Therefore, company size is the size or amount of assets owned by the company (Tamrin & Maddatuang in Sonya, 2022).

Effective Tax Rate

Effective tax rate (ETR) is a tax rate used as a strategy to reduce the tax burden by moving income to countries that apply lower tax rates. Law No. 36 of 2008 concerning income tax is an individual or corporate taxpayer contribution that is levied based on the amount of income received in one year (Putri, 2023).

3. METODELOGY

3.1 Research Design

The type of data used in this study is quantitative data using secondary data. The data used in this study comes from the annual financial statements of coal sub-sector mining companies from 2018 - 2023. The sample in this study amounted to 12 companies with 6 years of observation period, namely from 2018-2023, so there were 72. In this study, using purposive sampling method. The purposive sampling method is a sample determination technique with certain considerations. The data collection method used in this study uses secondary data. Where secondary data is data obtained from other sources or indirectly from the first source. The data used in this study comes from the annual financial reports of coal sub-sector mining companies from 2018 - 2023 from www.idx.co.id,

www.idnfinancials.com and the website of coal companies listed on the Indonesia Stock Exchange in 2018-2023.

3.2 Data Analysis

The data analysis method used in this research is panel data regression analysis. Where panel data can be defined as a combination of cross section data with time series data. The selection of panel data in this study is because this study uses a time span of several years and many companies, where this study uses a six-year time span, namely from 2018-2023. The estimation model in this study is as followst:

$$\mathbf{TP = \alpha + \beta_1 DC_{it} + \beta_2 S_{it} + \beta_3 ETR_{it} + \varepsilon}$$

Keterangan :

TP : Transfer Pricing

α : Constanta

β1- β3 : Coefficient Regression

DC : Debt Covenant

S : Size

ETR : Effective Tax Rate

ε : standard error

4. RESULTS AND DISCUSSION

4.1 Result

Based on Descriptive Statistical Analysis, it can be seen in the following table:

Tabel 4.1
Descriptive Statistical Analysis

	TP	DC	UP	ETR
Mean	0.133118	0.732363	30.05456	-0.258014
Median	0.081800	0.646450	30.02285	-0.224200
Maximum	0.502700	2.089400	32.75780	0.334600
Minimum	0.000000	0.118700	28.38780	-3.195500
Std. Dev.	0.139234	0.459002	1.154767	0.472968
Observations	72	72	72	72

Resource: Hasil Output Eviews 12

Based on table 4.1 above, it can be seen that the dependent variable Transfer Pricing (TP) shows a minimum value of 0.000000, namely in the company PT. Transcoal Pacific Tbk (TCPI) in 2023. The maximum value is 0.502700 in the company PT. TBS Energi Utama Tbk (TOBA) in 2020. The average value is 0.133118 and the standard deviation value is 0.139234. Determination of Panel Data Estimation The results of the Chow Test can be seen in the following table:

Tabel 4.2
Uji Chow

Effects Test	Statistic	d.f.	Prob.
Cross-section F	4.875442	(11,57)	0.0000
Cross-section Chi-square	47.745995	11	0.0000

Resource : Output Eviews 12

Based on table 4.2 above, it can be seen that the cross section F probability value of 0.0000 obtained from the fixed effect regression test results shows that the value of the cross section F probability <0.05, so the selected model is the Fixed Effect Model (FEM). Since the results of the selected model are the Fixed Effect Model (FEM) model, the test is continued by conducting the Hausman test and the Lagrange multiplier test.

Tabel 4.3
Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.751957	3	0.6254

Resource: Hasil Output Eviews 12

Based on table 4.3 above, it can be seen that the random cross section probability value is 0.6254 which is obtained from the Test Summary regression, the results show that the value of the cross section probability> 0.05, so the selected model is the Random Effect Model (REM). Since the selected model result is the Random Effect Model (REM) model, the test is continued by conducting the lagrange multiplier test to determine the best model in this study.

Table 4.4
Lagrange Multiplier Test

	Cross-section	Time	Both
Breusch-Pagan	23.31343	0.743786	24.05721
	(0.0000)	(0.3885)	(0.0000)
Honda	4.828398	-0.862430	2.804363
	(0.0000)	(0.8058)	(0.0025)
King-Wu	4.828398	-0.862430	1.984067
	(0.0000)	(0.8058)	(0.0236)
Standardized Honda	5.928453	-0.645909	0.217277
	(0.0000)	(0.7408)	(0.4140)
Standardized King-Wu	5.928453	-0.645909	-0.571458
	(0.0000)	(0.7408)	(0.7162)
Gourieroux, et al.	--	--	23.31343
			(0.0000)

Resource: Output Eviews 12

Based on table 4.4 above, it can be seen that the Breusch-Pagan cross section probability value is 0.0000, the results show that the value of the cross section probability <0.05, so the selected model is the Random Effect Model (REM). Due to the results of the selected model is the Random Effect Model (REM) model, the best model selection in this study is the Random Effect Model (REM).

Classical Assumption Test

In this study did not use the classical assumption test. This happens because in this study using panel data and the selected model is the random effect model (REM). According to Gujarati, (2012) in his theory states that the random effect panel model estimation method uses the Generalized Least Square (GLS) method, GLS is a technique used to estimate unknown parameters in linear regression models. While the combined effect panel model (common effect) and fixed effect panel model (fixed effect) use ordinary least square (OLS). One of the advantages of the GLS method is that it does not need to meet classical assumptions, because it is assumed that the Generalized Least Square (GLS) estimation method can overcome heteroscedasticity and autocorrelation. So, if the regression model uses random effect, there is no need to test classical assumptions. Conversely, if a common effect or fixed effect regression model is used, a classical assumption test needs to be performed.

Panel Data Regression Analysis Results

Table 4. 5
Result Regression Panel Data

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.984873	0.436876	2.254353	0.0277
DC	0.042264	0.037148	1.137745	0.2595
S	-0.029417	0.014527	-2.025000	0.0471
ETR	-0.005425	0.037276	-0.145534	0.8848
R-squared	0.133796	Mean dependent var		0.133118
Adjusted R-squared	0.023802	S.D. dependent var		0.139234
S.E. of regression	0.137567	Akaike info criterion		-1.012937
Sum squared resid	1.192262	Schwarz criterion		-0.728354
Log likelihood	45.46573	Hannan-Quinn criter.		-0.899643
F-statistic	1.216392	Durbin-Watson stat		1.034315
Prob(F-statistic)	0.304265			

Resource: Output Eviews 12

Based on the regression results above, a regression line equation can be obtained as follows:

TP = 0.984873+ 0.042264 (DC) – 0.029417 (S) - 0.029417 (ETR) + e

Based on the above equation, it can be explained as follows:

1. The constant value (α) obtained is 0.984873, it means that if the independent variable increases by one unit on average, the dependent variable will also increase by 0.984873.
2. The regression coefficient value of variable (X1), namely debt covenant (DC), is positive, which is equal to 0.0042264, it can be interpreted that if variable (X1) has a positive relationship where if (X1) debt covenant increases, variable (Y) transfer pricing will also increase by 0.0042264, and vice versa.
3. The regression coefficient value of variable (X2), namely company size (UP) is negative, which is -0.029417, so it can be interpreted that if variable (X2) has a negative relationship where if (X2) company size increases, variable (Y) transfer pricing will decrease by -0.029417.
4. The value of the variable regression coefficient (X3), namely Effective Tax Rate (ETR), is negative, which is -0.005425, it can be interpreted that if the variable (X3) has a negative relationship where if (X3) Effective Tax Rate increases, the variable (Y) transfer pricing will decrease by -0.005425.

Hypothesis Testing
Test Results of the Coefficient of Determination (R2)

Table 4. 6
Coefficient Determination (R^2)

R-squared	0.133796	Mean dependent var	0.133118
Adjusted R-squared	0.023802	S.D. dependent var	0.139234
S.E. of regression	0.137567	Akaike info criterion	-1.012937
Sum squared resid	1.192262	Schwarz criterion	-0.728354
Log likelihood	45.46573	Hannan-Quinn criter.	-0.899643
F-statistic	1.216392	Durbin-Watson stat	1.034315
Prob(F-statistic)	0.304265		

Resource: Output Eviews 12

Based on table 4.6 above, the Adjusted R-squared is 0.023, this means that 2.38% of the variation in transfer pricing can be explained by the variation of the three independent variables in this study, namely debt covenant, company size, and effective tax rate. While the remaining (100% - 2.38%) of 97.62% is explained by other variables outside this research model.

Tabel 4. 7
Hasil Uji Parsial (Uji t)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.984873	0.436876	2.254353	0.0277
DC	0.042264	0.037148	1.137745	0.2595
UP	-0.029417	0.014527	-2.025000	0.0471
ETR	-0.005425	0.037276	-0.145534	0.8848

Resource : Output Eviews 12

Based on the data from table 4.7 above, it is known that the effect of each variable in this study is as follows:

1. Debt Covenant (DP) variable on transfer pricing Coefficient obtained is 0.042264 with a t-statistic of 1.137745 with a prob (significance) value of 0.2595> 0.05, this shows that debt covenant has a positive effect on transfer pricing but is not significant in the coal sector for the period 2018-2023 so that Ho1 is accepted and Ha1 is rejected, meaning that debt covenant has no effect on transfer pricing at a significance limit of 0.05. 2.
2. The company size variable on transfer pricing Coefficient is obtained at -0.029417 with a t-statistic of -2.025000 with a prob value (significance) of 0.0471 <0.05, this shows that company size has a significant negative effect on transfer pricing in the coal sector for the period 2018-2023. so Ho1 is accepted and Ha1 is rejected, meaning that company size has a negative effect on transfer pricing.
3. The effective tax rate variable on transfer pricing Coefficient obtained is -0.005425 with a t-statistic of -0.145534 with a prob value (significance) of 0.8848> 0.05, this indicates that the effective tax rate has a negative and insignificant effect on transfer pricing in the coal sector for the period 2018-2023. So Ho1 is accepted and Ha1 is rejected. meaning that the effective tax rate has no effect on transfer pricing.

4.2 DISCUSSION

Effect of Debt Covenant on Transfer Pricing

Based on the results of the panel data regression test on the debt covenant variable, the coefficient obtained is 0.042264 with a t-statistic of 1.137745 with a prob (significance) value of 0.2595> 0.05, this shows that debt covenants have a positive effect on transfer pricing but are not significant in the coal sector for the 2018-2023 period so that Ho1 is accepted and Ha1 is rejected, meaning that debt covenants do not have a significant effect on transfer pricing at a significance limit of 0.05, which means that debt covenants do not have a clear and substantial location on company decisions in transfer pricing. The results of this study are in line with research conducted by Ginting et

al. (2020), Sujana et al. (2022), and Fernanda et al. (2023) whose results in their research state that debt covenant has no significant effect on transfer pricing.

The results of this study are not in line with positive accounting theory in the debt contract hypothesis (the debt covenant hypothesis) which states that the closer a company is to a violation of accounting based on a debt agreement, the more likely it is that company managers choose accounting procedures with changes in reported earnings from future periods to the present period. The reason is that increasing reported profits will reduce technical negligence. However, high debt also does not necessarily make a company to take actions that can increase a profit, one example is transfer pricing because there is a possibility that the debt allocation is used for the company's investment needs so that it does not affect the profit of a company.

Effect of Company Size on Transfer Pricing

Based on the results of the panel data regression test on the company size variable, the coefficient obtained is -0.029417 with a t-statistic of -2.025000 with a prob (significance) value of 0.0471 <0.05, this shows that company size has a significant negative effect on transfer pricing, so Ho1 is accepted and Ha1 is rejected, meaning that company size has a negative effect on transfer pricing in coal sub-sector mining companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2023 period. The results of this study are in line with research conducted by Wahyudi & Fitriah, (2021) Khotimah, (2018) which states that company size has a negative effect on transfer pricing, where companies with large sizes have less incentive to do transfer pricing.

The bigger a company is, the better the directors control it. Agency theory states that large companies have greater agency costs than small companies. Large companies can disclose more information to reduce agency costs. Control over earnings, so one way is to use transfer pricing practices. Companies that are larger and have smaller debts tend to use transfer pricing to reduce the tax burden that must be paid, so that the profits obtained are greater and can be used as operations or financing to develop their business. tend to show satisfactory abilities which are reflected in profits (Azrilya, 2023).

Effect of Effective Tax Rate on Transfer Pricing

Based on the results of the panel data regression test, the effective tax rate Coefficient variable is -0.005425 with a t-statistic of -0.145534 with a prob (significance) value of 0.8848> 0.05, this shows that the effective tax rate has a negative and insignificant effect on transfer pricing in the coal sector for the 2018-2023 period. so Ho1 is accepted and Ha1 is rejected. meaning that the effective tax rate has no effect on transfer pricing. The results of this study are in line with research conducted by Putri, (2023) and research by Wiharja & Sutandi, (2023) whose results state that the effective tax rate has no effect on transfer pricing. This means that the size of the tax rate does not affect the coal sub-sector mining companies listed on the Indonesia Stock Exchange (IDX) for the period 2018-2023 to conduct transfer pricing.

5 CONCLUSION

Debt Covenant has a positive effect on transfer pricing but is not significant in the coal sector for the 2018-2023 period so that Ho1 is accepted and Ha1 is rejected, meaning that debt covenant does not have a significant effect on transfer pricing at the significance limit of 0.05 in coal sub-sector mining companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2023 period. This shows that high debt does not necessarily make a company take actions that can increase profits, one example of which is transfer pricing because there is a possibility that the debt allocation will be used for the company's investment needs.

Company size has a significant negative effect on transfer pricing in the coal sector for the 2018-2023 period. so that Ho1 is accepted and Ha1 is rejected, meaning that company size has a negative effect on transfer pricing in coal sub-sector mining companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2023 period. Where the larger the size of the company, the greater the opportunity for the company to carry out transfer pricing.

Effective Tax Rate has a negative and insignificant effect on transfer pricing in the coal sector for the period 2018-2023. so Ho1 is accepted and Ha1 is rejected. This means that the effective tax rate has no effect on transfer pricing. Where the size of the tax rate does not always affect the company to carry out transfer pricing

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