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**| RESEARCH ARTICLE**

## **The Influence of Debt Covenant, Tunneling Incentive, and Bonus Program on Tax Avoidance with Transfer Pricing as the Mediating Variable**

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**| ABSTRACT**

This research aims to examine and analyze the influence of debt covenant, tunneling incentive, and bonus program on tax avoidance, with transfer pricing as the mediating variable. This study employs explanatory research with a quantitative approach. The population of this study consists of non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (BEI) from 2017 to 2021. The sample was selected using purposive sampling, with a total of 200 company data. The data analysis method includes multiple linear regression analysis and the Sobel test. The research results indicate that the bonus program has a positive effect on tax avoidance. However, debt covenant and tunneling incentive do not have a significant influence on tax avoidance. Transfer pricing can mediate the influence of debt covenant and bonus program on tax avoidance. On the other hand, transfer pricing cannot mediate the effect of tunneling incentive on tax avoidance.

**| KEYWORDS**

Tax Avoidance, Debt Covenant, Tunneling Incentive, Bonus Program.

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### **1. Introduction**

Increased economic activity and the opening of international trade are crucial aspects that every country must undertake to enhance the well-being and prosperity of its people. The Indonesian government has implemented various innovations and competitiveness measures, resulting in rapid growth in both national and international trade activities. The current era of the 5th industrial revolution, which drives massive innovation and digital technology development, can contribute significantly to the country's revenue. To embrace the era of the 5th industrial revolution and recover the nation's financial condition after the pandemic, the government requires substantial financial resources to formulate new national economic development plans that foster progress amid uncertain economic conditions. "Pembangunan Indonesia Maju" (Development of Advanced Indonesia) is one of the strategies employed by the government to achieve the vision of a fair and prosperous Indonesia. The budget used to realize this vision mainly comes from taxes and non-tax sources (Pratama & Baxtishodovich, 2023). Currently, taxes serve as the main source of state revenue to support national economic development financing.

Efforts to increase revenue in the taxation sector should not solely rely on the Directorate General of Taxes but also necessitate cooperation from taxpayers themselves. Tax collection implementation is not easy due to the differing objectives between taxpayers and the fiscal authority. Entities always seek to optimize their profitability, viewing taxes as costs that can affect their business sustainability. On the other hand, the fiscal authority expects tax revenue as a substantial potential source of increasing state income. The problematic issue arising from the differing perspectives between taxpayers and the fiscal authority can lead to non-compliance when entity management plans tax strategies to adhere to the applied taxation regulations.

One of the tax planning practices undertaken is tax avoidance. Entity tax avoidance is an arrangement aimed at minimizing or even eliminating tax costs by considering the tax implications (Nabila & Zulfikri, 2018). Concerning efforts made by entities in developing countries, including Indonesia, to engage in tax management, it is still suboptimal, leading to non-compliance with existing regulations or provisions. To practice tax avoidance, entities need to have robust controls to fulfill all responsibilities as corporate taxpayers to avoid potential risks and achieve tax savings.

The first factor that can influence tax avoidance practices is debt covenant. A debt covenant is a contract directed at borrowers to restrict activities that could harm the loan value and loan recovery (Pangaribuan, 2021). One method to assess an entity's debt covenant is by using leverage proxies. Leverage is the ratio of total debt to total assets used to measure a company's debt. It aims to provide an overview of the company's capital structure, allowing the assessment of the risk of debt defaults (Rose et al., 2017). Leverage used commonly originates from the debt ratio.

The second factor that can influence tax avoidance practices is a tunneling incentive. Tunneling incentive refers to the behavior of majority shareholders who transfer tangible and intangible assets and corporate profits for their benefit, while minority shareholders bear the costs they impose (Hartati, 2015). Tunneling incentive can be carried out in various ways, such as determining transfer prices, retaining positions or job positions even when they are no longer competent in running the business, and selling company assets to affiliated companies or managers (Wafiroh & Hapsari, 2015).

Research conducted by Lestari (2018) on tunneling incentive shows that it has an impact on tax avoidance, as multinational companies with related-party relationships find it easier to engage in tunneling incentive. This situation represents an attempt at tax avoidance through manipulating tax burdens. In contrast, research by Maylia (2022) reveals that tunneling incentive does not have an influence on tax avoidance.

The third factor that can influence tax avoidance practices is the bonus program (Purnama, 2021). The bonus program is an appreciation given by the company's owner to managers when the company's profit targets are achieved. Profit-based bonus programs are used by companies to reward directors or managers. Bonuses given based on profit levels can encourage directors or managers to manipulate profits to receive higher bonuses (Hartati, 2015).

Research conducted by Amirahanti (2018) on the bonus program states that it has a positive impact on tax avoidance because the better the profits generated, the better the image of the directors will be in the eyes of the company's owners. This results in the directors engaging in tax avoidance to increase the profits they will receive. Research by Rifan (2019) also supports that the bonus program affects tax avoidance. In contrast, research by Suryantari (2022) states that the bonus program does not have a direct influence on tax avoidance.

Tax avoidance practices conducted by companies in Indonesia also involve transfer pricing. The Indonesian government has established various regulations to prevent tax avoidance. One of the rules is the Directorate General of Taxes Regulation No. PER-43/PJ/2010 regarding transfer pricing, which applies the principles of reasonableness and arm's length in transactions between taxpayers and related parties. According to Panjalusman (2018), transfer pricing is the exchange of goods and services between divisions within a business group at unreasonable prices, either by raising prices (mark up) or lowering prices (mark down). Transfer pricing activities typically occur in sales prices, purchase prices, overhead costs, shareholder-loan interest, royalty payments, service fees, and sales through third parties that do not conduct business activities (special purpose companies).

Several studies have found that transfer pricing affects tax avoidance. This statement is supported by the research of Amidu et al. (2017), which shows that transfer pricing influences tax avoidance. Transfer pricing is a company policy in determining the price of a transaction between related parties (Melmusi, 2016). From the tax authority's perspective, transfer pricing is seen as a tax avoidance effort if the pricing of transactions between related parties is influenced by relationships that do not comply with tax regulations. From the government's perspective, transfer pricing can lead to reduced or lost tax revenue for a country, which is why this transfer pricing practice can influence tax avoidance.

In this study, the researchers selected companies listed on the Indonesia Stock Exchange, specifically those in the non-cyclical consumer sector, as the research objects. The researchers chose this research object because the non-cyclical consumer goods sector is one of the continuously growing business sectors. The aim of this study is to analyze the influence of debt covenant, tunneling incentive, and bonus program on tax avoidance with transfer pricing as the intervening variable.

## **2. Research Methodology**

The type of research method used is quantitative research, which employs statistical methods to analyze research data and uses numerical measurements in its testing. The research design uses hypothesis testing, which aims to analyze, describe, and obtain

empirical evidence on the relationship between two or more variables, whether correlational, causal, or comparative (Wahyudin, 2015:110). This study follows an explanatory research approach with a quantitative approach, which explains the cause-and-effect relationship or causal relationship between the variables under study, namely the independent variables and the dependent variable (Sekaran & Bougie, 2017). The focus of this research is to test the influence of debt covenant, bonus program, and tunneling incentive on tax avoidance with transfer pricing as the mediating variable.

The population in this study consisted of non-cyclical consumer sector companies listed on the Indonesia Stock Exchange during the period 2017-2021. The sampling criteria for this study were determined as follows:

- a. Non-cyclical consumer sector companies listed on the Indonesia Stock Exchange continuously from 2017 to 2021.
- b. Non-cyclical consumer sector companies that consistently published annual financial reports from 2017 to 2021.
- c. Non-cyclical consumer sector companies that did not incur losses during the research period.
- d. Non-cyclical consumer sector companies that provided relevant data related to the research variables.

**3. Results and Discussion**

**3.1 Regression Equation**

This study used IBM SPSS Statistic 25 software with two stages of regression equation for path analysis. The first stage of the regression equation was to test the influence of debt covenant (X1), tunneling incentive (X2), and bonus program (X3) on tax avoidance (Y).

**Table 1. Regression Test with Tax Avoidance as the Dependent Variable Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.892	.024		36.718	.000
DR	-.006	.006	-.054	-.900	.369
TI	.032	.030	.062	1.065	.288
TREN LABA	-.055	.006	-.518	-8.726	.000
TP	.062	.017	.154	2.524	.012

Based on the path analysis results of the regression coefficients from the SPSS output in the first regression equation as follows:

$$ETR = 0.892 - 0.006 DR + 0.032 TI - 0.055 TL + 0.062 TP + e1$$

The regression equation above can be explained as follows:

- a. The constant value (0.892) indicates that when debt covenant, tunneling incentive, and bonus program are constant or fixed, the tax avoidance value is 0.892.
- b. The significance value of the debt covenant is 0.369, above the alpha level of 0.05. This means that debt covenant does not have a significant effect on ETR or tax avoidance.
- c. The significance value of the tunneling incentive is 0.288, above the alpha level of 0.05. This means that tunneling incentive does not have a significant effect on ETR or tax avoidance.
- d. The significance value of the bonus program is 0.00, above the alpha level of 0.05. This means that the bonus program has a negative effect on ETR, or in other words, the bonus program has a positive effect on tax avoidance.

The second stage of the regression equation is to analyze the influence of debt covenant (X1), tunneling incentive (X2), and bonus program (X3) on transfer pricing (X4). The path analysis resulted in the following regression coefficients:

**Table 2. Regression Test with Transfer Pricing as the Dependent Variable. Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.814	.087		9.333	.000
DR	-.095	.027	-.240	-3.502	.001
TI	-.018	.131	-.009	-.136	.892
TREN LABA	-.065	.027	-.166	-2.414	.017

Based on the path analysis results of the regression coefficients from the SPSS output in the first regression equation as follows:

$$TP = 0.814 - 0.095 DR - 0.018 TI - 0.065 TL + e2$$

The regression equation above can be explained as follows:

1. The constant value (0.814) indicates that when debt covenant, tunneling incentive, and bonus program are constant or fixed, the transfer pricing value is 0.814.
2. The significance value of the debt covenant is 0.001, below the alpha level of 0.05. This means that debt covenant has a negative effect on transfer pricing.
3. The significance value of the tunneling incentive is 0.892, above the alpha level of 0.05. This means that tunneling incentive does not have a significant effect on transfer pricing.
4. The significance value of the bonus program is 0.017, below the alpha level of 0.05. This means that the bonus program has a negative effect on transfer pricing.

### 3.2 Hypothesis Testing

Individual Parameter Significance Test (t-test)

The t-test statistic is used to test the influence of each independent variable on the dependent variable. The results of this test are used to determine whether the proposed hypotheses are accepted or rejected. The partial testing results in this study are shown in Table 4.8.

The regression coefficient of debt covenant in Table 4.8 shows a value of -0.06 and a significance value of 0.369, which is greater than the alpha level of 0.05, with a negative direction towards effective tax rate (ETR). This means that debt covenant does not have an effect on tax avoidance. Thus, H1, which states that debt covenant has a positive effect on tax avoidance, is rejected.

The regression coefficient of tunneling incentive in Table 4.8 shows a value of 0.032 and a significance value of 0.288, which is greater than the alpha level of 0.05, with a positive direction towards the effective tax rate (ETR). This means that tunneling incentive does not have an effect on tax avoidance. Thus, H2, which states that tunneling incentive has a positive effect on tax avoidance, is rejected.

The regression coefficient of the bonus program in Table 4.8 shows a value of -0.055 and a significance value of 0.000, which is smaller than the alpha level of 0.05, with a negative direction towards effective tax rate (ETR). This means that the bonus program has a negative effect on ETR, or in other words, the bonus program has a positive effect on tax avoidance. Thus, H3, which states that the bonus program has a positive effect on tax avoidance, is accepted.

### 3.3 Sobel Test

The Sobel test is conducted to examine the direct and indirect influence of independent variables on the dependent variable through the mediating variable. The Sobel test can be conducted using the Sobel test calculator by Kristopher J. Preacher, accessed at <http://quantpsy.org/sobel/sobel.htm>. Here are the results of the calculation:

H4: Debt covenant has a positive effect on tax avoidance through transfer pricing.

Input:		Test statistic:	Std. Error:	p-value:
a	-0.095	Sobel test: -2.53219154	0.00232605	0.01133521
b	0.062	Aroian test: -2.48428531	0.0023709	0.01298118
s <sub>a</sub>	0.027	Goodman test: -2.58298057	0.00228031	0.00979508
s <sub>b</sub>	0.017	Reset all	Calculate	

**Figure 1. Result of Sobel Test**

Source: Sobel Test Output, 2023

The test above presents a significance level result of 0.011. Based on these results, it can be concluded that transfer pricing can mediate the influence of debt covenant on tax avoidance, and the Sobel test value is -2.53, which means it has a negative direction towards the effective tax rate (ETR) or a positive effect on tax avoidance. This indicates that H4, which states that there is a positive effect between debt covenant and tax avoidance, is accepted.

H5: Tunneling incentive has a positive effect on tax avoidance through transfer pricing.

Input:		Test statistic:	Std. Error:	p-value:
a	-0.018	Sobel test: -0.13730717	0.00812776	0.890788
b	0.062	Aroian test: -0.13242614	0.00842734	0.89464724
s <sub>a</sub>	0.131	Goodman test: -0.14277102	0.00781671	0.88647103
s <sub>b</sub>	0.017	Reset all	Calculate	

**Figure 2. Result of Sobel Test**

Source: Sobel Test Output, 2023

The test above presents a significance level result of 0.890. Based on these results, it can be concluded that transfer pricing cannot mediate the influence of tunneling incentive on tax avoidance. This indicates that H5, which states that there is a positive effect between tunneling incentive and tax avoidance through transfer pricing, is rejected.

H6: The bonus program has a positive effect on tax avoidance through transfer pricing.

Input:		Test statistic:	Std. Error:	p-value:
a	-0.065	Sobel test: -2.00915658	0.00200582	0.04452053
b	0.062	Aroian test: -1.95853142	0.00205766	0.05016769
s <sub>a</sub>	0.027	Goodman test: -2.06392202	0.00195259	0.03902511
s <sub>b</sub>	0.017	Reset all	Calculate	

**Figure 3. Result of Sobel Test**

Source: Sobel Test Output, 2023

The test above presents a significance level result of 0.04. Based on these results, it can be concluded that transfer pricing can mediate the influence of the bonus program on tax avoidance, and the Sobel test value is -2.01, which means it has a negative direction towards the effective tax rate (ETR) or a positive effect on tax avoidance. This indicates that H6, which states that there is a positive effect between the bonus program and tax avoidance through transfer pricing, is accepted.

#### 4. Discussion

##### 4.1 The Influence of Debt Covenant on Tax Avoidance

The first hypothesis (H1) in this study states that debt covenant has a positive effect on tax avoidance. This study uses the leverage ratio proxy, which is the total debt divided by total assets. Companies with relatively high debt ratios will be closer to the credit

limits or smaller regulations. As the credit limit increases, the possibility of credit agreement violations and costs also increases. Thus, the tendency to engage in tax avoidance will be high, while the ETR will be low.

The regression results show that debt covenant affects the ETR, or in other words, debt covenant does not affect tax avoidance. Therefore, the second hypothesis stating that debt covenant has a positive effect on tax avoidance is rejected. Based on these results, it can be interpreted that companies with high debt ratios and closer to debt limits do not necessarily engage in tax avoidance.

This result is also consistent with the study by Kurniasih and Sari (2013), which found that leverage does not have a significant effect on tax avoidance. The higher the leverage ratio, the greater the amount of funding from third-party debt used by the company, and the higher the interest costs arising from that debt, which will reduce the company's tax burden, not making companies engage in maximum debt financing.

This result is not in line with the debt covenant hypothesis, which states that companies with high debt ratios will try to avoid debt contract violations by choosing accounting methods that can increase company profits. As the debt or equity ratio increases, the company becomes closer to the credit limit or credit regulation (Kalay, 1982). Additionally, research by Pramana (2014) also supports that the higher the credit limit, the higher the possibility of credit agreement violations and cost expenses. Managers will choose accounting methods that can increase profits to loosen credit limits and reduce technical error costs and tend to engage in tax avoidance. However, in reality, when the ETR increases, the tendency to engage in tax avoidance decreases.

According to Yustianthe and Fatniasih (2021), leverage does not have an effect on tax avoidance. The level of debt or debt ratio of a company does not affect tax avoidance. Not all debts will create interest expenses, and not all interest expenses can be used as a deduction against taxable income. The level of debt does not affect the level of taxes borne by the company, so it does not affect tax avoidance. Furthermore, this result is consistent with Lustina Rima Masurroch (2021) and Eliyani Susanti (2018) studies, which state that leverage does not have an effect on tax avoidance. This happens because the higher the debt level of a company, the management will be more conservative in financial or operational reporting. The management will be cautious and will not take high risks to engage in tax avoidance activities to reduce their tax burden. If debt is used extensively, it can lead to losses for the company. A high debt ratio causes the company to be perceived as unhealthy by investors and creditors if it cannot show good profitability, which will affect the funding that the company will get in the future. Therefore, due to the risks associated with high debt, management will act cautiously and will not take risks with high debt to engage in tax avoidance activities.

This result does not align with the study by Lestari & Putri (2017), which found that leverage has a positive effect on tax avoidance. If leverage is high, then the ETR is low, indicating high tax avoidance. The study by Lestari & Putri (2017) is consistent with the results obtained from Darma and Ardiana (2016), which found that leverage affects tax avoidance. The policy regarding the funds used will affect the tax that must be paid because if the company's funds come from debt, interest expenses will arise, which can be used as a deduction against taxes, while funds from shares will create dividends, but dividends cannot be used as a component to reduce taxes. Therefore, this can be one way for companies to avoid taxes by reducing the amount of tax payments that must be made.

#### **4.2 The Influence of Tunneling Incentive on Tax Avoidance**

The fourth hypothesis (H2) in this study states that tunneling incentive has a positive effect on tax avoidance. The tunneling incentive variable in this study is proxied by the proportion of foreign share ownership to total outstanding shares. The greater the tunneling incentive carried out by the company, the higher the tendency for the company to engage in tax avoidance. Tunneling is a behavior of majority shareholders who transfer company assets and profits for their own benefit, but the costs are borne by minority shareholders (Hartati et al., 2015). Tunneling can be done to save company taxes by diverting company profits to countries with low tax rates. Therefore, if the tunneling incentive is carried out more frequently, the tendency for the company to engage in tax avoidance will be high, resulting in a lower ETR.

The regression results show that tunneling incentive does not have a significant effect on tax avoidance. Therefore, the second hypothesis stating that tunneling incentive has a positive effect on tax avoidance is rejected. Companies with high tunneling incentives do not always engage in tax avoidance. Similarly, companies with low tunneling incentives do not always engage in tax avoidance.

The insignificant relationship between tunneling incentive and tax avoidance in this study is due to the fact that majority shareholders cannot use their control rights to influence the company to engage in tax avoidance that may harm minority shareholders as an expropriation effort to increase their own welfare.

These results are not in line with agency theory, where the differing interests between agents and principals, such as the principal's desire to transfer company profits for their own benefit, do not lead agents to engage in tunneling incentives to save company taxes by diverting profits to countries with low tax rates to reduce the tax burden to be paid.

These results also do not align with the statement by Tang (2016) that tunneling can be one of the incentives for tax avoidance and the research by Lestari (2018) that tunneling incentive affects tax avoidance. This is because, by tunneling, companies sell at prices below market prices, making the company appear to incur losses by maximizing expenses, which ultimately reduces revenue. Consequently, it reduces the tax burden that should be imposed and also reduces import duties.

#### ***4.3 The Influence of Bonus Program on Tax Avoidance***

The first hypothesis (H1) in this study states that the bonus program has a positive effect on tax avoidance. The proxy used to calculate the bonus program variable is the net profit in year  $t$  divided by the net profit in year  $t-1$ . Companies with high bonus plans will tend to engage in tax avoidance activities. This is because managers tend to use accounting methods that manipulate accounting figures in financial reporting to increase company profits, resulting in a high tendency for the company to engage in tax avoidance, and subsequently, the ETR becomes low.

The regression results show that the bonus plan has a negative effect on the ETR, or the bonus program has a positive and significant effect on tax avoidance. Therefore, the third hypothesis stating that the bonus program has a positive effect on tax avoidance is proven or accepted. Based on these results, it can be interpreted that companies with high bonus programs have a lower ETR. A lower ETR implies a greater level of tax avoidance by the company, and conversely, a higher ETR indicates lower tax avoidance.

These results prove that an increase in a company's bonus program will enhance its tax reporting avoidance activities. The bonus mechanism, given as a reward to the board of directors, is based on the overall profits obtained by the company. The better the profits generated, the better the reputation of the board of directors in the eyes of the company's owners. This increase in profits tends to lead the board of directors to engage in tax avoidance as well.

These results are in line with the bonus plan hypothesis in positive accounting theory, which states that companies with bonus plans tend to use accounting methods that manipulate accounting figures in financial reporting to increase company profits. The higher the overall company profits generated, the better the image of the board of directors or management in the eyes of the company's owners. With a positive image due to perceived good performance, the company's owners will reward the board of directors or management with bonuses for managing the company well. Therefore, tax avoidance activities are likely to be carried out. In reality, when the ETR increases, the tendency to engage in tax avoidance decreases.

These results are consistent with the research conducted by Asmirahanti (2018) and Desai & Dharmapala (2004), which state that bonus mechanisms significantly determine tax avoidance activities, where higher bonus mechanisms result in lower tax protection. Companies tend to minimize tax payments because the income is considered better distributed as bonus expenses.

#### ***4.4 The Influence of Debt Covenant on Tax Avoidance through Transfer Pricing***

The fourth hypothesis (H4) in this study states that debt covenant has a positive effect on tax avoidance through transfer pricing. The higher the company's debt-to-equity ratio, the closer the company is to the debt agreement or credit regulations, making it more likely for managers to engage in tax avoidance by choosing accounting methods that increase profits and avoid credit regulations. One way to do this is through transfer pricing.

The Sobel test results in this study show that debt covenant has a significant effect on tax avoidance through transfer pricing. This can be seen from the  $p$ -value of 0.011, which is less than 0.05, meaning that the hypothesis is accepted. Based on these results, it can be interpreted that companies with high debt-to-equity ratios will have a lower ETR. If the ETR is low, the company's managers will try to increase it by reducing the company's profits. Therefore, if the ETR is high, the tendency to engage in tax avoidance will increase.

These results are in line with the debt covenant hypothesis discussed in positive accounting theory, which states that when a company's debt ratio is close to violating accounting agreements based on debt agreements, the likelihood that the company's managers choose accounting procedures with reported profit changes from the future period to the current period will increase (Pramana, 2014). Managers will choose accounting methods that increase profits in order to ease credit restrictions and reduce technical error costs, such as through transfer pricing, leading to tax avoidance tendencies. In reality, when a company's debt is already close to the risk in debt agreements, the managers will try to decrease the company's profits rather than manipulate them.

This is done to protect the company's reputation and maintain a positive image even when approaching the debt agreement period.

These results are consistent with the research by Rezky & Fachrizal (2018), which found that leverage affects transfer pricing decisions. Companies with high leverage will pay less tax, and transferring debt from the parent company to the subsidiary will create a debt structure scenario that benefits the company, leading to a high tendency for tax avoidance.

However, these results do not align with the research by Putri (2016), which found that leverage does not affect transfer pricing. The higher the leverage ratio, the higher the third-party debt financing used by the company, resulting in higher interest costs. The high interest costs affect the company's debt value, making transfer pricing more difficult to carry out. This means that when a company has high leverage, the tendency for the company to engage in transfer pricing decreases (Deanti, 2017). Similarly, the tendency to engage in tax avoidance through transfer pricing also decreases.

#### **4.5 The Influence of Tunneling Incentive on Tax Avoidance through Transfer Pricing**

The fifth hypothesis (H5) states that tunneling incentive has a positive effect on tax avoidance through transfer pricing. If the tunneling incentive activities increase, then the activities of transferring through transfer pricing will also increase. Therefore, the tendency to engage in tax avoidance will also increase.

However, the Sobel test results in this study show that tunneling incentive does not have a positive effect on tax avoidance through transfer pricing. This can be seen from the significance value of  $0.890 > 0.05$ , which means that the hypothesis is rejected. Companies that engage in tunneling incentive activities to avoid taxes do not necessarily engage in profit transfers through transfer pricing. This is because if the tunneling incentive is high, the ETR value will be low. If the ETR value is low, the company's managers will try to increase it by decreasing profits rather than increasing them.

The insignificant relationship between tunneling incentive and tax avoidance through transfer pricing in this study is due to the possibility that controlling shareholders do not use their control rights to engage in transfer pricing as a means of expropriation for their own benefit. Suryani et al. (2020) also revealed that tunneling incentive does not affect transfer pricing practices because more companies are engaging in Advance Pricing Agreements in accordance with Income Tax Law Article 18 paragraph 3a, making companies more cautious in conducting international transactions. According to Koestaman and Diyanty (2013), the higher the expropriation or takeover of resources by controlling shareholders and minority shareholders, the lower the cash dividends paid. This will lead to conflicts between controlling shareholders and minority shareholders, which will impact the company's operational and investment activities.

These results contradict the implications of agency theory, where the diverging interests between the principal and agent, such as the desire of the principal to transfer company profits for their own benefit, do not lead to agents engaging in tunneling to save taxes by transferring company profits to countries with lower tax rates through transfer pricing.

The results indicating the lack of influence of tunneling incentive on tax avoidance through transfer pricing are supported by the research by Saifudin & Putri (2018), which states that tunneling incentive does not affect transfer pricing because foreign shareholders do not use their control rights to instruct management to engage in transfer pricing. This finding differs from the research by Saraswati & Sujana (2017), which found that tunneling incentive affects transfer pricing. This is because entities centralized in one party are more likely to engage in tunneling through transfer pricing. When shareholders have a large ownership stake in a company, they naturally expect significant returns or dividends. Therefore, when the dividends distributed by the company have to be shared with minority shareholders, controlling shareholders are more likely to engage in transfer pricing by transferring company wealth for their own benefit instead of sharing dividends with minority shareholders. Hence, the larger the ownership stake, the more it may stimulate transfer pricing to avoid tax payments.

#### **4.6 The Influence of Bonus Plans on Tax Avoidance through Transfer Pricing**

The sixth hypothesis (H6) in this study states that bonus plans have a positive effect on tax avoidance through transfer pricing. Companies with high bonus plans tend to engage in tax avoidance. Bonus plans are given to the company's directors or managers who have good performance, which is often measured by the overall company's profits. If bonuses are awarded based on the profits obtained by the company, it is not uncommon for directors or managers to manipulate the reported profits to obtain bonuses for their own interests, leading to tax avoidance activities. One way to manipulate profits is through transfer pricing.

The Sobel test results in this study show that bonus plans have a significant effect on tax avoidance through transfer pricing. This can be seen from the p-value of 0.04, which is less than 0.05, meaning that the hypothesis is accepted. Companies with high bonus plans will increase their profits by reducing the taxes paid. One of the methods used for this is transfer pricing.



The research findings are in line with the bonus plan hypothesis in positive accounting theory, which states that directors or managers of companies with high bonus plans tend to choose accounting procedures that can increase the company's profits to achieve their targets, thus impacting tax avoidance, including the practice of transfer pricing. This is consistent with the views of Lo et al. (2010) that management tends to exploit transfer pricing transactions to increase the remuneration received as bonuses if the bonuses are based on profits.

This is supported by the research by Fitri et al. (2019), which states that managers with certain bonuses are more likely to prefer methods that increase current period profits. This can increase the present value of the bonuses they will receive if the compensation committee of the board of directors does not adjust for the chosen method. If bonus programs are more frequently associated with transfer pricing practices, then there will be more tax avoidance activities conducted by managers or directors who have high bonus plans. This is also consistent with the research by Hartati et al. (2015), which states that as an assessment of performance in a company, company owners will look at the overall profits generated by the company. Directors will strive to maximize company profits, including through transfer pricing.

## 5. Conclusion

Based on the research findings and discussions presented, the following conclusions can be drawn:

1. There is no significant influence of debt covenant on tax avoidance.
2. There is no significant influence of tunneling incentive on tax avoidance.
3. There is a positive influence of bonus plans on tax avoidance.
4. There is a positive influence of tunneling incentive on tax avoidance through transfer pricing.
5. There is no positive influence of tunneling incentive on tax avoidance through transfer pricing.
6. There is a positive influence of bonus plans on tax avoidance through transfer pricing.

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