

**THE EFFECT OF TAX BURDEN, FOREIGN OWNERSHIP,
INTANGIBLE ASSETS AND BONUS MECHANISM
ON TRANSFER PRICING**
(Empirical Study on Mining Sector Companies listed on the IDX 2017-2021)

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Abstract

In Indonesia, a country with a significant mining industry and a dynamic stock exchange, transfer pricing decisions among mining companies have become a subject of interest. These decisions involve determining the prices at which related entities within the same multinational corporation trade with each other. The complexity arises from the potential discrepancies between market prices and the prices set for intra-company transactions. This study aims to investigate the impact of Tax Burden, Foreign Ownership, Intangible Assets, and Bonus Mechanism on Transfer Pricing Decisions among Indonesian mining firms listed on the Stock Exchange from 2017 to 2021. Using purposive sampling, six mining companies were selected as the research sample. Employing Panel Data Regression Analysis via Eviews 9 software at a 5% significance level, the study finds that collectively, the independent variables significantly influence companies' choices for transfer pricing, as indicated by the F-test (F-statistic value = 13.07910, F-table value = 2.759). Regarding individual variables, Tax Burden lacks significant influence (p-value = 0.3819), while Foreign Ownership negatively impacts transfer pricing decisions (p-value = 0.002, t-statistic = -3.503829). Intangible Assets (p-value = 0.8969) and Bonus Mechanism (p-value = 0.6290) also do not significantly influence transfer pricing. The study concludes that investors should cautiously analyze company policies due to varied motivations for transfer pricing, and recommends government review of policies to curb detrimental transfer pricing practices. The limited number of multinational mining companies and scarce information on their transfer pricing practices are study limitations.

Keywords: Bonus Mechanism, Foreign Ownership, Intangible Asset, Tax Burden, Transfer Pricing

1. INTRODUCTION

In the rapidly evolving global economic landscape, boundaries between nations have become increasingly porous, propelling an accelerated pace of trade and fostering the rapid growth of multinational corporations. The emergence of these multinational entities, however, is not exempt from encountering a plethora of challenges and threats. This is largely due to the intricate web of varying regulations present in each sovereign state. As highlighted by Sari & Djohar (2022), corporations, in their pursuit of expansion, are perpetually striving to enhance efficiency and effectiveness to achieve their overarching goals, particularly the augmentation of profits.

Within the realm of multinational corporations, the occurrence of transactions between divisions and even among related entities, commonly known as intercompany or related-party transactions, constitutes a critical aspect, notably encompassing the sale of goods or services – an arena recognized as transfer pricing. Across many nations, transfer pricing has emerged as a pivotal phenomenon within the domain of international taxation, owing to its potential to diminish national revenues. According to Rahman &

Cheisviyanny (2020), multinational corporations strategically employ transfer pricing mechanisms as a pivotal part of their decision-making process, aiming to bolster operational performance, reduce overall tax burdens, enhance cash flows, mitigate legal pressures, and ultimately, augment revenues.

In the context delineated by Sitorus (2020), the practice of transfer pricing remains permissible within the bounds of applicable taxation regulations. Nevertheless, in the contemporary international discourse, an unsettling issue has taken root wherein many companies are engaging in transfer pricing practices that transgress tax regulations, consequently leading to significant losses in government revenues.

This complex landscape underscores the pivotal role of meticulous examination and evaluation by stakeholders, notably investors, who are compelled to scrutinize corporate policies meticulously to navigate the intricacies of financial reports and evade potential misrepresentation by management. Furthermore, governments, operating as regulatory custodians, are tasked with the crucial responsibility of crafting and implementing policies to curtail detrimental transfer pricing actions. It is important to acknowledge that the scope of this study is, however, bounded by certain limitations, such as the scarcity of data from multinational mining companies and the overarching paucity of information concerning the breadth of transfer pricing practices undertaken by corporations.

Therefore, this research aims to deepen the understanding of the influence of Tax Burden, Foreign Ownership, Intangible Asset, and Bonus Mechanism on Transfer Pricing decisions in the multinational mining sector. Thus, it is hoped that this research will provide valuable insights for stakeholders in dealing with the complexity of the current global business dynamics.

2. LITERATURE REVIEW

2.1. Agency Theory

This theory explains the relationship between two parties, with the first party being the shareholders (principal) and the second being the management (agent). Agency theory arises when management seeks to minimize taxes through tax avoidance via transfer pricing (Amin, 2022). However, shareholders may disagree with this approach, as transfer pricing is seen as part of financial statement manipulation. Managers, as agents running the company, can lead to agency problems due to the separation of ownership and control within a company, becoming a triggering factor for conflicts. Agency conflicts persist between both parties due to differing objectives. Asymmetry of information contributes to conflicts, where management generally possesses more information about the actual financial position and operational status of the entity compared to the owners.

2.2. Positive Accounting Theory

Positive accounting theory serves as a reference point to explain how managerial accounting procedures are chosen to maximize profits in pursuit of the bonuses set by company owners. If managers receive bonuses based on overall company profit achievement, it is logical for managers to report higher company profits (Saraswati & Sujana, 2017).

2.3. Transfer Pricing

Transfer pricing refers to the price attached to each product or service transferred from one division to another within the same company or between related companies. Under the Harmonization of Tax Law No. 7 of 2021, Article 18, Paragraph 4, related-party relationships are deemed to exist if: 1. A taxpayer holds direct or indirect capital participation of at least 25% in another taxpayer; relationships between a taxpayer and capital participation of at least 25% in two or more taxpayers; or relationships between two or more taxpayers, 2. A taxpayer controls another taxpayer, or two or more taxpayers are under the same direct or indirect control, 3. There are familial relationships, both blood and marriage, within a direct or collateral lineage up to the first degree.

The Organization for Economic Co-operation and Development (OECD) defines transfer pricing as prices established in transactions between group members within a multinational corporation, where transfer prices in these transactions may deviate from fair market prices as long as they are suitable for the group. Such deviations can occur because they are free to adopt any principle that remains relevant to the corporation (Tyas, 2021).

$$\text{Transfer pricing} = \frac{\text{Related party transaction receivables}}{\text{total receivables}}$$

2.4. Tax Burden

Taxes are payments required by law to individuals or companies/businesses to the government for the benefit of the government and society. Tax expense consists of current tax expense and deferred tax expense (Anggarda et al., 2021). Current tax is calculated from the taxable profit obtained from fiscal reconciliation multiplied by the applicable tax rate. Current tax is equal to the current tax or the tax paid to the tax authorities and reported in the tax return. Deferred tax expense is an expense arising from temporary differences between accounting profit and fiscal profit.

$$ETR = \frac{\text{Income tax expense}}{\text{Profit before tax}}$$

Transfer pricing transactions are often used by companies to minimize the amount of tax to be paid. In transfer pricing, multinational companies tend to shift profits to groups domiciled in countries that apply low tax rates. The higher the tax rate triggers multinational companies to apply transfer pricing in the hope of potential tax pressure so as to reduce the current tax burden.

H1: It is suspected that Tax Burden Affects Transfer Pricing

2.5. Foreign Ownership

Foreign ownership is the number of shares owned by foreign parties (abroad) both individuals and institutions against company shares. Foreign entities that own shares of 25% or more will be considered to have a significant influence in controlling the company can be referred to as foreign controlling shareholders. This foreign controlling shareholder will make it possible to order management to do what the foreign controller wants which can benefit him.

$$\text{Foreign Ownership} = \frac{\text{total foreign shareholding}}{\text{Total shares outstanding}}$$

Non-controlling shareholders entrust controlling shareholders with overseeing management due to their superior position, which opens the possibility for controlling shareholders to potentially misuse their control rights for personal gain, such as through transfer pricing.

H2: Foreign Ownership is believed to have an influence on transfer pricing.

2.6. Intangible Asset

Intangible assets are assets that generally have a long useful life, lack physical form, and are used in the company's operational activities, not for resale. These include patents, copyrights, or trademarks (Tampubolon & Al Farizi, 2018).

$$\text{Intangible asset} = \log (\text{intangible assets})$$

According to (Rahman & Cheisviyanny, 2020), a greater allocation of intangible assets by a company for innovation activities, particularly in creating new products or services, especially in the industrial sector, increases the company's interest in making transfer pricing decisions by diverting revenue. One of the motivations is the challenging valuation of R&D activities. The difficulty in assessing fair value in transactions related to intangible assets provides opportunities for multinational companies with affiliations to make transfer pricing decisions.

H3: Intangible Asset is believed to influence transfer pricing.

2.7. Bonus Mechanism

Bonuses or rewards given to company directors, beyond their salaries, for their work performance, which is evaluated and measured based on predetermined objective criteria set by the company. The bonus mechanism involves calculating the amount of bonus given by the company owner or shareholders through the General Meeting of Shareholders (RUPS) to directors who are deemed to have performed well (Tania & Kurniawan, 2019).

Bonus mechanism does not always make a motivator for the board of directors or management of the company to obtain maximum overall profit by doing transfer pricing. This can happen because the company management previously analyzes the risk that will be faced if they make transfer pricing decision.

H4: It is suspected that Bonus Mechanism does not affect transfer pricing

3. RESEARCH METHODS

The method in this study is quantitative, utilizing secondary data from the IDX. The study's population consisted of 71 mining companies listed on the IDX from 2017 to 2021. The sample for this study included companies that published both financial reports and sustainable financial reports during the period from 2017 to 2021, resulting in a total of 6 companies. The research employed purposive sampling as the method, wherein the researchers selected the sample for the study based on the following criteria:

- a. Mining Sector Companies Listed on the Indonesia Stock Exchange in 2017-2021
- b. Mining Companies That Provide Complete Financial Statements During the Research Period.
- c. Mining Companies That Did Not Experience Losses During the Research Period.

- d. Companies that have related receivables.
- e. Mining Companies Controlled by the Percentage of Foreign Share Ownership Above 25% as Controlling Shares.

The data analysis technique used in this study uses panel data regression with the help of Eviews 9 software. The collected data will be tested for regression suitability, classical assumption test and then hypothesis testing consisting of the Coefficient of Determination Test, F Test and t Test.

4. RESULTS AND DISCUSSION

4.1. Research Result

4.1.1. Regression Model Fit Test

Table 1. Regression Model Fit Test Results

No	Methods	Testing	Results	Selected Model
1	Chow Test	Common Effect Model vs Fixed Effect Model	The probability value of cross section F is 0.0000 smaller than 0.05	Fixed Effect Model
2	Hausman Test	Random Effect Model Vs Fixed Effect Model	Cross-section prob value random is 0.0038 greater than 0.05	Fixed Effect Model

Based on the results of the table above, the results obtained conclude that this research model uses the Random Effect Model.

4.1.2. Panel Data Regression Equation Analysis Test

Table 2. Panel Data Regression Test Results with Random Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.790675	1.614945	2.347247	0.0293
X1	-0.201164	0.224999	-0.894063	0.3819
X2	-5.254393	1.499615	-3.503829	0.0022
X3	-0.018163	0.138338	-0.131294	0.8969
X4	-0.006309	0.012859	-0.490640	0.6290
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.854769	Mean dependent var	0.385820	
Adjusted R-squared	0.789415	S.D. dependent var	0.349975	
S.E. of regression	0.160602	Akaike info criterion	-0.558577	
Sum squared resid	0.515858	Schwarz criterion	-0.091511	
Log likelihood	18.37865	Hannan-Quinn criter.	-0.409159	
F-statistic	13.07910	Durbin-Watson stat	1.652190	

Prob(F-statistic)	0.000001
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Based on the above Table 2, the regression equation for the panel data is as follows:

$$\text{Transfer Pricing} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

$$\text{Transfer Pricing} = 3.790675 - 0.201164X_1 - 5.254393X_2 - 0.018163X_3 - 0.006309X_4 + e$$

4.1.3. Coefficient of Determination (Adjusted R²)

Based on Table 2, the coefficient of determination (R²) of the study is an Adjusted R Squared of 0.789415. This implies that the influence of the independent variable (transfer pricing) is capable of explaining 78.9% of the dependent variables (tax burden, foreign ownership, intangible asset, and bonus mechanism), while the remaining 21.1% is explained by other variables not included in this research model.

4.1.4. Partial Significance Test (t-Statistic)

Based on Table 2, the results of the partial tests are as follows:

- The probability value of the tax burden variable is 0.3819, which is greater than 0.05. Therefore, it can be concluded that the tax burden does not significantly influence transfer pricing.
- The value of the probability of the foreign ownership variable is 0.0022, which is less than 0.05. Hence, it can be inferred that foreign ownership significantly affects transfer pricing. Additionally, the calculated t-value of -3.503829 is less than the tabulated t-value of -2.05954, indicating that foreign ownership negatively affects transfer pricing.
- The probability value of the intangible asset variable is 0.8969, which is greater than 0.05. This suggests that intangible asset does not have a significant impact on transfer pricing.
- The probability value of the bonus mechanism variable is 0.6290, which is greater than 0.05. Thus, it can be concluded that the bonus mechanism does not significantly influence transfer pricing.

4.1.5. Simultaneous Test (F-Statistic)

The output in Table 2 indicates that the Prob(F-statistic) for the entire model shows a value of 0.000001, which is less than 0.05. Additionally, the calculated F-value (13.07910) is greater than the tabulated F-value (2.759), indicating that the independent variables collectively have a significant impact on the decision to engage in transfer pricing. Based on the existing hypotheses, this implies that the independent variables of tax burden, foreign ownership, intangible asset, and bonus mechanism collectively have a significant influence on transfer pricing.

4.2. DISCUSSION

4.2.1. The Influence of Tax Burden on Transfer Pricing

Based on the conducted test, the Tax Burden variable does not have a significant influence on the decision to engage in transfer pricing. This is evidenced by the significance value for the Tax variable, which is 0.3819, greater than 0.05, or the t-statistic value being larger than the t-table value (-0.894063 > -2.05954). These results indicate

that the tax rate does not play a significant role in a company's decision-making regarding transfer pricing or the choice not to engage in transfer pricing activities within the company. The researcher suspects that the sample in this study is practicing tax savings through effective tax management. Consequently, it is expected that the tax burden borne by the company is minimized, while still adhering to existing tax regulations. These findings are supported by prior research conducted by Mineri & Paramitha (2021). However, Triyanto (2020) explained that taxes can indeed influence transfer pricing. The lack of influence of the tax burden in this study could be attributed to some companies not engaging in transfer pricing while still maintaining a low tax burden.

4.2.2. The Influence of Foreign Ownership on Transfer Pricing

Partial findings reveal that the Foreign Ownership variable significantly affects a company's decision to engage in transfer pricing. This is evident from the probability value of the foreign ownership variable, which is 0.002, smaller than 0.05, and the t-statistic value of -3.503829, smaller than the t-table value of -2.05954. Therefore, it can be concluded that Foreign Ownership has a negative influence on a company's decision to engage in transfer pricing. The results indicate that foreign controlling shareholders refrain from exercising their control rights to direct management in making transfer pricing decisions. This finding is consistent with previous research by Purba (2019), which stated that Foreign Ownership negatively impacts Transfer Pricing.

4.2.3. The Influence of Intangible Asset on Transfer Pricing

Based on the results of the t-test, the t-statistic value is -0.131294, greater than -2.05954, and possesses a significance value of 0.8969, larger than 0.05. This suggests that the Intangible Asset variable does not have a significant influence on a company's decision to engage in transfer pricing. These results align with the findings of a study conducted by Wulandari et al. (2021), stating that intangible assets do not significantly impact a company's decision to engage in transfer pricing. This can be attributed to the difficulty in accurately assessing the presence of intangible assets, coupled with limitations in exchanging information with other countries, which require substantial resources. Additionally, the complexity of interpreting intangible assets could also contribute to this lack of impact.

4.2.4. The Influence of Bonus Mechanism on Transfer Pricing

The results obtained from the hypothesis testing of the Bonus Mechanism on Transfer Pricing show a T-statistic value of -0.490640, greater than -2.05954, with a significance value of 0.6290, greater than 0.05. These results indicate that the Bonus Mechanism variable does not have a significant impact on Transfer Pricing. This suggests that within a company, there are more substantial interests at play, such as maintaining the company's reputation and value in the eyes of both society and the government. This is achieved by presenting accurate financial statements for effective decision-making. These findings are in line with research conducted by Mineri & Paramitha (2021), which states that the bonus mechanism does not significantly influence a company's decision to engage in transfer pricing.

5. CONCLUSION

Based on the research regarding the Influence of Tax Burden, Foreign Ownership, Intangible Asset, and Bonus Mechanism on Transfer Pricing, it can be concluded that collectively, Tax Burden, Foreign Ownership, Intangible Asset, and Bonus Mechanism have an impact on Transfer Pricing. Specifically, Tax Burden does not significantly affect Transfer Pricing, Foreign Ownership has a negative influence on Transfer Pricing, Intangible Asset does not exhibit significant influence on Transfer Pricing, and Bonus Mechanism also lacks significant influence on Transfer Pricing. As for recommendations, considering the analysis and conclusions drawn, future researchers are advised to incorporate additional independent variables when investigating Transfer Pricing as the dependent variable. This is important as there are still many other variables that may impact Transfer Pricing.

Furthermore, forthcoming studies could encompass different time periods or explore companies in sectors not yet studied within the Indonesian Stock Exchange. Such an approach would deepen the understanding of how these variables' influences vary across different time periods and sectors. Additionally, it is recommended to extend the research period to achieve more consistent outcomes. In terms of implications, this research can contribute to formulating fair taxation policies by the government and enhancing supervision over tax implementation. Thus, it is anticipated that detrimental transfer pricing practices conducted by companies, which harm the nation, can be mitigated and avoided.

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