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The Effect Of Income Tax Rate, Bonus Mechanism, And Tunneling Incentives On Transfer Pricing (Empirical Study Of Multinational Manufacturing Companies Listed On The Indonesia Stock Exchange 2018 - 2022)

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Transfer Pricing. Income Tax Rate, Bonus Mechanism, Tunneling Incentives.

ABSTRACT

This study explores the influence of income tax rates, bonus mechanisms, and tunneling incentives on transfer pricing decisions within multinational manufacturing companies from 2018 to 2022. In an era of globalization, companies operating across multiple countries face varied tax regulations, making transfer pricing a crucial aspect of financial strategy and compliance. A total of 66 samples were selected using purposive sampling based on specific characteristics, utilizing secondary data obtained from annual reports on www.idx.co.id. The research employs logistic regression analysis, with hypothesis testing conducted using the t-test at a 5% significance level (α = 0.05), and SPSS 27 software as the statistical tool. The results indicate that income tax rates (sig. 0.153 > 0.05) and bonus mechanisms (sig. 0.449 > 0.05) do not significantly affect transfer pricing decisions. However, tunneling incentives exhibit a significant negative effect (sig. 0.010 < 0.05), suggesting that companies with higher tunneling incentives are less likely to engage in transfer pricing practices. The Adjusted R Square value of 49.7% suggests that nearly half of the variation in transfer pricing is explained by the model, while 50.3% is due to other unobserved variables. The findings offer valuable insights for financial managers and policymakers to strengthen transfer pricing regulations and improve tax compliance.

INTRODUCTION

In today's age of globalization, the economy of a country is experiencing rapid growth. This is due to the growth of the business environment that is developing significantly both nationally and internationally. As one of the developing countries in the ASEAN region with a GDP (Gross

Domestic Product) that is still categorized as lower middle class when measured based on the world bank classification. It turns out that Indonesia still has great charm as a destination for foreign investors to invest in Indonesia. This is because Indonesia is open to foreign countries in accepting investment opportunities in Indonesia, besides the factor of conducive political conditions also fosters a sense of confidence in potential investors to want to invest in Indonesia. From April to June 2023, Indonesia managed to get a lot of money from other countries to invest in their country. They managed to get a total of IDR349.8 trillion, which is a huge amount of money! Of this, Rp186.3 trillion came from other countries, which is about 53.3% of the total. This is more compared to the amount they got in the same period last year. In fact, this is the largest amount of money they have gotten in a long time. With the growth of FDI in Indonesia, this is also used by investors to commit fraud by practicing transfer pricing even though this is actually prohibited by the government because it does not have a good business target, is done as an effort to avoid tax affairs and is not based on what is contained in the tax law.

Transfer pricing involves a company's efforts in determining the transfer value of business related goods, services, or other financially-oriented corporate transactions. This practice is categorized into two major parts, namely Intra-company Transfer Pricing and Inter-company Transfer Pricing. Intra-company Transfer Pricing is when different parts of the same company buy and sell goods to each other. Inter-Company Transfer Pricing is when 2 or more closely related entities buy and sell goods to each other. In Inter Company Transfer Pricing, there are two types: Domestic, which is when companies in the same country buy and sell goods to each other, and International, which is when companies in different countries buy and sell goods to each other. Some people think transfer pricing is a bad thing.

According to Safira et al. (2021), transfer pricing affects companies and governments differently. For companies, this condition is an effort to gain material benefits by cutting costs, such as taxes. But for the government, this can be a problem because it can mean less revenue from taxes. This happens when large companies move their money to pay less tax in some countries with higher tax costs more money in some countries that have a fairly small tax rate. Transfer pricing manipulation, which is an activity that intends to minimize the amount of tax to be paid by the company through efforts to increase costs or by lowering bills. One of the price manipulations that is usually applied is the sales price (Herawaty and Ane, 2019).

In 2018, a group called the Organization for Economic Co-operation and Development said that there were more transfer pricing cases that year than in previous years. Transfer pricing is when companies move money between different parts of their business in different countries in order to minimize the total tax they are required to pay. The number of transfer pricing cases increased by 20%, compared to other issues with an increase of 10% (Rifqiyati et al., 2021). In 2019, another group called the International Center for Tax and Development said that the amount of money the government receives from taxes in Indonesia continues to decline every year. One of the reasons is because companies use transfer pricing to pay less tax (Marliana et al., 2022).

Law No.36 of 2008 is a rule that talks about special relationships. Transfer pricing is a way to decide how much something should be sold or bought when the people involved have a special relationship or are connected in some way. A special relationship can occur if two companies own 25% or more of each other's shares, are controlled by the same person, or are related as a family. In Indonesia, many transfer pricing cases have been documented, particularly in the manufacturing sector, including companies such as PT Andaro Energi Tbk, PT CocaCola Indonesia, and PT Toyota Motor Manufacturing Indonesia. Allegations have emerged that some of these companies have applied improper transfer pricing practices as a way to avoid tax liabilities. The case highlighted by the Tax Justice Network Institute in 2019 was the alleged abuse of transfer pricing by a subsidiary of British American Tobacco (BAT), namely PT Bentoel International Investama Tbk (Rifqiyati et al., 2021). PT Bentoel Internasional Investama Tbk (RMBA) is a company involved in the manufacture, marketing and distribution of tobacco

products. Started as Strootjes Fabriek Ong Hok Liong in 1930, the company is known to produce some of the leading local cigarette brands, such as Bentoel Biru, Neo Mild, and Uno Mild. In 1990, the company carried out its initial public offering (IPO). Now, as part of the British American Tobacco Group that has networks in more than 180 countries, the company has successfully integrated global brands such as Dunhill and Lucky Strike into the Indonesian market (idnfinancial.com, 2023). PT Bentoel International Investama Tbk is reported to have used two methods to transfer part of its revenue. One is by using intra company loans, utilizing a treaty between Indonesia and the Netherlands which states that interest costs from loans are not taxable. In this case, PT Bentoel borrowed US$ 983 million or the equivalent of Rp 12 trillion from a Dutch company, Rothmans Far East BV. However, the money actually came from Pathway Four (Jersey) Limited which is a branch of BAT in the UK. As a result, PT Bentoel has an obligation to repay the interest loan of US$ 164 million or equivalent to Rp 2.25 trillion. The whole event caused PT. Bentoel to experience a loss of 27.3% (Rifqiyati et al., 2021).

Thereafter, PT Bentoel applied the second method by making royalty, fee and service payments to the parent company. This was done by reporting payments totaling US$ 19.7 million to the parent company, with details of the transaction of US$ 10.1 million being payments from royalties on the Dunhill and Lucky Strike brands, US$ 5.3 million as technical and consulting fees related to BAT, and the remaining US$ 4.3 million as IT fees to British American Shared Services Limited. The tax rate charged on royalty payments, fees and other services in Indonesia is 25%. Meanwhile, there is a royalty, fee and other service rate agreement between Indonesia and the UK with a rate of 15%. By utilizing this rate difference, PT Bentoel can save and be able to avoid its obligation to pay taxes (Rifqiyati et al., 2021).

Rifqiyati, Masripah, and Miftah (2021) revealed that the actions taken by PT Bentoel to avoid its tax obligations caused Indonesia to lose tax revenue of US$ 13.7 million each year. Tax revenue of US$ 11 million was lost due to the first method applied by PT Bentoel, namely by making intra-company loans, while the second method used by PT Bentoel caused Indonesia to lose tax revenue of US$ 2.7 million. One of the factors resulting in transfer pricing is the income tax rate; the higher the profit earned by the company, the amount of tax that needs to be paid also increases. This condition makes the company apply transfer pricing by lowering the sales price, then shifting profits to a country that has a small tax rate. A company sometimes tries to move its tax from one place to another or called Transfer pricing. The rules regarding this are in a law called the Income Tax Act. The law states that the government can change the amount of money a company has to pay in taxes if it thinks the company is being unfair or not following the normal way of doing business. This is done by comparing the prices the company uses with the prices that other companies would use if they were not related. A country can also decide how much money a part of a company should make, rather than being connected to the main company. Nazihah, Azwadi, and Fuadah (2019) explained that taxes have a positive impact on transfer pricing. Meanwhile, Rizqi and Rusydi (2023) indicated that taxes have a negative impact on transfer pricing practices.

Another indicator that triggers transfer pricing is the bonus system. Bonus is a form of compliment given to the directors during the annual General Meeting of Shareholders (GMS), depending on the profit earned by the company. This process is carried out every year if the company records a profit. The way bonuses are distributed can influence management actions related to profit shifting. Management tends to optimize the bonus received by managing net income effectively. Pranada and Triyanto (2020) state that the bonus mechanism has no impact on indications of transfer pricing. There is a difference in the findings of the Herawaty and Anne (2019) study which noted that there was a positive impact of bonuses on transfer pricing practices.

Transfer pricing is also influenced by tunneling incentive. Tunneling incentive, is an activity undertaken by majority managers and investors in transferring company assets to themselves for individual needs but burdened on minority shareholders. With the appearance of tunneling

incentives by majority shareholders, there is no dividend payment. This intends to transfer the assets of the company while to the parts and subsidiaries with the transfer pricing method. This procedure is carried out in order to reduce the expenses that can later reduce the company's profits.

In previous studies, there are different research results where according to Rahma and Wahjudi (2021), it explains that tunneling incentives have a significant influence on transfer pricing decisions, there is a difference in the findings produced by Nazihah, Azwardi, and Fuadah (2019) which explains that there is no effect of tunneling incentives on companies in the application of transfer pricing.

With some differences produced by previous research, the author is interested in conducting research again with a different reference year, namely 2019-2022 because data and information related to transfer pricing practices, related legal cases, and company case studies are more available for the 2018-2022 range, thus allowing researchers to conduct a more in-depth and relevant analysis. In addition, in the era of business globalization, companies are increasingly

involved in cross-border transactions involving transfer pricing. The span of 2018-2022 provides an opportunity to explore transfer pricing practices in an evolving global context. In this study, researchers also focused on multinational manufacturing companies because multinational manufacturing companies are often faced with strict regulations related to transfer pricing from various jurisdictions, including the OECD and the countries in which they operate. This creates challenges in complying with regulations as well as opportunities for legitimate tax optimization. Transfer pricing practices in multinational manufacturing companies can have significant economic impacts, both for the companies themselves and for the countries in which they operate. Therefore, the study of transfer pricing in this context is of high relevance. Data related to transfer pricing practices may be more easily accessible from multinational manufacturing companies as they are often listed on stock exchanges or have more detailed financial statements than companies in other sectors. In addition, researchers want to evaluate and review the results of previous research by raising the research title "THE EFFECT OF INCOME TAX FATES, BONUS MECHANISMS, AND TUNNELING INCENTIVES ON TRANSFER PRICING" (Empirical Study of Multinational Manufacturing Companies Listed on the Indonesia Stock Exchange 2018 - 2022).

LITERATURE REVIEW

Agency Theory

Agency is a consensual correlation that is formed on each party. One party (agent) agrees to take an action on behalf of another party or often called the principal. For example, the relationship that occurs between shareholders and managers of a company is an agency relationship, as well as the relationship that occurs between auditors and shareholders (Schroeder et al., 2020: 138). Jensen & Meckling (1976) state, Agency Theory refers to the correlation between owners and agents who act on behalf of their owners. They examine the dynamics and problems that arise in situations where agents act in the interests of the owner but have incentives to act in their own personal interests. Agency conflicts arise when agents prioritize their personal interests over those of the owners. For example, agents may take steps that benefit themselves such as maintaining high salaries or making risky decisions without adequate consideration (Jensen & Meckling, 1976). With the assumption that individuals take actions for their own individual needs, so that the data asymmetry that belongs to them will urge agents to cover up half of the data that principals do not know.

In this situation of data asymmetry, agents have the possibility to carry out earnings management through efforts to change every lift contained in a financial report (Herawaty and Anne, 2019). Dependence on partial ownership of the company tends to make managers act in

their own personal interests rather than the overall benefit of the company. This condition creates agency costs (Herawaty and Anne, 2019). According to Jensen & Meckling (1976), agency costs refer to the nominal budget that must be paid by stakeholders in monitoring agents.

Agency theory deals with the principal-agent relationship where owners (principals) assign tasks to agents to act on their behalf. In the context of transfer pricing, multinational companies have subsidiaries spread across several countries that operate as agents. Transfer pricing includes the price determined in the delivery of goods or services between entities within the multinational company. The relationship between agency theory and transfer pricing is that transfer pricing is often used as an effort by company management to balance the interests of investors (principals) with local management (agents). Agents tend to have an incentive to maximize the performance of their own entity, while shareholders want to maximize the performance of the company as a whole. By using transfer pricing, management can manipulate the flow of revenues and costs between subsidiaries with the aim of maximizing overall profits or optimizing their own entity's financial performance. However, unethical or unfair transfer pricing practices will cause problems for investors and management, which is relevant to agency theory analysis.

Transfer Pricing

According to the provisions in the Minister of Finance Regulation (PMK) Number 22/PMK.03/2020 of 2020, in article 1 paragraph 6, transfer price or transfer pricing is defined as the determination of value in a transaction related to a special correlation. Suandy (2017:77) states that there are two interpretations of transfer pricing, namely general or neutral interpretation and pejorative or negative interpretation. The general or neutral interpretation of transfer pricing relates to business strategies and tactics used without the intention of reducing tax payments. In contrast, the pejorative interpretation of transfer pricing refers to strategies that aim to save tax burdens through shifting corporate profits to branches with domiciles in low-tax countries. The purpose of transfer pricing is to ensure that trade transactions between related or affiliated entities within a multinational company are conducted at prices that are fair and comparable to those between independent entities in the open market.

In studies conducted by Herawaty and Anne (2019), Marliana et al., (2022), and Prananda and Triyanto (2020) this variable is measured as a dummy method of the dichotomous model, where 1 indicates the sales activities of companies that have a relationship with related entities and 0 indicates companies that do not have a relationship with related entities. (Herawaty and Anne, 2019).

Income Tax Rates

Income Tax Rates Based on Law No. 28/2007 on General Provisions and Procedures for Taxation in Indonesia, tax is a participation required for individuals or entities that must be deposited with a compelling nature. The tax is an obligation to pay to the state, which is intended to finance state spending and national development. Tax collection is carried out based on the provisions of the enacted law. Law Number 36 of 2008 stipulates that domestic corporate taxpayers who generate taxable income are calculated based on gross income minus company expenses. The results of these calculations become the basis for determining the amount of tax that needs to be paid, the calculation is through multiplying the taxable income with the Corporate Income Tax rate. The amount of tax rate can vary between countries, so this condition encourages multinational companies to apply transfer pricing. Previous studies, such as those conducted by Nazihah et al. (2019) and Rahayu et al. (2022), show that taxes have a positive influence on transfer pricing practices. The measurement of this variable is done through the use of Effective Tax Rate.

$$\text{ETR} = \frac{Income\ Tax\ Expense}{Pre\ Tax\ Income}$$

Bonus Mechanism

Bonus mechanism refers to a system or pattern of additional payments to employees, workers, or business partners based on certain achievements that have been set by the company or organization. Bonuses are a form of incentive that is given to certain individuals or groups who have achieved predetermined goals or performance. According to Safirah et al., (2019) the bonus mechanism is the provision of wages or additional income to employees who have achieved company targets. The bonus mechanism is seen from the amount of profit earned by the company, thus encouraging directors / managers to manipulate company profits to get a large bonus. The results of previous research researched by Herawaty and Anne (2019), Rahma and Wahjudi (2021), and Jihanda and Sufiyati (2023) claim that there is a positive influence of the bonus mechanism on transfer pricing. Measurement of the bonus mechanism variable based on the Earnings Trend Index proxy through the formula below:

$$\text{ITRENDLB} = \frac{Net\ Income\ in\ Year\ t}{Net\ Income\ in\ Year\ t-1}$$

Tunneling Incentives

Tunneling incentives are conditions in which company managers utilize their position to move company funds or resources for the benefit of certain personal or group interests, to the detriment of the interests of shareholders or other parties related to the company. Based on PSAK No.15, it is explained that a substance is considered to have a meaningful influence directly or indirectly, including through subsidiaries, provided that it includes funds of 20% or above. Tunneling incentives can be implemented through sales and purchase activities at non proportional prices, which aim to benefit majority investors or leaders by transferring company profits (Safira et al., 2021). Previous studies conducted by Herawaty and Anne (2019), Jihanda and Sufiyati (2023), and Rahma and Wahjudi (2021) explained the effect of transfer pricing practices. This condition is caused by the tendency of companies to use transfer pricing techniques to manipulate profits and move funds between their subsidiaries. The measurement of this variable is done through the use of the proxy of the highest number of shareholdings, which is divided by the number of shares outstanding.

$$\text{TI} = \frac{Total\ Largest\ shareholding}{Total\ Shares\ Outstanding}$$

The Effect of Income Tax Rate on Transfer Pricing

According to the Taxation Law Number 28 Year 2007, tax is considered as a mandatory participation to be paid by taxpayers, namely individuals and entities. High income tax rate is a crucial factor that makes companies involved in transfer pricing practices. Companies tend to report small profits in their financial statements as an effort to avoid high taxes. With a fair price value should be used in reducing the tax burden, but the company prefers to apply transfer pricing.

This decision creates an agency conflict between the principal and the agent (Herawaty and Anne, 2019). The obligation to pay high taxes encourages companies to adopt tax-free efforts, such as through transfer pricing transaction practices. Transfer pricing is carried out through efforts to transfer company profits to a company branch located in a country with lower taxes. This often involves adjusting purchase or sales prices between businesses within the same group of companies. Previous research conducted by Nazihah et al. (2019) and Rahayu et al. (2022) stated that tax has a positive influence on transfer pricing practices. This is due to the fact

that high tax rates in a country make companies eager to apply profit shifting. This condition is carried out to obtain greater profits by selling products or services to countries that have small tax rates. Based on the consideration of the explanation above, the hypothesis formulation is formed, namely:
Ha1: Income tax rate has a positive effect on transfer pricing.

The Effect of Bonus Mechanism on Transfer Pricing

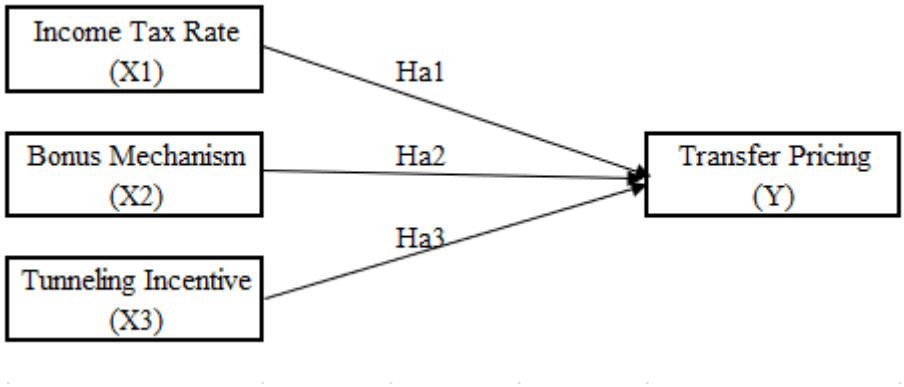
Sarifah et al. (2019) explains that the bonus mechanism is a form of reward given to employees in recognition of the achievement of company tasks and targets. The amount of bonuses is generally related to the increase in profits earned by the company, the high profits of the company become the bonus received will be greater. Bonuses are used as a **motivational** tool for employees to improve their performance. In general, all employees, including managers, have a desire to receive a large bonus each year. Managers, in particular, have a desire to routinely earn large bonuses. With a bonus plan in place, managers typically choose accounting mechanisms that manipulate earnings-related financial statements from future to current periods. If the pay depends on the bonus related to net income, then there is a possibility that the manager will report a large amount of profit in that period. The form of strategy applied by managers in increasing profits is through transfer pricing practices. Previous studies conducted by Herawaty and Anne (2019), Rahma and Wahjudi (2021), and Jihanda and Sufiyati (2023) showed a positive impact of the bonus mechanism on transfer pricing practices. This condition is caused by the motivation of company managers to increase profits at a certain time, due to the high bonuses associated with the profits earned by the company. By considering this background, the hypothesis formulation can be detailed as follows:
Ha2: Bonus mechanism has a positive effect on transfer pricing**.**

The Effect of Tunneling Incentives on Transfer Pricing

Tunneling incentives, as described by Mineri and Paramitha (2021), refer to practices implemented by the main investor or party controlling the company in the transfer of company assets aimed at obtaining personal benefits. The conflict between majority and minority investors creates a favorable environment for transfer pricing practices. Tunneling incentives can be actualized through the transfer of corporate profits, cash, or assets, resulting in a decrease in corporate profits. This profit shifting is usually done through sales or purchase transactions through the use of non-proportional transfer prices. This action is taken as a manifestation of the interests of majority investors, who then gain power and incentives within the company. Previous studies by Herawaty and Anne (2019), Jihanda and Sufiyati (2023), and Rahma and Wahjudi (2021) explain that tunneling incentives have a positive impact on transfer pricing practices. This is due to the fact that companies often use transfer pricing techniques to manipulate profits and shift funds between their subsidiaries. Tunneling incentives refer to internal incentives or policies that encourage corporate managers to transfer wealth or profits from one business unit to another within the same company. Companies may use transfer pricing to optimize profits and taxes by moving the prices of products, services, or intellectual property rights between business entities within the company. Tunneling incentives can encourage companies to set transfer prices that are unfair or disadvantage one business unit for the benefit of another business unit. Based on this explanation, the hypothesis formulation can be described as follows:
Ha3: Tunneling incentives have a positive effect on transfer pricing

From the explanation that has been given, this research focuses on a number of variables through a conceptual framework which is the basis for formulating research hypotheses, including the Research Paradigm.

Figure 1 Research Paradigm



METHODS

Sampling

Sugiyono (2022: 131) explains that the sample is a component of the overall population that has certain characteristics. In this study, the technique used in taking non-probability sampling samples was purposive sampling, in accordance with the method described by Sugiyono (2022: 131). Purposive sampling involves determining certain criteria in sample selection. The following are the criteria determined for the sample taken:

1. Multinational manufacturing companies listed on the IDX within 2018-2022.
2. Companies managed by foreign entities with a stake of at least 20%.
3. Companies that thoroughly reported their annual financial statements in 2018-2022.
4. Companies that did not experience losses during the 2018-2022 period, because the losses experienced by the company made them not have the responsibility to pay taxes.
5. Companies that provide detailed data on each variable that is the focus of this research.

Data Collection

The main source in this research is secondary data. Data collection is carried out through documentation techniques through access to the official website www.idx.co.id. This source provides quantitative data in the form of annual financial reports that have been published by multinational manufacturing companies listed on the IDX in 2018-2022.

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RESULTS

Statistical Analysis Results

Determining the required sample characteristics of the research requires descriptive statistical analysis, which offers an initial description of the research variables. The income tax rate (ETR), bonus mechanism (ITREND LB), tunneling incentives (TI) and transfer pricing (Dummy) variables in the sample are all subjected to descriptive statistical analysis in this study. The subject of this study obtained 66 data processed in accordance with the sample selection criteria and after outliers. The findings of the descriptive statistical analysis explain the minimum,

maximum, mean and standard deviation of each independent and dependent variable in the research.

Table 1. (Descriptive Statistick Result)

	Descriptive Statistics				
	N	Minimun	Maximum	Mean	Std.Deviation
Transfer Pricing	66	0	1	0,9091	0,28968
Income Tax Rate	66	0,03	0,81	0,2548	0,10489
Bonus Mechanism	66	0,06	50,28	2,1396	6,14681
Tunneling Incentives	66	0,26	0,92	0,5303	0,18739
Valid N (listwise)	66				

Source: Data Processed, 2024

From the findings of the descriptive statistical presentation in Table 1, the following information can be described:

1. The dependent variable, namely transfer pricing, produces a minimum value of 0.00, a maximum value of 1.00, an average value of 0.9091 and a standard deviation value of 0.28968. Companies that have the lowest value of 0.00 include: Mark Dynamics Indonesia Tbk (MARK) and Prydam Farma Tbk (PYFA) this is because during 2018 to 2023 there were no sales transactions to related parties while for companies that have the highest values include: Astra International Tbk (ASII), Darya Varia Laboratoria Tbk (DVLA), Delta Djakarta Tbk (DLTA), Fajar Surya Wisesa Tbk (FASW), Indocement Tunggal Prakarsa Tbk (INTP), Indofood Sukses Makmur Tbk (INDF), Indopoly Swakarsa Industry Tbk (IPOL), Japfa Comfeed Indonesia Tbk (JPFA), Merk Indonesia Tbk (MERK), Nippon Indosari Corporindo Tbk (ROTI), Sekar Bumi Tbk (SKBM) and, Sekar Laut Tbk (SKLT) this is because these companies conduct sales transactions to related parties.
2. The independent variable income tax rate produces a minimum value of 0.03, a maximum value of 0.81, an average value of 0.2548, and a standard deviation value of 0.10489. The company that has the lowest income tax rate value is Fajar Surya Wisesa Tbk (FASW) in 2020, this is because in 2020 Fajar Surya Wisesa Tbk experienced a significant decrease in profit before tax and tax expense where in research the income tax rate is calculated using the ETR ratio formula, namely the tax expense is shared with profit before tax. While the company that has the highest income tax rate value is Sekar Bumi Tbk (SKBM) in 2019, this is because although profit before tax in 2019 decreased, the tax burden borne by Sekar Bumi Tbk in 2019 was quite high where the difference between profit before tax and tax burden was 957,169,058.
3. The independent variable bonus mechanism has a minimum value of 0.06, a maximum value of 50.28, an average value of 2.1396, and a standard deviation value of 6.14681. The company that has the lowest bonus mechanism value is Sekar Bumi Tbk (SKBM) in 2019, this is because the amount of profit in 2019 has decreased very drastically where to get the value of the bonus mechanism is calculated using the Profit Trend Index ratio formula, namely current year profit divided by previous year profit. While the company with the highest bonus mechanism value is Prydam Farma Tbk (PYFA) in 2022, this is because the company's profit has increased significantly in 2022 when compared to the company's profit in 2022.
4. The independent variable tunneling incentives has a minimum value of 0.26, a maximum value of 0.92, an average value of 0.5303, and a standard deviation value of 0.18739. The company that produces the smallest tunneling incentives is Nippon Indosari Corporindo Tbk (ROTI), this happens because the largest number of share ownership is only 25.773% of the total outstanding shares, where in calculating tunneling incentives using the ratio formula of the largest number of shares divided by the total outstanding shares. While the company with the highest tunneling incentives value is Darya Varia Laboratoria Tbk (DVLA), this is due to the presentation of the largest ownership stake in the company of 92.23%.

Test Results

Multicollinearity checking aims to observe the relationship between the independent variables in the regression model (Ghozali, 2018). The regression model is said to be optimal if it does not show a relationship to the independent variables. The following multicollinearity test results can be observed in Table 2 below:

Table 2. (Multikolinieritas Result)

Coefficients								
		Unstandardized	Coefficients	Standardized Coefficients			Colinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	1,228	0,128		9,621	<.001		
	Income Tax Rate	0,096	0,303	0,035	-0,317	0,752	0,951	1,051
	Bonus Mechanism	-0,02	0,005	-0,418	-3,796	<.001	0,945	1,058
	Tunneling Incentives	-0,568	0,167	-0,368	-3,412	0,001	0,987	1,013

Sumber: Hasil Pengolahan Data dengan SPSS 27 (2024)

From the information displayed in Table 2 it can be observed that the tolerance generated in each independent variable is above 0.10 and the VIF value in each independent variable is below 10. Thus, the conclusion is that the regression model applied in this study does not experience multicollinearity problems.

Regression Test Results

Ghozali (2018: 325) explains that logistic regression is a statistical approach that is applied in assessing whether the dependent variable can be assumed from the independent variable. There are four stages of testing in logistic regression analysis, such as Overall Model Fit Assessment, Goodness of Fit Test, Coefficient of Determination (Nagelkerke's R Square), and Classification Matrix (Ghozali, 2018: 332-334).

Overall Model Test Results

The application of the overall model assessment aims to measure all independent variables in influencing the dependent variable. The Likelihood function (L) is the type of statistic applied. The (L) function indicates the probability that the proposed model reflects the data entered (Ghozali, 2018: 332). The findings of the overall model fit test can be observed in Table 3 below:

Table 3. (Overall Model Test Results)

1. Interation Block 0

Iteration History [a,b,c]			
			Coefficients
Iteration		-2 Log Likelihood	Constan
Step 0	1	43,117	1,636
	2	40,32	2,165
	3	40,212	2,295
	4	40,212	2,303
	5	40,212	2,303
a. Constan is included in the model.			
b. Initial -2 Log Likelihood: 40.212			
c. Estimation terminated at iteration number 5			
because parameter estimates changed by less than 0.001			

Source: Data Processing Results with SPSS 27 (2024)

2. Interation Block 1

Iteration History[a,b,c,d]

Iteration		-2 Log likelihood	Coefficients Constant	Tarif Pajak Penghasilan	Mekanisme Bonus	Tunneling Incentives
Step 1	1	34.843	2.913	.385	-.079	-2.274
	2	27.114	4.826	1.739	-.119	-4.922
	3	24.280	5.820	6.466	-.140	-7.681
	4	23.348	6.290	12.219	-.150	-10.076
	5	23.258	6.723	13.799	-.163	-11.046
	6	23.256	6.795	14.009	-.166	-11.189
	7	23.256	6.797	14.013	-.166	-11.192
	8	23.256	6.797	14.013	-.166	-11.192

a. Method: Enter
b. Constant is included in the model.
c. Initial -2 Log Likelihood: 40.212
d. Estimation terminated at iteration number 8 because parameter estimates changed by less than .001.

Source: Data Processing Results with SPSS 27 (2024)

Based on the Iteration History Table, Block Number = 0 has a value of 40,212. After three independent variables are entered, it can be seen that at Block Number = 1, there is a decrease of 23.256. The reduction that occurs indicates that the hypothesized regression model is categorized as feasible or in accordance with the data. In the Block 1 Iteration History Table, when variables are input to the model, the value of N = 66. DF = N - total independent variables - 1 =66 - 3 - 1 = 62. Chi-Square (X2) table at DF 62 with a significance level of 0.05 = 81.38102. The -2LL value (23.256) < X2 table (81.38102), so the null hypothesis (H0) is accepted, showing that the addition of independent variables to the model is in accordance with the data.

Good of Fit Model Test Results

Evaluation of the fit of the regression model is carried out through the Hosmer and Lemeshow method, which is evaluated from the resulting chi-square. The method applied aims to check the suitability of empirical data to the model, indicating that no dissimilarity is found between the model and the data, so the model is considered suitable (Ghozali, 2018: 333). The results of the Goodness of Fit Model test can be found in Table 4 below.

Table 4. (Good of Fit Model Test Results)

	Hosmer and Lemeshow Test		
Step	Chi-Square	df	Sig.
1	7,096	7	0,419
Source: Data Processing Results with SPSS 27 (2024)			

From the data in Table 4, the Hosmer and Lemeshow test obtained chi-square results worth 7.096 whose significance level reached 0.419. The resulting significance exceeds 0.05, so the hypothesis cannot be rejected (accepted), indicating that the model is appropriate (Ghozali, 2018: 333).

Coefficient Test Results

The use of the coefficient of determination (R2) is used as a model measurement index to see its ability to explain variations in the dependent variable (Ghozali, 2018). The findings of the coefficient of determination test can be found in Table 5 below.

Table 5. (Coefficient Test Results)

	Model Summary		
		Cox & Snell R	Nagelkerke R
Step	-2 Log Likelihood	Square	Square
1	23.256[a]	0,227	0,497
a. Estimation terminated at iteration number 8 because			
parameter estimates changed by less than .001.			
Source: Data Processing Results with SPSS 27 (2024)			

By referring to the data in Table 5, the resulting Adjusted R Square reaches 0.497. This condition illustrates that about 49.7% of the variation in the dependent variable Transfer Pricing can be explained by independent variables such as income tax rates, bonus mechanisms, and tunneling incentives, especially in Multinational Manufacturing companies listed on the Indonesia Stock Exchange during the period 2018-2022. Meanwhile, about 50.3% of the remaining variation in the dependent variable is explained by several other factors that are not included in the focus of this study.

Matrix Test Results

The application of the classification matrix aims to assess the ability of the logistic regression model to forecast transfer pricing. The findings of the classification matrix evaluation can be identified in Table 6.

Table 5. (Matrix Test Results)

		Classification Tabel [a,b]			
				Predicted	
			Transfer Pricing		Percentage
	Observed		0	1	Correct
Step 0	Transfer Pricing	0	0	6	0
		1	0	60	100
	Overall Percentage				90,9
a. Constant is included in the model					
b. The cut value is 0.5					
Source: Data Processing Results with SPSS 27 (2024)					

Based on the Classification Table, the percentage of model accuracy can predict correctly by 90.9%. Where the percentage of data correctness level in transfer pricing is 100%.

Simultaneous Analysis Test Results (F Test/ANOVA)

The use of the F test aims to assess the effect of independent variables simultaneously that have been included in the regression model on the dependent variable. The following F test results can be found in Table 7 below:

Table 6. (ANOVA Results)

Omnibus Tests of Model Coefficients				
		Chi-Square	df	Sig.
Step 1	Step	16,956	3	0,001
	Block	16,956	3	0,001
	Model	16,956	3	0,001
Source: Data Processing Results with SPSS 27 (2024)				

Based on the information in Table 4.8, the Chi-Square result is 16.956 with the number of degrees of freedom (df) of 3. The resulting significance is 0.001 (p value

Individual Parameter Significance Test Results (T Test)

The use of the T test aims to measure the extent to which the impact of each independent variable is able to explain the dependent variable (Ghozali, 2018). The following T test is generated, can be identified in Table 8:

Table 7. (T Test Results)

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	Tarif Pajak Penghasilan	14.013	9.804	2.043	1	.153	1218700.748
	Mekanisme Bonus	-.166	.220	.573	1	.449	.847
	Tunneling Incentives	-11.192	4.354	6.606	1	.010	.000
	Constant	6.797	2.772	6.013	1	.014	894.991

a. Variable(s) entered on step 1: Tarif Pajak Penghasilan, Mekanisme Bonus, Tunneling Incentives.

DISCUSSION

The Effect Of Income Tax Rate On Transfer Pricing

Based on the test, ETR ratio is used to see the impact of income tax rate variable on transfer pricing variable. This ratio is a way to measure the tax expense divided by profit before tax, and produces a significance value (sig) of 0.153, which exceeds the value of 0.05. Thus, H1 is rejected, indicating that income tax rate does not have a significant impact on transfer pricing. The findings show that income tax rate is not the main factor that encourages companies to apply transfer pricing. This condition occurs because the purpose of transfer pricing involves other factors, such as subsidiary protection or company performance consideration.

The resulting research is consistent with the agency theory that observes the conflict of interest between the principal and the agent. The conflict arises because the principal sees tax savings as an effort to increase company profitability, while the application of savings is not always carried out by agents to optimize profits. The research conducted is in accordance with several previous studies, including studies by Herawaty and Anne (2019), Jihanda and Sufiyati (2023), and Mineri and Paramitha (2021), which also concluded that there was no effect of taxes on transfer pricing. However, there are differences in the studies of Pranada and Triyanto (2020), Marliana, Prihatni, and Muliasari (2022), which show a positive effect of taxes on transfer pricing.

The Effect Of Bonus Mechanism On Transfer

The resulting test shows that the bonus mechanism variable has a significant impact on the transfer pricing variable, which is measured through the earnings trend index ratio that divides annual earnings by the previous year's earnings. The significance value (sig) of 0.449, exceeds the value of 0.05. Therefore, H2 is rejected, which indicates that there is no significant influence of bonus mechanism on transfer pricing. This finding shows that the amount of bonus mechanism in a company does not affect the company's decision to apply transfer pricing. The bonus given to managers and employees is not always based on the high profit generated. The company that has stabilization on its profit, makes the bonus received by employees from managers will also be stable. Therefore, company managers do not feel the need to apply transfer pricing in getting a bonus for their good performance. The resulting research is similar to the findings of Mardiawati and Prananjaya (2019), Prananda and Triyanto (2020), Mineri and Paramitha (2023), which showed no effect of the bonus mechanism on transfer pricing. However, the results obtained are inconsistent with the studies of Herawaty and Anne (2019), Rahma and Wahjudi (2021), Jihanda and Sufiyati (2023), which show a positive effect of the bonus mechanism on transfer pricing.

The Effect Of Tunneling Incentives On Transfer

The resulting test shows that the tunneling incentive variable has a significant impact on the transfer pricing variable, measured through the ratio of the number of shares distributed to the total shares outstanding, with the resulting significance of 0.010 or below 0.05. Therefore, H3

is rejected with the statement that tunneling incentive has a positive and significant impact on transfer pricing. This finding indicates that companies with high tunneling incentives usually apply low transfer pricing, while companies with low tunneling incentives tend to apply high transfer pricing. Agency theory asserts that agency problems occur due to differences in interests of investors and company managers. One of the causes of agency problems is the order of company ownership. The order of company ownership becomes one party has full control over the company, causing problems for majority and minority. Tunneling incentives create a situation that makes part of the company as the main investor or manager. Based on the findings, this research shows that the lower the tunneling incentive obtained, the more likely the company performs transfer pricing, and vice versa, the higher the tunneling incentive obtained in the company, the application of transfer pricing is low to be performed by the company. The resulting research is consistent with the research data, such as the example of Indopoly Swakarsa Industry Tbk company with tunneling incentive value of 0.295 and transfer pricing value of 1.00. In the transfer pricing variable, the value of 1.00 indicates sales to related parties. Similarly, the company Nippon Indosari Corporindo Tbk with tunneling incentive value of 0.258 and transfer pricing value of 1.00, indicates the existence of sales to related parties. These examples show that companies with relatively small tunneling incentive value tend to apply transfer pricing. In addition, the resulting research is in accordance with research data on Mark Dynamics Indonesia Tbk company with tunneling incentive value of 0.788 and transfer pricing value of 0.00. In the transfer pricing variable, the value of 0.00 indicates the absence of sales to related parties. Likewise, in the company Prydam Farma Tbk with a tunneling incentive value of 0.404 and a transfer pricing value of 0.00, indicating the absence of sales to related parties. These examples show that companies with relatively high tunneling incentive value usually do not apply transfer pricing.

The research conducted is consistent with the findings of Baiti and Suryani (2020) which show that there is a negative effect of tunneling incentives on transfer pricing. However, this finding is inconsistent with the studies of Herawaty and Anne (2019), Supriyati, Murdiawati, and Prananjaya (2021), Sari, Hermawan, and Fitriana (2021) explaining that there is no effect of tunneling incentives on transfer pricing. In addition, this finding is similar to the studies of Mineri and Paramitha (2021), Anggraeni and Lutfillah (2019) which explain that there is a positive effect of tunneling incentives on transfer pricing.

CONCLUSION

This study aims to examine the effect of income tax rates, bonus mechanisms, and tunneling incentives on transfer pricing. The secondary data used comes from the annual reports of multinational manufacturing companies listed on the Indonesia Stock Exchange during the period 2018-2022. From the results of the analysis and discussion in the previous section, the conclusions that can be drawn are:

1. Income tax rate does not significantly affect transfer pricing. The findings indicate that the main factor motivating firms to implement transfer pricing is not the income tax rate. The company's purpose in involving transfer pricing is not only related to minimizing the tax burden, but also involves other considerations, such as protecting subsidiaries or creating a standard assessment of company performance.
2. Bonus mechanism does not significantly affect transfer pricing. From the research analysis, it is concluded that the level of sustainability or the value of bonus mechanism in a company has no impact on the company's choice in applying transfer pricing. Bonus compensation given to managers and employees does not always depend on the high level of profit. In companies with relatively stable and guaranteed profits, the provision of bonuses to managers or employees tends to be stable. Therefore, company managers do not have the urge to apply transfer pricing to obtain bonuses for good performance.

3. Tunneling incentives have a negative significant effect on transfer pricing. In other terms, companies with high tunneling incentives are more likely to do transfer pricing with low value, while companies with low tunneling incentives are more likely to do transfer pricing with high value. This phenomenon arises because companies with low tunneling incentives tend to optimize their profits by transferring profits or corporate assets for personal interests.

LIMITATION

This study has limitations that need to be considered for further researchers in order to achieve better results in the future as follows:

1. Limited multinational manufacturing companies so that the samples obtained are also limited.
2. The existence of data outliers so that the number of data tested is reduced

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