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Effect Of Tax Expense, Tunneling Incentive, Mechanism Bonus on Transfer Pricing Decisions

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ABSTRACT

This study aims to examine the effect of the Tax expense, Tunneling Incentive, Bonus Mechanism on Transfer Pricing decisions. The sample in this study are manufacturing companies in the Consumer Cyclicals sector in 2019-2021. The sampling technique used was purposive sampling in order to obtain a sample of 57 companies that met certain criteria for 3 consecutive years, from 2019-2021. The data used is secondary data sourced from the company's annual financial reports through the website www.idx.co.id. The results of the study show that the Tax expense has no significant effect on transfer pricing. While the Tunneling Incentive has a significant effect on Transfer Pricing, the bonus mechanism has no significant effect on Transfer Pricing. The coefficient of determination in this study shows a value of 0.064488. meaning that the independent variable has an influence of 0.06% while the remaining 99.4% is influenced by other variables not included in the model.

Keywords: *Tax expense, Tunneling Incentive, Bonus Mechanism, Transfer Pricing*

1. INTRODUCTION

Transfer Pricing can be defined as the pricing determined in a transaction carried out between members within a multinational company. Transfer Pricing practice refers to the amount charged in cross-border transactions or outbound delivery services swiftly, economically, securely, and conveniently, occurring between legal entities and affiliated parties. Regarding the determination of prices, as stipulated in Article 1 paragraph 5 of PMK (Ministry of Finance Regulation) Number 213/PMK.03/2016, it states the determination of Transfer Pricing prices hereinafter referred to as prices in Affiliate Transactions.

The objectives for Transfer Pricing include securing the competitive position of subsidiary branches and market penetration, avoiding foreign exchange controls, managing adequate cash flow for subsidiary branches, reducing tax and customs duty burdens, minimizing the risk of government takeover. Companies engage in such practices to ensure that the costs paid to the company have minimal nominal value by utilizing regulatory gaps within a country.

One of the factors influencing companies to engage in Transfer Pricing is the tax burden. Tax Burden, defined according to Statement of Financial Accounting Standard 46 (PSAK 46) is the Tax Expense, including current tax and deferred tax expenses, accounted for in the accounting profit and loss calculation in a period as income expenses. Another factor influencing a company to engage in Transfer Pricing is Tunneling Incentive. According to Statement of Financial Accounting Standard No. 15 (2015), Tunneling Incentive refers to an entity that holds 20% or more shares, directly or indirectly, resulting in significant control over the company.

Furthermore, another factor influencing companies to engage in Transfer Pricing is the Bonus Mechanism, which is an effort made to explain the mechanical system, meaning every local movement occurring in an instrument that cannot be intrinsically changed according to the internal structure of natural entities in the universe.

Several factors, such as tax burden, Tunneling Incentive, and bonus mechanism, indicate that Transfer Pricing is already part of a company's plan. The company aims to minimize the tax burden to be paid, thereby reducing expenses and generating high profits. Based on the above presentation and supported by differences in previous research results related to variables influencing Transfer Pricing,

2. LITERATURE REVIEW

The theory used in this research is agency theory which explains contracts between principals, namely parties who employ other parties called agents which involve delegation of decision making [1] . Agency theory is also an economic theory that has the background to differences in conflicts of interest in companies or organizations [2]. Agency relationships sometimes cause problems between managers and shareholders or are usually called conflicts of interest (Agency Conflict), conflicts that arise as a result of the desire of managers (Agents) to take actions that are in accordance with their interests which can sacrifice the interests of shareholders (Principal) in order to obtain Return. and future corporate value.

3. METHOD

For Time Series data for 3 years and Cross Section data for 58 companies and 174 observations. Companies registered as Manufacturing companies in the Consumer Cyclicals sector during the 2019-2021 period obtained from the Indonesia Stock Exchange (http://www.idx.co.id/). Sources of data in this study were obtained from secondary data. The secondary data obtained is in the form of annual financial reports (Annual Report) of Manufacturing Companies in the Consumer Cyclicals sector which are listed on the Indonesia Stock Exchange during 2019-2021 and other references available on the official website of the Indonesian Stock Exchange and the official websites of each company.

Documentation studies are carried out by collecting documentary data sources such as annual financial reports from several companies that are the research samples. ignoring the principle of fairness can be by increasing or decreasing prices. This study uses the value of related party transactions because transfer pricing and related party transactions are related party transactions. Then it is used with the measurement of the Dummy variable. 1 have related sales and 0 otherwise.

Tax in this study is proxied by the effective tax rate which is the ratio of Tax rate minus Deferred Tax rate divided by taxable profit which can be measured using the formula.

ETR = Tax expense - Differed tax expensetaxable profit

According to [3].Tunneling Incentive is proxied by shareholder provisions which is located in another country where the percentage of share ownership is 20% or more with a lower tax rate than Indonesia. This is contained in PSAK number 15 concerning significant influence is determined by the percentage of 20% or more owned by shareholders. The Tunneling Incentive variable is proxied by the calculation:

TNC=the largest number of shareholdings Number of shares outstanding

The calculation of the net profit trend index is the component used to measure this variable. The Net Profit Trend Index (ITRENDLB) is calculated by:

ITRENDBL= year net profit t net profit year t-1

Goodness of fit Test

The feasibility test of the regression model was assessed using Hosmer and Lemeshow's Goodness of Fit Test, which was measured using the chi-square value. This model is to test the null hypothesis that the empirical data is in accordance with the model (there is no difference between the model and the data so that the model can be said to be fit) [4] .

Overall Model Fit Test

The overall model fit test is used to determine the feasibility of the research model, whether the model used in this study is feasible or not. The model is said to be feasible if the data matches or fits the research model (there is no difference between the model and the data, so the model is said to be fit).

Logistic Regression Analysis

In this study using the logistic regression model, which is part of the associative analysis to test the effect of the Tax Burden, Tunneling Incentives, and Bonus Mechanisms on Transfer Pricing. Where logistic regression is a form of nonlinear regression model that uses an exponential function in parameter estimation [5] . The reason for using logistic regression in this study is because the dependent variable, namely Transfer Pricing, is a dummy variable that uses categorical (nominal) data in its measurement scale. Logistic regression is suitable for research where the dependent variable is categorical (nominal or non-metric) [6].

Y = a + b1X1 + b2X2 + b3X3 + e

Note :
Y = Transfer pricing
X1 = Tax
X2 = Tunneling incentives
X3 = Bonus Mechanism
a = Constant
b = Regression Coefficient.

4. THE RESULTS

Descriptive statistics

Based on the results of the descriptive statistical test in table 4.2 above, it shows that the number of observations in the Consumer Cyclicals sector manufacturing companies listed on the Indonesia Stock Exchange during the 2019-2021 period was 171. Descriptively, transfer pricing as the dependent variable uses the dummy variable formula, so this value is only seen with the presence of sales to the company or the absence of sales in the company to related parties. The tax burden as the first independent variable has a maximum value of 2625,000 or 26% which is owned by the company Indomobil Sukses Internasional (IMAS) in 2019. This means that the tax burden owned by the company is higher compared to other samples. Meanwhile, the minimum value of 1562,000 or 15.62% owned by Erajaya Swasembada Tbk (ERRA) in 2019 means that the capital intensity owned by the company is lower compared to other samples. The mean value is 2120.825 or 21% with a standard deviation value of 261.9937 or 26%.

Tunneling incentive as the second independent variable which has a maximum value of 382.3900 or 38% owned by the company Langgeng Makmur Industri Tbk (LMPI) in 2019-2021, means that the tunneling incentive is higher than the other samples. While the minimum value is 0.190000 or 0.19% owned by the company Ricky Putra Globalindo Tbk (RICY) in 2019-2021, meaning that the tunneling incentive owned by the company is lower compared to the other samples. The mean value of tunneling incentive is 16.07602 or 16% with a standard deviation value of 56.47546 or 56%. The bonus mechanism as the third or last independent variable with a maximum value of 2.16E+13 or 2.16% owned by Mitra Adiperkasa Tbk (MAPI) in 2020 is higher than the other samples. While the minimum value is -18141234 or -18% owned by Indo Kordsa Tbk (BRAM) in 2019. This means that the value of the bonus mechanism owned by the company is low compared to other samples. The mean value is 1.26E+11 or 1.26% with a standard deviation of 1.65E+12 or 2%.

Table 1.
Descriptive Statistics

	Y	X1	X2	X3
Mean	0.450292	2120.825	16.07602	1.26E+11
Median	0.000000	2163.000	0.640000	0.420000
Maximum	1.000000	2625.000	382.3900	2.16E+13
Minimum	0.000000	1562.000	0.190000	-18141234
Std. Dev.	0.498984	261.9937	56.47546	1.65E+12
Skewness	0.199820	-0.338700	5.278613	12.96171
Kurtosis	1.039928	2.404822	32.66274	169.0059
Jarque-Bera	28.51136	5.793392	7063.250	201138.6
Probability	0.000001	0.055205	0.000000	0.000000
Sum	77.00000	362661.0	2749.000	2.16E+13
Sum Sq. Dev.	42.32749	11668915	542211.2	4.63E+26
Observations	171	171	171	171

Hosmer and Lemeshow's Goodness of Fit Test

The Hosmer-Lemeshow test is a Goodness of fit test based on probability prediction values, the Hosmer-Lemeshow Test is widely used to test the suitability of models using big data. The use of large enough data in a logistic regression analysis can create some stability problems for the test. Therefore, [7]. proposes to modify the Hosmer-Lemeshow Test method for large data which can minimize problems with test power so that the test is more stable. We can see the results using the due diligence model of Hosmer and Lemeshow's Goodness of Fit Test.

Table 2.
Goodness of Fit Test

H-L Statistic	4.8025	Prob. Chi-Sq(8)	0.7785
Andrews Statistic	4.9040	Prob. Chi-Sq(10)	0.8975

The test results for the probability value of Hosmer and Lemeshow's Goodness of Fit test is 0.7785 where this value is more than 0.05 (α = 5%), meaning that the model is able to predict the observed value or it can be said that the model can be accepted because of the compatibility of these values.

Overall Model Test Overall Model Fit Test

Table 3.
Overall Model Test Overall Model Fit Test

McFadden R-squared	0.064488	Mean dependent var	0.450292
S.D. dependent var	0.498984	S.E. of regression	0.483880
Akaike info criterion	1.334417	Sum squared resid	39.10142
Schwarz criterion	1.407906	Log likelihood	-110.0927
Hannan-Quinn criter.	1.364236	Deviance	220.1854
Restr. Deviance	235.3635	Restr. log likelihood	-117.6817
LR statistic	15.17813	Avg. log likelihood	-0.643817
Prob(LR statistic)	0.001671		

Overall fit model is used to determine whether all independent variables affect the dependent variable. The statistics used are based on the Likelihood function. Likelihood L is the probability that the hypothesized model describes the input data[4]. So it can be seen in the table 3:

Hypothesis Test Results

Based on table 4, several discussions can be drawn from the results of the t test as follows.

1. Effect of Tax Burden on Transfer Pricing
   Based on the test results, the Tax rate variable has a coefficient value of 0.002650, a t-statistic value of 0.061727 with a probability value of 0.9508. This shows a significant value that is greater than 0.05, which means that H0 is accepted and Ha is rejected, so that the tax burden has no significant effect on transfer pricing.
2. The Effect of Tunneling Incentives on Transfer Pricing
   Based on the test results, the Tunneling Incentive variable has a coefficient value of 0.012562, a t-statistic value of 2.053177 with a probability value of 0.0401. This shows a significant value that is less than 0.05, which means that H0 is rejected and Ha is accepted, so that the Tunneling Incentive has a significant effect on Transfer Pricing.
3. Effect of Bonus Mechanism on Transfer Pricing
   Based on the test results, the Bonus Mechanism variable has a coefficient value of 2.40E-09, a t-statistic value of 0.570277 with a probability value of 0.5685. This shows a significant value that is greater than 0.05, which means that H0 is accepted and Ha is rejected, so that the Bonus Mechanism has no significant effect on Transfer Pricing.

Table 4.
Result of Logistic Regression

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	1.584643	1.292127	1.226384	0.2201
X1	-0.000943	0.000608	-1.551185	0.1209
X2	0.015606	0.007240	2.155552	0.0311
X3	3.44E-09	4.46E-09	0.770887	0.4408

Discussion

Effect of Tax Burden on Transfer Pricing

The results obtained in this study are described in table 4.9 which shows that the Tax rate variable has no significant effect on Transfer Pricing, this is in accordance with the regression coefficient value of -0.000943 and the probability value of 0.1209 which is greater than 0.05 so that it rejects H1 with the direction of a positive relationship. negative. The results of this study support the results of previous research by [13], which shows that the tax burden does not affect a company's decision to carry out transfer pricing.

It is said to be inappropriate, because based on the results of research conducted by researchers, it shows that companies that minimize the tax burden do not always carry out transfer pricing. As for other things, the company does not make a reference to the tax burden as a consideration in carrying out transfer pricing because in the annual financial reports Indonesian companies tend to dominate some of the company's operating activities related to funding in one foreign currency, namely dollars. This has caused several companies to suffer exchange rate losses due to the appreciation of the dollar against the rupiah, because some of the activities of multinational companies are influenced by the dollar. Other things that must be considered, among others, are affiliation (associated enterprises) or special relations and the fairness and prevalence of business (arm's length principle) regulated in the Income Tax Law. However, there is research that shows the results of the tax burden have an effect on transfer pricing decisions [8].

The Effect of Tunneling Incentives on Transfer Pricing

The results obtained in this study are described in table 4.9 which shows that the Tunneling Incentive variable has a significant effect on Transfer Pricing in a positive direction, this is consistent with the regression coefficient value of 0.015606 and a probability value of 0.0311 which is smaller than 0.05 so that it accepts H2 . The results of this study support the results of previous research by [13] and [14] which observed that the Tunneling Incentive positively influences the decision to carry out Transfer Pricing.

So it can be interpreted that Tunneling Incentive has a significant effect on Transfer pricing decisions with a positive direction for investors and shareholders in Consumer Cyclicals manufacturing companies listed on the Indonesia Stock Exchange. The position of the Tunneling Incentive in the company is one of the important components that must be considered before making a decision on transfer pricing.

Based on the results of this study, it shows that the larger the shares owned by controlling shareholders, the greater the opportunity for a company to carry out transfer pricing. This is because if a subsidiary company makes a purchase to the parent company using a price that is not in accordance with the fair price (more expensive), then this will automatically provide benefits for the parent company, especially for the controlling shareholders.

Because it is greater in highly concentrated ownership structures than in low concentrated ownership structures. In addition, majority shareholders have the power to influence management in decisions that only maximize the interests of the majority share. This can also have an impact on the Consumer Cyclicals sector where it is heavily influenced by economic conditions in a particular year. However, there is research showing that the results of the Tunneling Incentive have no effect on transfer pricing decisions [9].

Effect of the Bonus Mechanism on Transfer Pricing

The results obtained in this study are described in table 4.9 which shows that the Bonus Mechanism variable has no significant effect on Transfer Pricing, this is in accordance with the regression coefficient value of 2.40E-09 and the probability value of 0.5685 which is greater than 0.05 so that rejecting H3 with the direction positive. The results of this study support previous research on the effect of the bonus mechanism on Transfer Pricing by [10], [11],and [12] which resulted that the bonus mechanism has no effect on transfer pricing.

5. CONCLUSIONS

The following is the conclusion of the results of hypothesis testing to answer the formulation of the problem :

1. Tax rate do not have a significant effect on Transfer Pricing in a negative direction for manufacturing companies in the Consumer Cyclicals sector which are listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period.
2. Tunneling Incentives have a significant influence on Transfer Pricing in a positive direction for manufacturing companies in the Consumer Cyclicals sector listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period.
3. The Bonus Mechanism does not have a significant effect on Transfer Pricing in a positive direction for manufacturing companies in the Consumer Cyclicals sector listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period.

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