

**RESEARCH ARTICLE**

**The Effect of Profitability, Tunneling Incentive, Debt Covenant, and Intangible Assets on Transfer Pricing Decisions with Tax Minimization as Moderating Variables: A Case Study of Manufacturing Companies Listed on the Indonesia Stock Exchange in (2019 – 2021)**

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**ABSTRACT**

The increase of foreign investment in Indonesia in 2020 and 2021 will cause increased reception from side taxation, but the tax justice network reports that Indonesia is still experiencing loss from side tax revenue, a loss caused by corporate tax avoidance by the company multinational through transfer pricing schemes. This research aims to investigate the influence of profitability, tunneling incentives, debt covenants, and intangible assets as indicated factor influence transfer pricing decisions with tax minimization as variable moderation. The research method used is quantitative with the technique of taking samples using purposive sampling; the number of samples was 27 companies out of the 195 population. Research results revealed that profitability, tunneling incentives, and debt covenants positively affect transfer pricing decisions; meanwhile, tax minimization moderates the effect of profitability, tunneling incentives, debt covenants, and intangible assets on transfer pricing decisions.

**KEYWORDS**

Profitability, Tunneling Incentive, Debt Covenant, Intangible Assets, Transfer Pricing, Tax Minimization.

**ARTICLE INFORMATION**

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**1. Introduction**

Indonesia Investment Coordinating Board (BKPM) reported an increase in foreign investment from 2019-2021; even though Indonesia was in a state of the COVID-19 pandemic, the sectors that experienced the highest increase were the mining sector, the motor vehicle sector and the metal industry sector.



**Figure 1.1 Realization of Foreign Investment 2019 - 2021**

**The Effect of Profitability, Tunneling Incentive, Debt Covenant, and Intangible Assets on Transfer Pricing Decisions with Tax Minimization as Moderating Variables: A Case Study of Manufacturing Companies Listed on the Indonesia Stock Exchange in (2019 – 2021)**

This increase causes an increase in the realization of Indonesia's tax revenues for 2019-2021, especially income tax article 25/29 corporate income tax, income tax article 22 imports; import value added tax, and income tax article 26.

No	Jenis Pajak	Target 2021	Realisasi s.d. 31 Des					
			2020	2021	Δ% 2019 - 2020	Δ% 2020 - 2021	% Penc. 2020	% Penc. 2021
(1)	(2)	(4)	(6)	(7)	(8)	(9)=(7-6)÷6	(10)	(11)=(7÷4)
<b>A</b>	<b>PPh Non Migas</b>	<b>638,004.65</b>	<b>561,006.60</b>	<b>643,645.75</b>	<b>(21.33)</b>	<b>14.73</b>	<b>87.86</b>	<b>100.88</b>
	1. PPh Ps 21	133,804.87	141,060.85	149,747.78	(5.01)	6.16	104.81	111.92
	2. PPh Ps 22	19,930.77	16,849.78	22,789.59	(20.92)	35.25	88.04	114.34
	3. PPh Ps 22 Impor	49,555.80	27,117.48	40,474.54	(49.51)	49.26	57.24	81.67
	4. PPh Ps 23	40,228.07	40,014.26	42,857.32	(6.03)	7.11	105.73	106.54
	5. PPh Ps 25/29 OP	10,878.53	11,563.11	12,355.89	3.24	6.86	112.94	113.58
	6. PPh Ps 25/29 Badan	215,086.00	158,041.35	198,552.06	(37.88)	25.63	70.38	92.31
	7. PPh Ps 26	50,681.19	53,399.56	66,283.47	(3.00)	24.13	107.23	130.79
	8. PPh Final	117,722.46	112,848.94	110,454.16	(10.60)	(2.12)	98.24	93.83
	9. PPh Non Migas Lainnya	116.98	111.26	130.95	(16.19)	17.69	95.54	111.95
<b>B</b>	<b>PPN dan PPnBM</b>	<b>518,545.22</b>	<b>450,328.06</b>	<b>550,971.42</b>	<b>(15.28)</b>	<b>22.35</b>	<b>88.73</b>	<b>106.25</b>
	1. PPN Dalam Negeri	334,476.66	300,606.39	342,717.60	(12.73)	14.01	91.06	102.46
	2. PPN Impor	171,503.48	140,453.21	191,485.38	(18.04)	36.33	86.26	111.65
	3. PPnBM Dalam Negeri	7,909.67	5,554.00	9,434.89	(48.80)	69.88	55.74	119.28
	4. PPnBM Impor	4,614.49	3,000.58	3,367.24	(36.50)	12.22	66.49	72.97
	5. PPN/PPnBM Lainnya	40.93	713.87	3,966.31	265.17	455.60	690.42	9,690.22
<b>C</b>	<b>PBB</b>	<b>14,830.60</b>	<b>20,953.61</b>	<b>18,924.79</b>	<b>(0.91)</b>	<b>(9.68)</b>	<b>155.88</b>	<b>127.61</b>
<b>D</b>	<b>Pajak Lainnya</b>	<b>12,430.55</b>	<b>6,790.79</b>	<b>11,125.97</b>	<b>(11.55)</b>	<b>63.84</b>	<b>90.72</b>	<b>89.51</b>
<b>E</b>	<b>PPh Migas</b>	<b>45,769.99</b>	<b>33,026.74</b>	<b>52,862.96</b>	<b>(44.16)</b>	<b>60.06</b>	<b>103.67</b>	<b>115.50</b>
	<b>Total Non PPh Migas</b>	<b>1,183,811.03</b>	<b>1,039,079.06</b>	<b>1,224,667.94</b>	<b>(18.41)</b>	<b>17.86</b>	<b>89.04</b>	<b>103.45</b>
	<b>Total tmsk PPh Migas</b>	<b>1,229,581.02</b>	<b>1,072,105.80</b>	<b>1,277,530.90</b>	<b>(19.55)</b>	<b>19.16</b>	<b>89.43</b>	<b>103.90</b>

**Figure 1.2 Realization Tax Revenues 2019 – 2021**

However, according to the Tax Justice Network, which is an independent organization that conducts research and analysis in the field of taxation and regulation, it is stated that Indonesia is still experiencing losses in terms of taxation. The tax justice network reports that in 2020 and 2021, Indonesia will suffer a loss of \$4865 Million USD and \$2275 Million USD. According to the tax justice network, these losses stem from corporate tax evasion by multinational companies through transfer pricing schemes. According to Winarto & Daito (2021), transfer prices are used by multinational companies to shift profits from high-tax countries to low-tax countries. Several multinational companies carry out transfer pricing through sales and purchase transactions to affiliates, granting loans/loans to affiliates, payment of loan interest, payment of management fees, and others. Several studies examine the factors that influence companies to transfer pricing.

Profitability is indicated to be a factor that influences companies to transfer pricing. Mailia & Apollo (2020) state that profitability is the company's ability to generate profits, and the profitability ratio is a good measuring tool for assessing company performance. Research conducted by Grantley Taylor; Grant Richardson; Roman Lanis (2015), and Apriani et al. (2021) stated that profitability has a positive effect on transfer pricing; companies will try to shift profits to affiliate companies with low tax rates so that the tax burden that must be paid by the company becomes lower. The next factor is a tunneling incentive, which is the behaviour of the majority shareholder who transfers the company's assets for the benefit of the majority shareholder. Research conducted by Agustingsih et al. (2022) states that tunneling incentives affect transfer pricing, and shareholders will try to divert company profits to increase shareholder company profits through transfer pricing schemes. Debt covenants are indicated to be a factor causing transfer pricing; debt covenants are debt agreements addressed to debtors by creditors, research conducted by Grantley Taylor; Grant Richardson; Roman Lanis (2015) and Rahmadhani & Ananda (2022) state that debt covenants have a positive effect on transfer pricing. Companies will transfer profits to lending companies through payment of loan interest expenses.

Intangible assets are indicated to influence the company in conducting transfer pricing. According to PSAK 19, Intangible assets are non-monetary assets that can be identified without physical form. Research conducted by Grantley Taylor; Grant Richardson; Roman Lanis (2015), and Apriani et al. (2021) state that intangible assets have a positive effect on transfer pricing; Dischinger & Riedel (2011) state that intangible assets such as patents, trademarks, customer lists, and copyrights are the main determinants of value. Companies and the development of these intangible assets are very significant in multinational companies. Transfer pricing scheme carried out by multinational companies through the payment of royalty fees. Then the indicated factor influencing transfer pricing is tax minimization. Tax minimization is a strategy taken by the company to minimize the tax burden that must be paid by the company. Research conducted by Marfuah et al. (2021) states that tax minimization has a positive effect on transfer pricing. Companies located in countries with high tax rates will try to transfer profits to companies in countries with low tax rates. Tax

minimization also moderates the effect of profitability, tunneling incentives, debt covenants, and intangible assets on transfer pricing.

## **2. Literature Review**

### **2.1 Agency Theory**

Agency theory explains the relationship between the principal and the agent. The agent is asked to represent the principal in decision making (Jensen & Meckling, 1976). Conflicts can occur when there are differences in interests between the principal and the agent (William R Scott, 2009).

### **2.2 Signaling Theory**

The company will send a signal or signal in the form of information on the company's condition to investors (Spence, 1973). The information provided by the company is an indication of how the company's prospects are in the future (Brigham & Houston, 2018).

### **2.3 Positive Accountancy Theory**

The positive accountancy theory explains how the company's accounting process and how the information is presented so that it can be communicated to other parties (Watts & Zimmerman, 1986).

### **2.4 Transfer Pricing**

Transfer pricing is the price determined when a company transfers physical or intangible goods or services to a related company (OECD, 2017).

### **2.5 Profitability**

Profitability is a ratio to measure the company's ability to earn profits (Kasmir, 2017). The higher the profitability, the higher the profit shift made by the company through transfer pricing (Cahyadi & Noviani, 2018).

#### **H1: Profitability affects transfer pricing decisions**

### **2.6 Tunneling Incentive**

Expropriation carried out by foreign controlling shareholders will reduce the value of the company so that it can harm non-controlling shareholders (Suparji, 2012). The behaviour of the majority shareholder in transferring or transferring a number of profits or assets to increase the profit of the majority shareholder through transfer pricing (Vidiyanna Rizal Putri, 2019).

#### **H2: Tunneling Incentive affects transfer pricing decisions**

### **2.7 Debt Covenant**

A debt covenant is a debt agreement addressed to the debtor by the creditor, which is intended so that the debtor does not damage the loan value (Cochran, 2001). The way the company maintains the value of the loan can be done through transfer pricing (Nuradila & Wibowo, 2018).

#### **H3: Debt Covenant affects transfer pricing decision**

### **2.8 Intangible Assets**

Intangible assets are non-monetary assets that can be identified without physical form (PSAK 19, 2021). Multinational companies can transfer intangible assets to companies in the group located in countries with high tax rates and then receive payments in the form of royalties for the transfer (Pradana, 2018).

#### **H4: Intangible Assets affect transfer pricing decisions**

### **2.9 Profitability, tunneling incentives, debt covenants, and intangible assets moderated by tax minimization**

Tax minimization is a strategy carried out by multinational companies to transfer a number of incomes, assets, or expenses to companies in the group.

#### **H5: Tax minimization moderates the effect of profitability on transfer pricing decisions**

#### **H6: Tax minimization moderates the effect of tunneling incentives on transfer pricing decisions**

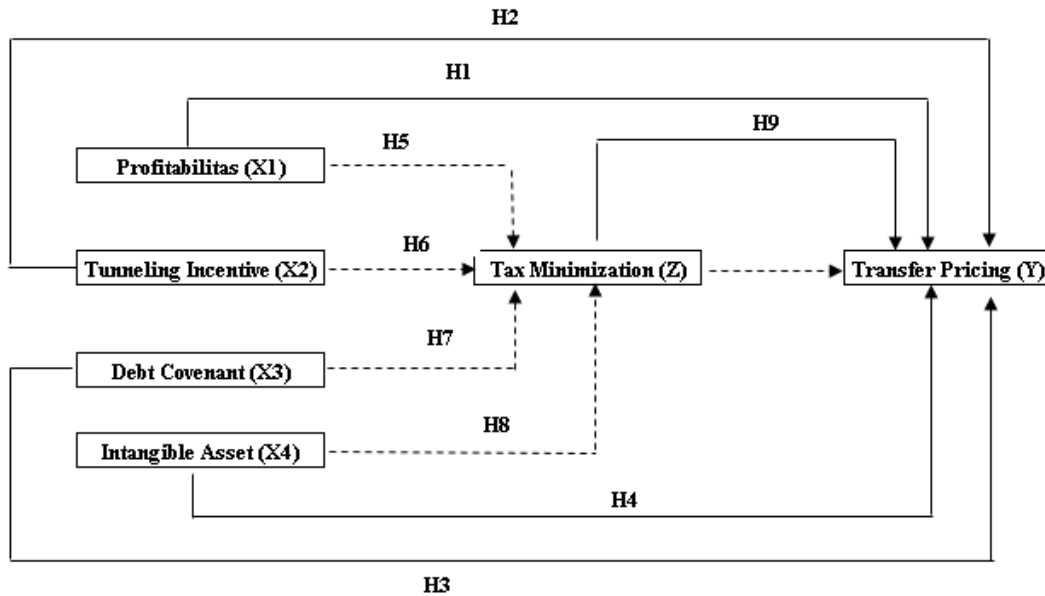
#### **H7: Tax minimization moderates the effect of debt covenants on transfer pricing decisions**

#### **H8: Tax minimization moderates the effect of intangible assets on transfer pricing decisions**

**2.10 Tax Minimization**

Tax minimization is a strategy taken by the company to minimize the tax burden that must be paid by the company. The transfer action taken is the transfer of expenses and income through transfer pricing (Hartina, 2018).

**H9: Tax minimization affects transfer pricing decisions**



**Figure 2.1 Framework of Thinking**

**3. Methodology**

This research is a quantitative research that aims to determine the effect of profitability, tunneling incentives, debt covenants, and intangible assets on transfer pricing with tax minimization as a moderating variable through annual financial report data on Manufacturing companies on the Indonesia Stock Exchange for the period 2019-2021 obtained through the website. [www.idx.co.id](http://www.idx.co.id) with a population of 195 companies and selected samples according to the criteria of 27 companies. Sample selection criteria are as follows:

1. All manufacturing companies listed on the Indonesia Stock Exchange for the period 2019 – 2021.
2. Manufacturing companies that publish financial reports consecutively during the 2019-2021 period.
3. Manufacturing companies that do not experience losses in the research period.
4. Companies that have intangible assets.
5. Companies that have receivables from affiliates.

Documentation techniques are used in data collection, and this research uses secondary data, which is processed using Eviews 12.0 software

The data analysis method used descriptive statistics, classical assumption tests, and hypothesis testing with multiple linear regression analysis methods. Moderation regression equation in this research:

$$TP = \alpha + \beta ROA + \beta TUN + \beta DER + 4 INCOME + 5(ROA * ETR) + 6(TUN * ETR) + 7(DER * ETR) + \beta 8(CELL * ETR) + \beta 9 ETR +$$

Information:

TP: Transfer Pricing

ROA: Profitability

TUN: Tunneling Incentive

DER: Debt Covenant

ITANG: Intangible Assets

ETR: Tax Minimization

Operationalization of variables in research:

**Table 3.1 Operationalization Variables:**

Variable	Indicator	Measurement Scale
<b>Transfer Pricing</b>	$\text{Transfer Pricing} = \frac{\text{Related Receivables}}{\text{Total Receivables}}$	Ratio
Profitability	$\text{ROA} = \frac{\text{Net Profit After Tax}}{\text{Total Asset}}$	Ratio
<b>Tunneling Incentive</b>	$\text{TUN} = \frac{\text{Total controlling ownership}}{\text{Total outstanding shares}}$	Ratio
<b>Debt Covenant</b>	$\text{DER} = \frac{\text{Total Liability}}{\text{Total Equity}}$	Ratio
<b>Intangible Asset</b>	$\text{Intangible Asset} = \frac{\text{Total Intangible Assets}}{\text{Total Assets}}$	Ratio
<b>Tax Minimization</b>	$\text{ETR} = \frac{\text{Tax expense}}{\text{Taxable Income}}$	Ratio

Source: data processed by the author

#### 4. Results and Discussion

This research consists of four independent variables that are profitability (ROA), tunneling incentive (TUN), debt covenants (DER) and intangible assets (ITANG); one dependent variable is transfer pricing (TP), and one moderating variable is tax minimization (ETR).

##### 4.1 Descriptive statistical analysis

**Table 4.1 Analysis Statistics Descriptive:**

	ROA	TUN	DER	ITANG	ETR	TP
mean	0.063580	0.659383	1.062840	0.010617	0.630370	0.181975
median	0.050000	0.550000	0.920000	0.000000	0.340000	0.060000
Maximum	0.360000	3.300000	3.410000	0.060000	6.580000	0.960000
Minimum	0.000000	0.100000	0.130000	0.000000	0.030000	0.000000
Std. Dev.	0.066564	0.571510	0.748883	0.015760	1.065235	0.261273
Skewness	2.652136	3.628064	1.350123	1.633040	4.131561	1.720233
Kurtosis	11.62010	17.39371	4.881544	5.016514	20.40137	5.048160
Jarque-Bera	345.7401	876.9276	36.55643	49.72595	1252.418	54.10719
Probability	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	5.150000	53.41000	86.09000	0.860000	51.06000	14.74000
Sum Sq. Dev.	0.354462	26.12987	44,86605	0.019869	90.77809	5.461084
Observations	81	81	81	81	81	81

Source: Output Eviews 12.0

1. The minimum score for profitability of 0.00% was found in the company Sekar Bumi Tbk (SKBM) in 2019, and the maximum profitability of 36% was found in Unilever Indonesia Tbk (UNVR) in 2019.
2. The minimum score for the tunneling incentive of 10% was found in the company Kalbe Farma Tbk (KLBF) in 2019, and the maximum tunneling incentive of 330% was found in the company Indal Aluminum Industry Tbk (INAL) in 2019 - 2021.
3. The minimum score for a debt covenant of 13.00% was found in the company Ekadharna International Tbk (EKAD) in 2021, and the maximum value debt covenant of 341.00% was found in the company Unilever Indonesia Tbk (UNVR) company in 2021.

4. The minimum score for intangible assets of 0.00% was found in the company Indal Aluminum Industry Tbk (INAI) in 2020, and the maximum value intangible assets of 6.00% were found in the company Impack Primary Industry Tbk (IMPC) in 2019.
5. The minimum score for tax minimization of 3.00% was found in the company Nippon Indosari Corpindo Tbk (ROTI) in 2020, and the maximum value tax minimization of 658.00% was found in the company Indal Aluminum Industry Tbk (INAI) in 2021.
6. The minimum score for the transfer pricing of 0.00% was found in the company Argha Karya Prima Industry Tbk (AKPI) in 2019, and the maximum value transfer pricing of 96.00% was found in the company Phapros Tbk (PEHA) in 2020.

**4.2 Model Selection Test**

**4.2.1 Chow Test**

The probability value of cross-section F and cross-section chi-square is  $0.0000 < 0.05$ ; then, we could conclude that the fixed effect model is good if compared with the common effects model.

**Table 4.2 Chow test**

Effects Test	Statistics	df	Prob.
Cross-section F	244.527852	(46.43)	0.0000
Cross-section Chi-square	302.990085	26	0.0000

**Sources: Output Eviews 12.0**

**4.2.2 Hausman Test**

The probability value of the random cross section is  $0.0004 < 0.05$ ; then we could conclude that the approach using a fixed effect model is good if compared with a random effects model.

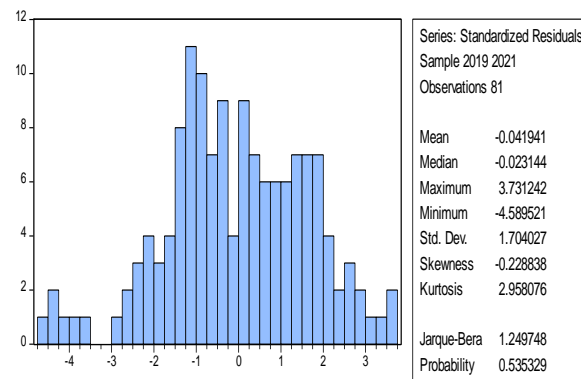
**Table 4.3 Hausman test**

Test Summary	Chi-Sq. Statistics	Chi-Sq. df	Prob.
Cross-section random	22.917255	5	0.0004

**Source: Output Eviews 12.0**

**4.3 Assumption Test**

**4.3.1 Normality Test**



**Figure 4.1 Normality Test**  
**Source: Output Eviews 12.0**

The probability value jarque-bea is by  $0.535329 > 0.05$ ; then we could conclude that the data are normally distributed.

### 4.3.2 Multicollinearity Test

The Multicollinearity Test results are shown in Table 4.4:

**Table 4.4 Multicollinearity Test**

	ROA	TUN	DER	ITANG	ETR
ROA	1.0000000	-0.050937	0.148744	0.158731	-0.276017
TUNA	-0.050937	1,000,000	0.523554	-0.174271	0.6100005
THERE	0.148744	0.523554	1,000,000	-0.148747	0.359276
ITANG	0.158731	-0.174271	-0.148747	1,000,000	-0.075441
ETR	-0.276017	0.6100005	0.359276	-0.075441	1,000,000

Sources: Output Eviews 12.0

The correlation coefficient value between independent variables is  $< 0.90$ , then no occur multicollinearity between each independent variable.

### 4.3.3 Heteroscedasticity Test

**Table 4.5 Heteroscedasticity Test**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.517238	0.095919	0.058767	0.9532
ROA	0.170013	0.148909	1.141722	0.2591
TUN	0.757676	0.161293	0.640311	0.5231
DER	0.024996	0.017405	1.436191	0.1573
ITANG	0.282802	0.386616	0.731480	0.4680
ETR	-2.88E-05	0.002877	-0.010003	0.9921

Sources: Output Eviews 12.0

The acquisition of the probability of each independent variable is  $> 0.08$ , so data is avoided from the heteroscedasticity problem.

### 4.4 Autocorrelation Test

Acquisition durbin-watson is 2.171491, while dl and 4-dw values for sample on research are 1.7720 and 1.828509, the terms for avoid autocorrelation is  $4-dw > du < dw$  and the results in this research is  $1.828509 > 1.7720 < 2.171491$  it's mean no autocorrelation happen in the regression model.

**Table 4.6. Autocorrelation Test**

R-squared	0.979761	Mean dependent var	0.181975
Adjusted R-squared	0.966957	SD dependent var	0.261273
SE of regression	0.047493	Akaike info criterion	-2.968968
Sum squared resid	0.110524	Schwarz criterion	-2.023013
Likelihood logs	152.2432	Hannan Quinn Criter.	-2.589438
F-statistics	76.52011	Durbin-Watson stat	2.171491
Prob(F-statistic)	0.000000		

Sources: Output Eviews 12.0

### 4.5 Hypothesis Testing

#### 4.5.1 Coefficient of determination test (R<sup>2</sup>)

Coefficient test determination uses the R-squared value of table 4.6; based on the output above R-squared value is 0.979761 or 97.98%; this shows that transfer pricing could be explained 97.98% by variable profitability, tunneling incentives, and debt covenants, and intangibles assets with tax minimization as variable moderation 2.02% is influenced by other variables that do not research.

**Table 4.7 Regression Data Panel**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.977543	0.272249	3.590627	0.0008
ROA	0.027967	0.422654	3.455211	0.0007
TUN	1.122233	0.457804	-2.451342	0.0178
DER	0.080039	0.049400	2.696190	0.0082
ITANG	2.785670	1.097345	2.538555	0.0144
ETR	0.002970	0.008166	2.896190	0.0052
ROA*ETR	2.417778	1.020806	2.368499	0.0218
TUN*ETR	0.021249	0.023191	-2.660701	0.0091
DER*ETR	0.024258	0.023787	-3.369694	0.0011
ITANG*ETR	0.112745	0.815047	3.926400	0.0002

**Sources: Output Eviews 12.0**

The regression formula is as follows:

$$TP = 0.977543 + 0.027967ROA + 1.122233TUN + 0.080039DER + 2.785670BILL + 2.417778ROA*ETR + 0.021249TUN*ETR + 0.024258DER*ETR + 0.112745 ITANG*ETR + 0.002970 ETR + e$$

**4.5.2 Model feasibility test (F-test)**

Prob(F-statistic) result is 0.000000 < 0.05, so that could conclude the model in this research declared fit.

**4.5.3 T-test**

Partial test output (t) obtained results as follows:

1. The probability of variable profitability (ROA) is 0.0007 H<sub>1</sub> is accepted. It means profitability (ROA) has an effect on transferring pricing.
2. The probability of variable tunneling incentive (TUN) is 0.0178 H<sub>2</sub> is accepted. It means tunneling incentive (TUN) has the effect of transferring pricing.
3. The probability of variable debt covenant (DER) is 0.0082 H<sub>3</sub> is accepted. It means debt covenant (DER) has an effect on transferring pricing.
4. The probability of variable intangible assets (ITANG) is 0.0144 H<sub>4</sub> is accepted. It means intangible assets (ITANG) have an effect on transferring pricing.
5. The probability of variable profitability moderated by tax minimization (ROA\*ETR) is 0.0218 H<sub>5</sub> is accepted. It means tax minimization could moderate influence profitability (ROA) against transfer pricing.
6. The probability of variable tunneling incentive moderated by tax minimization (TUN\*ETR) is 0.0091 < 0.05 H<sub>6</sub> is accepted. It means tax minimization could moderate influence tunneling incentive (TUN) to transfer pricing.
7. The probability of variable debt covenant moderated by tax minimization (DER\*ETR) is 0.0011 H<sub>7</sub> is accepted. It means tax minimization could moderate influence debt covenant (DER) to transfer pricing.
8. The probability of variable intangible assets moderated by tax minimization (ITANG \*ETR) is 0.0002 H<sub>8</sub> is accepted. It means tax minimization could moderate influence intangible assets (ITANG) to transfer pricing.
9. The probability of variable tax minimization (ETR) is 0.0052 H<sub>9</sub> is accepted. It means tax minimization (ETR) has an effect on transferring pricing.

**Table 4.8 T-test**

Partial Hypothesis	Direction Hypothesis	Variable	Coefficient	Std. Error	t-Statistic	Prob.	Conclusion
1	+	ROA	0.027967	0.422654	3.455211	0.0007	Received
2	+	TUN	1.122233	0.457804	-2.451342	0.0178	Received
3	+	DER	0.080039	0.049400	2.696190	0.0082	Received



4	+	ITANG	2.785670	1.097345	2.538555	0.0144	Received
5	+	ROA*ETR	2.417778	1.020806	2.368499	0.0218	Received
6	+	TUN*ETR	0.021249	0.023191	-2.660701	0.0091	Received
7	+	DER*ETR	0.024258	0.023787	-3.369694	0.0011	Received
8	+	ITANG*ET					Received
		R	0.112745	0.815047	3.926400	0.0002	
9	+	ETR	0.002970	0.008166	2.896190	0.0052	Received

Sources: Output Eviews 12.0

#### 4.6 Discussion

##### a. The effect of profitability to transfer pricing

Coefficient regression variable profitability worth positive 0.027967 with a score probability of 0.0007 means that profitability takes effect positively and direct to transfer pricing.

In 2020 and 2021, the average transfer pricing increased compared to 2019; the year 2020 is increasing 1% to 2019, and in 2021 increased by 1% 2020, while condition profitability in 2020 decreased by 1% because almost the whole company was affected by condition covid-19 pandemic, this could be seen in Figure 4.2:



Figure 4.2 Comparison of Average Profitability with Transfer Pricing 2019 – 2021

From the sample in this research could be seen that whole profit company do transfer pricing; however, the type of transfer pricing carried out by each company is different; the type of transfer pricing carried out can be in the form of sales to related parties, purchases to related parties, payment interest loan, payment fee management or technical assistant fee, payment royalties, or payment on services other because the company will make a profit shifting to affiliate companies or parent company through scheme transfer pricing for reduce the profit of the company that will have a big impact to the small amount of tax that must be paid by the company.



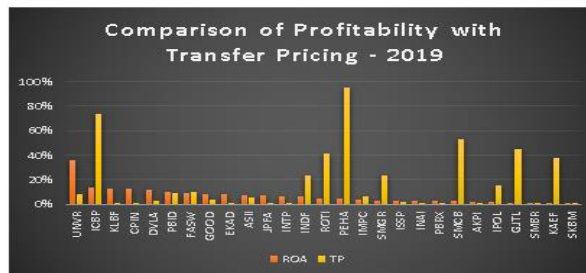
Figure 4.3 Comparison of Profitability with Transfer Pricing 2021

From figure 4.3, the three companies with the highest transfer pricing in 2021 are Solusi Bangun Indonesia Tbk (SMCB), Phapros Tbk (PEHA), and Indofood CBP Sukses Makmur Tbk (ICBP). The account in the financial statement of companies, including the transaction that impacts transfer pricing and influences the profit. The transactions are sales to related parties, purchases to related parties, royalty expenses, management fees, technical assistant fees, and insurance to related parties.



**Figure 4.4 Comparison of Profitability with Transfer Pricing 2020**

Three companies with the highest transfer pricing in 2020 are Semen Baturaja Tbk (SMBR), Kalbe Farma Tbk (KLBF), and Solusi Bangun Indonesia Tbk (SMCB), and three companies with the highest transfer pricing in 2019 are Phapros Tbk (PEHA), Indofood CBP Sukses Makmur Tbk (ICBP), and Solusi Bangun Indonesia Tbk (SMCB). It can be seen in Figure 4.5.



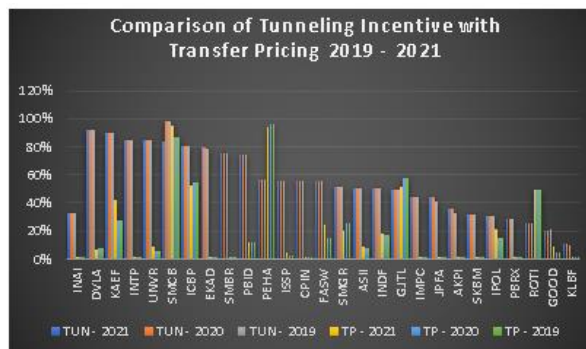
**Figure 4.5 Comparison of Profitability with Transfer Pricing 2019**

The result of the hypothesis in this research is in accordance with the results of research from (Nurwati et al., 2021), (Apriani et al., 2021), and (Junaidi & Yuniarti. Zs 2020), but not in accordance with research from (Wahyudi et al., 2021), (Prasetyo & Saputri Mashuri, 2021), and (Azzura & Primary, 2019).

**b. The effect of tunneling incentive to transfer pricing**

Coefficient regression variable tunneling incentive with positive amount 1.122233 and probability 0.0178 < 0.05 mean that tunneling incentive takes to effect positive and direct to transfer pricing.

High control from shareholders to companies can affect the high transfer pricing; the companies will deliver assets and profit to the shareholder. A comparison of tunneling incentives with transfer pricing from 27 sample companies in 2019 – 2021 can be seen in figure 4.6.

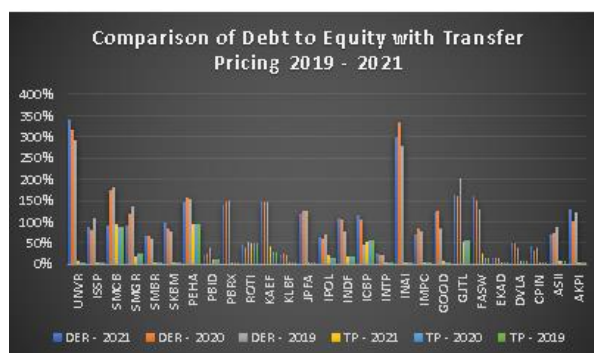


**Figure 4.6 Comparison of Tunneling Incentive with Transfer Pricing 2019 – 2021**

The result of the hypothesis in this research is in accordance with the results of research from (Handayani, 2021), (Azzura & Primary, 2019), (Rahmadhani & Ananda, 2022), and (Agustiniingsih et al., 2022) but not in accordance with the research from (Rafiqah Asaff, 2022), and (Azzura & Pratama, 2019; Saraswati, 2021).

**c. The effect of debt covenant to transfer pricing**

Coefficient regression variable debt covenant with positive amount 0.080039 and probability 0.0082 < 0.05 means debt covenants take positive effect and direct to transfer pricing. The high DER rate could be indicated by the high transfer pricing. This could be seen from the amount of debt/loan companies to affiliate companies and the interest rate of the loan that must be paid by the companies. A comparison of debt covenants with transfer pricing from 27 sample companies in 2019 – 2021 can be seen in figure 4.7.

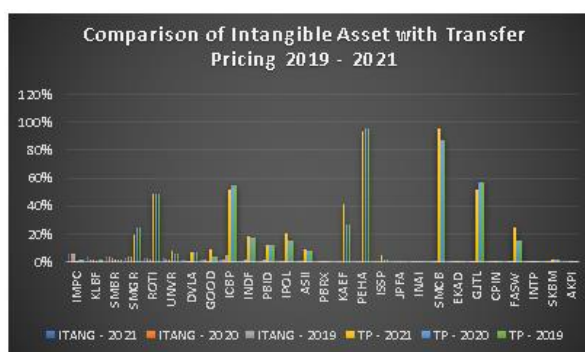


**Figure 4.7 Comparison of Debt Covenant with Transfer Pricing 2019 – 2021**

The result of the hypothesis in this research is in accordance with the results of research from (Solikhah et al., 2021), (Firmansyah & Yunidar, 2020), (Rahmadhani & Ananda, 2022), (Syahputri & Rachmawati, 2021), (Junaidi & Yuniarti. Zs, 2020), (Handayani, 2021), and (Apriani et al., 2021) but not accordance with research from (Agustiniingsih et al., 2022), and (Rahmadhani & Ananda, 2022).

**d. The effect of intangible assets to transfer pricing**

Coefficient regression variable intangible assets with positive amount 2.785670 and probability 0.0144 < 0.05 means intangible assets take positive effect and direct to transfer pricing. The high intangible assets owned by companies could be indicated by the high transfer pricing; this could be seen from royalties, patent fees and fee management that have to be paid to affiliates companies. A comparison of intangible assets with transfer pricing from 27 sample companies in 2019 – 2021 can be seen in figure 4.8.



**Figure 4.8 Comparison of Intangible Assets with Transfer Pricing 2019 – 2021**

Result of the hypothesis in this research is in accordance with the results of research from (Firmansyah & Yunidar, 2020), (Novira et al., 2020), (Depari et al., 2020), and (Apriani et al., 2021) but not in accordance with research from (Anggani & Suryarini, 2020), (Ratnasari et al., 2021), and (Sejati & Triyanto, 2021).

**e. The effect of tax minimization on profitability and transfer pricing as a mediation variable**

Coefficient regression variable profitability with tax minimization with positive amount 2.417778 and probability 0.0218 < 0.05 mean that tax minimization strengthens influence profitability to transfer pricing. The high profitability and the high tax rate will influence companies to transfer profit to the affiliate companies through a transfer pricing scheme so that the amount of profit becomes low and taxes paid to companies becomes low.

## 5. Conclusion, Implication, and Suggestion

Based on the regression equation and significance test results, as well as the discussion of this research's analysis, it is possible to conclude:

1. Profitability has a positive effect and is direct to transfer pricing.
2. *Tunneling incentive* has a positive effect and is direct to proxy transfer pricing.
3. *Debt Covenant* has a positive effect and is direct to proxy transfer pricing.
4. *Intangible assets* have a positive effect and are direct to proxy transfer pricing.
5. *Tax minimization* has a positive effect and is direct to proxy transfer pricing.
6. *Tax minimization* strengthens the effect of debt covenant to transfer pricing.
7. *Tax minimization* strengthens the effect of intangible assets to transfer pricing.
8. *Tax minimization* strengthens the effect of profitability to transfer pricing.
9. *Tax minimization* has a positive effect and is direct to transfer pricing.

Suggestions for further research:

1. Sample can use another type of companies, not only manufacturing so that they could know about transfer pricing conditions.
2. Sample use all companies with loss condition.
3. Extend the year period of research that is 2022 to know transfer pricing conditions in the condition of the pandemic covid-19 and in the recovery period pandemic of covid-19.

Suggestions for the entities:

1. Entities have their own policies related to affiliate transactions.
2. Entities can add capital through operational transactions and reduce the loan from the affiliate group.

Suggestion for The Government:

The government, through Tax Directorate General, can increase their supervision of all companies that has a transaction with affiliate companies.

The limitation of this research is they sampled only companies with profit conditions, so this research could not know about actual transfer pricing in the loss condition.

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