

The Effect of Taxes, Tunneling Incentives, and Bonus Mechanisms on Transfer Pricing Decisions

(Kesan Cukai, Insentif Tunneling, dan Mekanisme Bonus terhadap Keputusan Transfer Pricing)

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ABSTRACT

Transfer pricing refers to a company's approach in determining transaction values for goods, services, and other financial dealings conducted with subsidiaries or affiliated entities that share a special relationship. This research seeks to examine the impact of tax obligations, tunneling incentives, and bonus mechanisms on transfer pricing practices. The study adopts a quantitative methodology, focusing on mining sector firms listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. From a population of 72 companies, a sample of 16 was selected purposively, resulting in 80 panel data based on five years of financial statements. The data, sourced from annual reports accessed via the official IDX website, were analyzed using panel data regression with the Random Effect Model (REM), utilizing EViews version 12. The findings reveal that while tunneling incentives and bonus mechanisms do not significantly affect transfer pricing decisions, the tax variable exhibits a statistically significant negative relationship with transfer pricing behavior.

Keywords: tax; tunneling incentive; bonus mechanism; transfer pricing; mining sector

ABSTRAK

Transfer pricing merujuk kepada pendekatan yang digunakan oleh sesebuah syarikat dalam menentukan nilai transaksi bagi barangan, perkhidmatan, dan hubungan kewangan lain yang dijalankan bersama entiti subsidiari atau afiliasi yang mempunyai hubungan istimewa. Kajian ini bertujuan untuk mengkaji pengaruh cukai, insentif tunneling, dan mekanisme bonus terhadap transfer pricing. Kajian ini menggunakan pendekatan kuantitatif dengan memberi tumpuan kepada syarikat-syarikat dalam sektor perlombongan yang tersenarai di Bursa Saham Indonesia (BEI) bagi tempoh tahun 2020 hingga 2024. Daripada populasi sebanyak 72 buah syarikat, sebanyak 16 buah syarikat telah dipilih melalui kaedah persampelan bertujuan (purposive sampling), menghasilkan sejumlah 80 data panel berdasarkan laporan kewangan tahunan dalam tempoh lima tahun. Data diperolehi daripada laporan tahunan yang dimuat turun melalui laman sesawang rasmi BEI dan dianalisis menggunakan regresi data panel dengan Model Kesan Rawak (Random Effect Model, REM) melalui perisian EViews versi 12. Hasil kajian menunjukkan bahawa insentif tunneling dan mekanisme bonus tidak memberikan kesan yang signifikan terhadap keputusan transfer pricing, manakala cukai menunjukkan hubungan negatif yang signifikan secara statistik terhadap perlakuan transfer pricing.

Kata kunci: cukai; insentif tunneling; mekanisme bonus; transfer pricing; sektor perlombongan

INTRODUCTION

Globalisation has driven the growth of cross-border trade, marked by the expansion of multinational companies through the creation of regional subsidiaries or branch offices in multiple countries worldwide. International transactions, including transactions involving products and services, can open up opportunities for expansion into countries with promising prospects for sales, raw material sources, service provision, and so on (Meiriasari & Nurkholis, 2023). Prananda & Triyanto (2020) states that differences in taxation rules between countries create potential tax risks, such as differences in rates, which encourage businesses to apply transfer pricing mechanisms to optimize tax liabilities that entities need to pay. Transfer pricing refers to setting the value of transactions between related entities or affiliated entities. (Jannah et al. 2022). This practice can be carried out between departments within a single company (intra-company) or between companies within a single group (inter-company) (Saputra et al. 2020). Although initially intended as a basis for assessing the effectiveness of work between divisions within an organisation (Sadiah & Afriyenti, 2021), transfer pricing is frequently employed as a tool in corporate tax planning by setting prices that are not in line with market conditions to relocate profits to low-tax jurisdictions (Novira et al. 2020). As a profit-oriented multinational company, transfer pricing practices are certainly an effective measure.

Transfer pricing remains a critical challenge for tax authorities, including those in Indonesia, as it is a highly sensitive topic in the business world. By shifting the tax obligations of multinational companies to low-tax jurisdictions, they can reduce or even eliminate state tax receipts (Fitri et al. 2019). One case that became a topic of discussion in Indonesia in 2019 involved the mining company PT Adaro Energy Tbk, which transferred profits and earnings to its Singapore-based subsidiary, Coaltrade Services International. As reported by DJP, this constitutes tax avoidance. A report by Global Witness revealed that this strategy was implemented through the sale of coal to affiliated entities at below-market prices, which were then resold at higher prices. This strategy is suspected to have caused potential tax revenue losses for the Indonesian government amounting to 125 million US dollars, as well as a reduction in annual tax obligations of approximately 14 million US dollars due to the role of tax havens.

The most recent case related to the application regarding transfer pricing practices in Indonesia involves allegations of tax evasion through illegal exports of approximately five million tonnes of nickel ore exported to China from January 2020 to June 2022. However, the

government had already enforced a prohibition on nickel exports, which took effect on 1 January 2020 under the Ministry of Energy and Mineral Resources Regulation (SIMBARA) No. 11 of 2019. The Corruption Eradication Commission (KPK) revealed that several business entities are suspected of engaging in transfer pricing practices by exploiting weaknesses in the national mining governance system, specifically the Mineral and Coal Information System, which was only implemented in 2022. In this case, the buyers of nickel ore were found to have smelting facilities and Mining Business Permits (IUP), which created loopholes for manipulating export volumes and evading tax obligations. As a result, the state faces significant potential losses, with the estimated export value discrepancy amounting to Rp 14.5 trillion and potential revenue losses from royalties and export duties totaling approximately Rp 575 billion. This finding underscores that large-scale companies with vertically integrated business structures have a greater tendency to avoid taxes through transfer pricing mechanisms.

Taxes serve as a key factor in determining transfer pricing policies. Pursuant to Law No. 28 of 20, 'taxes are mandatory contributions to the state owed by individuals or entities that are enforceable by law, without receiving direct compensation, and are used for the needs of the state for the greatest prosperity of the people'. Companies perceive taxes as a financial burden that diminishes net earnings. Therefore, firms tend to use transfer pricing by manipulating profit reports to appear smaller than they are, to minimize the tax obligations payable to the government (Rachmat, 2019). From a fiscal perspective, this strategy can result in a decline in government revenue, as companies often relocate their fiscal obligations from high-tax regions to low-tax areas (Mulyani et al. 2020). Studies by (Cledy & Amin, 2020; Prananda & Triyanto, 2020) found taxation has a significant association with transfer pricing practices. However, these findings contradict those of studies by (Louw, 2020; Wulandari et al., 2021), which did not prove that taxation variables can influence such practices.

Tunneling incentives, which are efforts to transfer company assets or profits to meet the objectives of dominant shareholders, are another factor that influences this, besides taxation (Chen et al., 2017). Forms of tunneling involve the non-distribution of dividends to minority shareholders, asset or security sales to business entities that are still under the control of the majority shareholder at below market value, and appointing incompetent individuals (including family members) to important positions within the company. According to Regulation No. IX.F.1 of the Capital Market Supervisory Agency (BAPEPAM), an individual is classified as a

majority shareholder if they control at least 20% of the voting rights in the company. According to studies conducted by (Indriaswari & Aprillia, 2017; Putri, 2019), tunneling incentives influence transfer pricing decisions. Conversely, research by Saifudin & Putri (2018) found that they have no significant influence.

The bonus mechanism is the final factor that drives entities to engage in transfer pricing. Bonuses are given to managers who are also company owners if they have met the company's performance targets (Rachmat, 2019). To obtain maximum bonuses, managers tend to be motivated to manipulate profits through transfer pricing practices to make financial performance appear optimal. This statement supports the bonus plan hypothesis, which posits that managers may engage in such practices as part of accounting strategies aimed at inflating reported earnings to maximize their compensation (Rezky, 2018). These are consistent with the findings of prior studies by Rezky (2018), posits that the bonus mechanism has an impact on such practice. However, these findings contradict the outcomes reported by (Putri 2019; Novira et al., (2020), which suggests there is no influence between the two.

Based on several previous studies related to the effect of tax, tunneling incentives, and bonus mechanisms on transfer pricing practices, inconsistencies are still found. Therefore, this research will re-examine the research carried out by Nurjannah et al. (2022), involving the mining sector registered on the IDX for the observation period 2020-2024, to gain a more comprehensive and up-to-date analysis of the drivers behind transfer pricing decisions in the industry. The object was chosen because it is a leading industry group with direct links to various interests, making it a focus of attention for the public, investors, and the government. Additionally, most of its investments in Indonesia are dominated by foreign capital, leading to an export orientation toward the investors' home countries. Furthermore, findings by the Ministry of Finance indicate that the mining sector's tax contribution in 2024 is expected to decline the most compared to other industries, by approximately 26.8%.

LITERATURE REVIEW

This research adopts agency theory as a conceptual framework for understanding managerial behaviour within companies. The theory describes the contractual dynamics between principals, who serve as authorisers, and agents, who act as recipients of authority to perform tasks (Jensen & Meckling, 1976). According to this theory, agency conflicts can be triggered by

conflicts of interest between principals and agents. As a result, various control and incentive mechanisms emerge to regulate these interests. McColgan (2001) identifies several causes of agency problems. First, moral hazard is a condition where managers make decisions that are not fully known or approved by shareholders and are ethically or contractually unjustifiable. Second, profit retention, where managers prefer to retain profits for personal gain, such as increasing their power, even though this may harm shareholders. Third, time horizon, where managers focus more on short-term achievements, and principals pay more attention to long-term cash flow. Fourth, managerial risk aversion by managers arises from limitations in personal portfolio diversification by avoiding high-risk investment decisions because the potential losses from such decisions directly affect personal income that is not diversified as the shareholders' portfolio.

In this study, an agency relationship can occur between the tax authority (government) as the principal and taxpayers (companies) acting as agents (Reinganum & Wilde, 1985). Based on the provisions stipulated in valid tax legislation, companies are required to fulfil their tax obligations. However, taxes are often perceived by companies as a burden that can reduce profits. Therefore, businesses tend to seek strategies to reduce their tax burden, one of which is through tax avoidance measures (Herawati & Ekawati, 2016). Additionally, this theory also explains that managers have incentives to increase profits in financial statements to appear to have good performance, which ultimately influences the granting of bonuses or remuneration (Febriyanto & Firmansyah, 2018). However, such actions can lead to manipulative practices that reduce the quality of financial statement information. Information asymmetry exacerbates agency conflicts, especially when managers, as agents, have more complete access to information than principals, as company owners. This imbalance creates the potential for abuse of authority by agents. Conflicts in the company's ownership structure can also emerge between majority and minority shareholders, given that majority owners have greater control over power and information, which can result in decisions that prioritize individual interests over the stakes of non-controlling shareholders.

This study uses positive accounting theory as a foundation for explaining how company managers respond to economic and contractual incentives in choosing certain accounting policies. This theory focuses on explaining the actual actions taken by company management, rather than how a policy should be implemented. In positive accounting theory, Watts & Zimmerman (1986) proposed three main hypotheses. First, the bonus plan hypothesis posits that managers

generally use accounting practices that can increase profits when compensation, such as bonuses, is based on net income. In such situations, managers have an incentive to accelerate revenue recognition and defer expense recognition, ultimately resulting in higher profit reports through the accrual approach. This practice is carried out to optimise bonus receipts, even though it may reduce the conservatism of financial statements. Second, the debt covenant hypothesis states that accounting methods aimed at increasing short-term profits are generally used by businesses with high debt ratios. The goal is to maintain financial ratios within the limits of debt agreements to retain the trust and support of creditors. This is done to avoid violating debt agreement terms, maintain access to funding, and avoid an increase in bankruptcy risk. Companies may potentially obtain lower credit interest rates by reporting significant profits and maintaining low debt ratios. Third, the political cost hypothesis explains that major corporations that are in the public spotlight or have a dominant position in the industry will try to lower their reported profits to avoid political pressure, such as potential government intervention or demands for tax and wage increases from labour unions. By lowering reported profits, companies seek to reduce negative expectations from external parties and show apparent declines in financial performance so as not to become targets of regulation or social criticism.

This research adopts the theory to explain how managers can choose transfer pricing policies to increase reported profits and ultimately obtain larger bonuses from company owners. The bonus plan hypothesis posits that such actions indicate a misalignment of interests between company management and shareholders in the execution of corporate responsibilities. In this context, transfer pricing serves as a corporate strategy to divert income to low-tax territories, aiming to minimize overall tax obligations. Saputra et al. (2020) also emphasise that accounting practices implemented by companies are often motivated by the desire to reduce tax burdens, so that accounting decisions are driven more by fiscal considerations than by conservative reporting principles. In the tax system, companies are obligated by the government to pay taxes based on the profits they earn. However, since taxes are seen as an element that reduces net profits, companies often seek to take steps to reduce their tax liabilities. A common strategy is to allocate part of the company's profits to related entities that operate in low-tax territories. This measure seeks to lower the overall tax liability so that the net profit after tax is higher. This situation can ultimately provide additional benefits for management, especially if their compensation is linked to the firm's profitability.

The determination of transaction values between entities where that related-party affiliation is termed transfer pricing, by Minister of Finance Regulation No. 172 of 2023. According to the OECD, this practice occurs when transactions between affiliated entities are conducted below market value, which serves as a tool for relocating profits to low-tax jurisdictions. Although conceptually neutral, this practice is commonly related with tax avoidance strategies. Darussalam et al. (2022) argue that transfer pricing has three objectives. First, from a corporate law perspective, it aims to improve corporate efficiency and cooperation among shareholders. Second, from a management accounting perspective, it aims to increase internal profits by setting prices between units within an organisation. Third, from a taxation perspective, it is used to regulate the amount of income between related entities, which has implications for the payable tax obligation by each party.

As stated in Article 1(1) of Law No. 28 of 2007, defines tax as ‘a mandatory contribution to the state owed by individual taxpayers and corporate taxpayers, which is enforceable by law, does not provide direct compensation, and is used for state purposes to the greatest extent possible with the aim of promoting the prosperity of the people.’ This mandatory contribution imposes a financial obligation on taxpayers to pay the government (Akhadya & Ariefiara, 2018).

Tunneling incentives occur when controlling shareholders transfer the assets and income of an entity, while non-controlling shareholders bear the impact (Hidayat et al., 2019). Based on PSAK No. 15, an investor is considered a majority investor if they control 20% or more of the shares of an entity, indicating direct or indirect influence. Tunneling practices can be realized, for example, through the sale of products to affiliated entities within the same business group at prices below market value or by retaining certain managerial positions even though the individuals concerned no longer have adequate competence (Wafiroh & Hapsari, 2015).

Bonuses fall under the short-term category, meaning that compensation is paid within less than twelve months, as stated in PSAK 24 on Employee Benefits. Managers usually receive bonuses as a form of appreciation for positive performance, such as an increase in company profits. However, this bonus scheme can encourage managers to manipulate reported profits. One commonly employed strategy is enhancing net profits by applying specific accounting methods aimed at portraying a more favorable picture pertaining to the firm’s fiscal performance.

RESEARCH MODEL AND HYPOTHESIS DEVELOPMENT

Positive Accounting Theory suggests that companies have an incentive to minimize political burdens, one of which is the tax burden. In the context of multinational companies with cross-border organizational structures, differences in fiscal policies between countries, particularly tax rates, give rise to differences in political costs. To minimize their tax obligations, companies exploit this condition by implementing transfer pricing strategies that allocate profits to low-tax jurisdictions. Saputra et al. (2020) argue that an increased tax burden tends to encourage companies to engage in transfer pricing practices to lower tax payments. The primary objective of this action is cost efficiency, including savings on income tax payments. However, this practice hurts government revenue due to shifting tax liabilities from high-tax nations to low-tax counterparts. This concept aligns with the findings of studies by (Cledy & Amin, 2020; Prananda & Triyanto, 2020; Nurjannah et al., 2022), which suggest that taxes influence transfer pricing. Consequently, this study formulates the following hypothesis:

H1: Taxes influence transfer pricing decisions

Furthermore, tunneling incentives describe the practice of transferring company assets and income by the controlling party to fulfill personal goals, with consequences borne by minority shareholders (Susanti & Firmansyah, 2018). From an agency theory perspective, this situation reflects an information imbalance between controlling shareholders and non-controlling owners, where the majority has greater access to information and control over company operations. Majority shareholders have the potential to use transfer pricing practices as a means of tunneling, i.e., transferring company wealth to other entities to reduce costs that could reduce profits. Directly, high tunnelling practices can increase the tendency to use transfer pricing schemes. This is corroborated by the findings of (Indriaswari & Nita, 2018; Putri, 2019; Azzura & Pratama, 2019) indicated that firms' transfer pricing practices are influenced by tunnelling incentives. Controlling shareholders tend to engage in transfer pricing to transfer assets or profits to entities they control. This has the potential to cause losses for non-majority shareholders and disrupt the transparency of the entity's annual reports. Referring to the preceding discussion, the research hypotheses formulated in this study are:

H2: Tunnelling incentives influence transfer pricing decisions

In practice, company managers will strive to present their best performance to shareholders or major investors. If the business owners evaluate the manager's performance positively, then

incentives in the form of bonuses will be given as a reward for their achievements (Saifudin & Putri, 2018). This performance-based compensation system has the potential to encourage managers to manipulate profits through transfer pricing practices to enhance the company's financial performance image. This assertion is consistent with the bonus plan hypothesis, as outlined in positive accounting theory posits, if manager compensation is based on reported profits, the chosen accounting strategies are directed toward increasing the company's profitability. Thus, such practices are used as a tool to achieve maximum profits to obtain bonuses. The research results of (Saifudin & Putri, 2018; Rachmat, 2019) support the view that bonus incentives contribute to corporate decision-making regarding transfer pricing.

H3: Bonus mechanisms influence transfer pricing decisions

METHODOLOGY

This study employs a quantitative research method. The population includes 72 annual reports of mining companies listed on the Indonesia Stock Exchange (IDX) during the period 2020–2024. These reports were retrieved from the official IDX website using a documentation technique.

OPERATIONAL DEFINITION OF VARIABLES

Table 1. Operational Definitions of Variables

Variable	Definition & Indicators	Scale
Tax (X1)	Focuses on comparing the total tax burden borne by the company to the profit earned before tax is imposed (Scholes et al., 2014) and can be seen through the company's income statement. $ETR = (\text{Total Tax Burden} / \text{Profit Before Tax}) \times 100\%$ (Nurjannah et al., 2022).	Ratio
Tunneling Incentive (X2)	Focuses on the comparison between the number of outstanding shares and controlling share ownership, which can be seen in the company's annual report under the share composition section. $TNC = (\text{Largest Shareholding} / \text{Number of Shares Outstanding}) \times 100\%$ (Nurjannah et al., 2022).	Ratio
Bonus Mechanism (X3)	Focuses on net profit from the previous year and the current year. $INTRENDLB = (\text{Net Profit Year } t / \text{Net Profit Year } t-1)$ (Nurjannah et al., 2022).	Ratio
Transfer Pricing (Y)	Focuses on the total amount of receivables from affiliated parties and the total receivables of the company, as seen in the financial position report under the assets section. $\text{Transfer Pricing} = (\text{Total Receivables from Related Parties} / \text{Total Receivables of the Company}) \times 100\%$ (Nurjannah et al., 2022).	Ratio

SAMPLE CRITERIA

The population consists of 72 mining companies listed on the IDX. The sample was selected using purposive sampling with the following criteria: (1) Mining IDX-listed corporations from

2020 to 2024; (2) Mining industry that were consistently unlisted on IDX during the five-year observation period; (3) Firms not publishing annual financial reports throughout the research period; (4) Companies with controlling ownership below 20%; and (5) Companies reporting financial losses in the period. Based on these criteria, a sample of 16 companies was obtained, resulting in 80 firm-year observations.

DATA ANALYSIS METHOD

This study uses panel data analysis involving both cross-sectional and time-series data. The initial step was a descriptive statistical analysis, followed by testing panel data using Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). CEM assumes no individual effect across entities, FEM accounts for individual-specific intercepts, while REM treats entity differences as random and uncorrelated with independent variables. Chow, Hausman, and Lagrange Multiplier (LM) tests were applied to determine the best model (Napitupulu et al., 2021). The model selection led to the use of the Random Effect Model (REM). Further analysis included partial tests and R-squared (R^2) to evaluate the individual and collective influence of the independent variables on transfer pricing. All computations were conducted using EViews version 12.

RESULTS

DESCRIPTIVE STATISTICS

Table 2. Descriptive Statistics

	Descriptive Statistics				
	N	Min	Max	Mean	Std. Dev
Tax	80	-0.27	0.55	0.24	0.11
Tunneling Incentive	80	0.23	0.90	0.56	0.14
Bonus Mechanism	80	0.12	12.71	1.72	1.86
Transfer Pricing	80	0.00	1.00	0.28	0.34

Referring to Table 2, the sample size consists of 80 observations. The average value of the tax variable (X_1) is 0.24, reflecting that the average tax burden of companies reaches 24% of pre-tax profit, with a standard deviation of 0.11, indicating a relatively small data spread, meaning the data clusters around the mean. The minimum value of -0.27 is because in 2024, Petrosea Tbk had a tax burden of Rp 33.681.608.000, while the maximum value is 0.55 because

in 2023, Radiant Utama Interinsco Tbk had a tax burden of Rp 17.514.816.936, which is not too small compared to its pre-tax profit of Rp 31.703.255.835.

The tunneling incentive variable (X2) records an average value of 0.56 and a standard deviation of 0.14, indicating a relatively narrow data distribution. The minimum value is 0.23 because in 2020, Radiant Utama Interinsco Tbk only had 174.354.500 shares compared to the total outstanding shares, while the maximum value is 0.90 because in 2022, Petrosea Tbk had a total of 905.705.657 shares, with a relatively small difference range compared to the total outstanding shares of 1.008.605.000.

The bonus mechanism (X3) demonstrates an average score of 1.72 and a standard deviation around 1.86, indicating a relatively wide data distribution and the possibility of outliers. The minimum value is 0.12 because in 2023 Mitrabara Adiperdana Tbk had a net profit of Rp 2.822.010.313.577 in the previous year, while the maximum value is 12.71 because in 2021 Indo Tambangraya Megah Tbk had a net profit of Rp 6.783.342.286.950, with a significant difference compared to the previous year's net profit of Rp 533.564.129.140.

CLASSICAL ASSUMPTION TEST

The test is conducted to validate that the regression model fulfills the criteria for a good model. In panel data analysis, normality testing is not a prerequisite for ensuring that the model is BLUE (Best Linear Unbiased Estimator), so this test is not mandatory. This is in line with the application of the REM in this research, which is estimated using the Generalised Least Squares method. According to Gujarati (2004), this method still produces consistent estimates even if the distribution of the data is non-normal, so it does not require the need to satisfy the normality assumption. In panel data analysis, the autocorrelation test is considered less relevant because this method is more commonly used in time series analysis. Therefore, the autocorrelation test is not applied in this study (Basuki, 2021). Therefore, research on panel data is sufficient to test for multicollinearity and heteroscedasticity.

The multicollinearity test is used to identify high linear relationships between independent variables in a regression model. According to Ghozali (2018), if the correlation coefficient between explanatory variables surpasses 0.9, this condition indicates multicollinearity.

Table 3. Multicollinearity Test Results

	Tax	Tunneling Incentive	Bonus Mechanism
Tax	1.000000	-0.371059	-0.116648
Tunneling Incentive	-0.371059	1.000000	0.117904
Bonus Mechanism	-0.116648	0.117904	1.000000

Referring to Table 3, since all correlation coefficients between independent variables are below 0.9, it was determined that the regression model does not suffer from multicollinearity.

The Heteroscedasticity test is used to test whether there is unequal variance of errors in the regression model. If the $p > 0.05$, the model is declared free of heteroscedasticity, and vice versa (Basuki, 2021).

Table 4. Heteroscedasticity Test Results

Variable	Prob.
Tax	0.6150
Tunneling incentive	0.1884
Bonus mechanism	0.8939

Referring to Table 4, all variables have probability values exceeding the significance threshold. Specifically, for tax at 0.6150, tunneling incentive at 0.1884, and bonus mechanism at 0.8939. Since all three values are above the significance threshold, the model does not exhibit heteroskedasticity and meets the homoskedasticity assumption.

PANEL DATA REGRESSION ANALYSIS

All variables, both independent and dependent, analyzed in this research were predicted using panel data regression with the REM approach. This is the equation produced by this research:

$$Y = 0,356 - 0,459X1 + 0,058X2 + 0,003X3 + e$$

From the above equation, the constant indicates that 0.356 indicates that if all independent variables, tax (X1), tunneling incentive (X2), and bonus mechanism (X3), are assumed to be constant, the transfer pricing value (Y) is estimated to be 0.35. Furthermore, the coefficient tax is -0.459, indicating that for each unit increase in the tax (X1) will be a decline in transfer pricing (Y) value of 0.459 units. Thus, an increase in the tax liability tends to reduce the intensity of transfer pricing, as indicated by the negative nexus between the two variables.

Similarly, the coefficient for tunneling incentive of 0.058 indicates that a per-unit increase in tunneling incentive (X2) will rise in transfer pricing (Y) value of 0.058 units. An increase in tunneling incentive activity tends to encourage companies to engage in transfer pricing practices more frequently. Finally, the bonus mechanism coefficient is 0.003, indicating that a one-unit increase in the bonus mechanism (X3) will increase the transfer pricing (Y) value by 0.003 units. In other words, an increase in the bonus mechanism can motivate companies to engage in transfer pricing more frequently.

PARTIAL TEST

Table 5. Partial Test Result (t)

Variable	Coefficient	Std. Error	t-statistic	Prob.
Costant	0.356	0.185	1.924	0.058
Tax	-0.459	0.231	-1.984	0.051
Tunneling Incentive	0.058	0.314	0.185	0.854
Bonus mechanism	0.003	0.010	0.289	0.773

Referring to Table 5, the tax variable has a regression coefficient of -0.459, with a t-statistic of -1.984 and a p-value of 0.051, which is below the 0.10 significance threshold. This suggests that the effect is statistically significant, albeit at a weak level. These results provide empirical support for the first hypothesis (H1), which posits that the tax variable influences corporate transfer pricing practices. Although the level of significance is relatively modest, the negative coefficient indicates an inverse relationship, implying that as the tax burden increases, the likelihood of companies engaging in transfer pricing decreases.

Furthermore, the tunneling incentive variable exhibits a regression coefficient of 0.058, with a t-statistic of 0.185 and a p-value of 0.854, which exceeds the 0.10 significance threshold. While the positive coefficient suggests a tendency for increased tunneling incentive activity to be associated with a higher possibility of companies adopting transfer pricing practices, the effect is not statistically significant due to the high p-value. Consequently, the second hypothesis (H2), which posits that tunneling incentives influence transfer pricing decisions, is not supported by the empirical evidence.

The bonus mechanism variable has a regression coefficient of 0.003, with a t-statistic of 0.289 and a p-value of 0.773, which is well above the 0.10 significance threshold. Although the positive coefficient suggests that an increase in the application of bonus mechanisms may lead to a higher likelihood of companies engaging in transfer pricing, the statistical insignificance evidenced by the high p-value indicates that this relationship is not supported by the data. Therefore, the third hypothesis (H3), which proposes that the bonus mechanism significantly influences transfer pricing decisions, is not substantiated by the analysis results.

COEFFICIENT OF DETERMINATION (R²)

The coefficient of determination indicates how much of the total variation in the dependent variable can be explained by the regression model through the independent variables, with values ranging from 0 (no relationship) to 1 (perfect explanation) (Napitupulu et al., 2021).

R-Squared	0.054669
Adjusted R-Squared	0.017354

The R-Square (R²) value obtained in this study is 0.0547, indicating that the three independent variables tax, tunneling incentive, and bonus mechanism collectively explain only about 5.47% of the total variation in the transfer pricing variable. This suggests that the explanatory power of the regression model is relatively weak. The remaining 94.53% of the variation is likely influenced by other factors not included in the model

DISCUSSION

This study finds a negative relationship between tax burden and transfer pricing, albeit weakly significant. Firms tend to engage in transfer pricing when tax obligations are low, but adopt more cautious behavior under higher tax rates due to increased risks of audits, penalties, and reputational damage. These findings indicate a preference for regulatory compliance over aggressive tax strategies, contradicting the political cost hypothesis of positive accounting theory (Watts & Zimmerman, 1986), which posits that firms use accounting policies like transfer pricing to reduce political exposure. From an agency theory perspective, such behavior reflects managerial efforts to avoid adverse outcomes under the scrutiny of principals and regulators. These results are consistent (Susanti & Firmansyah, 2018; Hidayat et al., 2019; Darma, 2020; Putri, 2019; Widiastuti et al., 2023), but contrast with findings from (Prabaningrum et al., 2021; Cledy & Amin, 2020; Nurjannah et al., 2022), who reported a positive association between tax and transfer pricing.

The second hypothesis reveals a positive but statistically insignificant relationship between tunneling incentives and transfer pricing. While conceptually tunneling reflects controlling shareholders' intent to divert resources through mechanisms like transfer pricing, empirical evidence suggests such incentives are not the main drivers in the mining sector. This may result from stronger regulations, mandatory documentation, and stricter tax authority oversight that limit opportunities for non-transparent transactions. From the agency theory lens, although potential conflicts between majority and minority shareholders exist, they do not appear to significantly influence transfer pricing strategies. Mining firms prioritize operational efficiency and long-term sustainability over exploitative control. Robust governance structures and internal controls further reduce the scope for opportunistic behavior. These findings align with (Saifudin

& Putri, 2018; Louw, 2020; Nurjannah et al., 2022), but differ from those of (Putri, 2019; Hidayat et al., 2019; Jannah et al., 2022), who found tunneling incentives to significantly affect transfer pricing.

The third hypothesis indicates a positive but insignificant relationship between bonus mechanisms and transfer pricing. This suggests that profit-based bonuses do not substantially drive transfer pricing decisions in mining companies. Although bonus-linked incentives may encourage earnings manipulation through related-party transactions, the sector's long-term focus diminishes short-term profit motivations. Managerial compensation is generally aligned with strategic project execution and efficiency goals, while critical financial decisions remain under the purview of majority shareholders or boards. Effective oversight, internal controls, and regulatory scrutiny further constrain managerial discretion. In terms of agency theory, this implies that agency conflicts manifested as earnings manipulation for bonus maximization are limited. These findings do not support the bonus plan hypothesis of positive accounting theory. Instead, they reinforce the notion that sound governance and long-term orientation reduce opportunistic behavior. The results are consistent with (Darmawati & Muslichah, 2022; Novira et al., 2020; Wulandari et al., 2021), and contrast with (Saifudin & Putri, 2018; Rachmat, 2019; Fitri et al., 2019), who observed significant effects of bonus mechanisms on transfer pricing.

CONCLUSION AND IMPLICATIONS

The results of this study demonstrate that the tax variable has a negative influence on transfer pricing behavior. This indicates that when a company's tax burden increases, the tendency to engage in transfer pricing practices declines. In contrast, the tunneling incentive and bonus mechanism variables do not have a statistically significant impact on how companies implement transfer pricing strategies.

The finding that tax burden negatively affects transfer pricing can be a valuable reference for tax authorities in improving monitoring efforts, especially in environments where tax rates are relatively low, as such settings may increase the likelihood of transfer pricing practices. These insights may also inform efforts to enhance existing regulations and documentation standards, aiming to make them more precise and resistant to manipulation.

The lack of influence from the bonus mechanism suggests that corporate compensation systems may be effectively managed and adequately supervised. To maintain this condition,

companies should continue to uphold strong internal control structures and ensure transparency in the provision of performance-based incentives to avoid potential earnings manipulation.

Furthermore, the finding that tunneling incentives do not significantly affect transfer pricing behavior suggests that the risk of wealth diversion through related-party transactions in the mining sector is relatively minimal. This reflects positively on corporate governance in the industry and may help strengthen investor confidence.

However, this research is limited to mining companies listed on the Indonesian Stock Exchange, which means the results may not fully apply to other industries with different structural characteristics and ownership patterns. Future research is encouraged to include additional sectors such as manufacturing, financial services, or agriculture, to yield broader and more representative insights. In addition, the relatively low R² value observed in this study indicates that other factors influencing transfer pricing behavior were not captured. Subsequent studies should consider integrating variables such as ownership concentration, firm size, and governance effectiveness to develop a more comprehensive understanding of transfer pricing dynamics.

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