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Effect of Effective Tax Rate, Tunneling Incentive, and Bonus Mechanism on Transfer Pricing Decision

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Abstract

This study examines the impact of the effective tax rate, tunneling incentive, and bonus method on transfer pricing decisions. This study focuses on the population of manufacturing companies in the primary and chemical industries listed on the Indonesia Stock Exchange. The period of this study is from 2018 to 2022, which includes 70 companies. The sample size consists of 11 companies selected using the purposive sampling method. The data source consists of secondary data, specifically financial reports from manufacturing companies listed on the IDX (Indonesia Stock Exchange). The time selected for data collection covers 2018 to 2022. This study uses a Panel Data regression approach. This research also uses various ways to look at the data, such as descriptive statistics, normality tests, heteroscedasticity tests, multicollinearity test, autocorrelation tests, hypothesis testing with coefficient of determination test, partial test, and simultaneous tests. The preliminary findings show that the effective tax rate positively and statistically significantly influences transfer pricing decision-making. The existence of tunneling incentives and bonus mechanisms is found to have a statistically insignificant impact on transfer pricing decisions. The bonus mechanism has an adverse and substantial effect on the decision-making process related to transfer pricing.

Keywords: Tax Rate; Tunneling Incentive; Bonus Mechanism; Transfer Pricing Decision

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Introduction

The emergence of multinational corporations with subsidiaries in various countries is a trigger for global economic growth. The emergence of multinational corporations has significantly impacted the cross-border movement of products and services, commonly referred to as borderless trade, in various countries worldwide. Indonesia, classified as a developing country, has a significant position among the countries affected by the advancements made by international corporations. This phenomenon can be attributed to the various incentives the Indonesian government provides to attract potential investors and encourage them to engage in economic operations within the country. Tax regulations regarding multinational companies in the current global era have attracted significant attention, leading to the concept of transfer pricing. Transfer pricing refers to pricing for transactions,

especially those made between entities or divisions within a corporate group or in a tax context, especially related organizations (Falbo & Firmansyah, 2018).

In management accounting, transfer pricing was initially recognized as a pricing strategy utilized for the internal exchange of goods or services between different divisions or departments inside an organization. The primary objective of this practice was to assess the performance of individual divisions or departments. In contemporary business practices, multinational corporations often adopt a decentralized operational structure, dividing the company into distinct responsibility centers encompassing both cost and income centers. Within this framework, transfer pricing has emerged as a strategic instrument these corporations employ to mitigate tax liabilities and potentially evade taxation. The purpose of this practice is to lessen the company's tax burden. Movement pricing procedures involve the strategic movement of income and cost from a company with a special relationship to other companies in different countries with varying tax rates to minimize the tax burden (Nurhayati, 2018). Multinational corporations often establish unique associations that may lead to discrepancies in pricing, expenses, or other incentives inside commercial dealings (Saraswati, 2017). This phenomenon can result in the shifting of revenue, manipulation of the tax base, or redistribution of costs from one taxpayer to another to minimize the total tax liability within a specific affiliation. Transfer pricing refers to transactions between taxpayers who maintain a special relationship. The practice of transfer pricing is widely acknowledged to have the potential to diminish or deplete the tax revenue of a nation, as multinational corporations tend to transfer their tax liabilities from high-tax jurisdictions to low-tax jurisdictions (Lingga, 2016). In certain jurisdictions, taxes are the primary means of generating state revenue, with certain emerging nations relying on taxes to account for over 80% of their overall state revenue.

The study examines the transfer pricing methods implemented by multiple enterprises in domestic and international contexts within Indonesia. Transfer pricing is a business strategy firms employ to sell goods or services to their linked entities in foreign countries at a price that deviates from the prevailing market rate. Subsequently, these goods or services are resold at a higher price to domestic clients. The objective is to minimize domestic tax liability while relocating profits to foreign jurisdictions with comparatively lower tax rates. The PT Asian Agri Group, an Indonesian company, sells crude palm oil to its overseas affiliates at prices below the prevailing market rates. This strategy enables the company to lower its tax liabilities within Indonesia effectively. This approach resulted in tax losses amounting to IDR 2.6 trillion and negatively impacted IDR 1.3 trillion on state finances. PT Adaro, a company accused of selling coal at prices below international standards to its linked entities in Singapore, resulted in a financial detriment to the state amounting to IDR 10 trillion. Instances have been seen wherein multinational corporations, like Starbucks UK, Google UK, and Amazon UK, have employed transfer pricing strategies to circumvent their corporate tax obligations within the United Kingdom. The company asserts financial losses in the United Kingdom despite its official financial records indicating a different outcome. This method enables corporations to transfer their profits to jurisdictions with lower tax rates, decreasing their tax obligations inside the United Kingdom.

The three essential variables affecting transfer pricing determination are the effective tax rate, tunneling incentive, and bonus mechanism. The government perceives transfer

pricing as disadvantageous due to its potential to diminish state tax collections. Multinational corporations allocate their tax liabilities to jurisdictions with lower tax rates. Tax considerations are a factor in the transfer pricing decision (Rachmat, 2019). The decision to engage in transfer pricing practices generally leads to a reduction in tax payments. The need to minimize tax liabilities serves as the impetus for corporations to engage in transfer pricing practices when they allocate their profits to affiliated entities in jurisdictions with lower income tax rates than Indonesia. In addition to the tax rate, the company's choice to use transfer pricing is a tunneling incentive. Tunneling incentive refers to a behavioral phenomenon that can be argued to confer advantages to the majority owners as they transfer assets and profits for their gain. In the event of any incurred expenses, it is the minority shareholders who will assume the responsibility for such costs (Sarifah et al., 2019).

Concentrated share ownership among a limited number of owners might give rise to agency conflicts between minority and majority shareholders (Hartati, 2015). Agency problems arise as a consequence of divergent interests between minority owners and majority shareholders, wherein the latter possess the ability to exert control over managerial decisions. The dominant shareholders have the authority to make choices that prioritize their interests, sometimes neglecting the concerns of minority shareholders. The agency problem arises due to inadequate safeguards for the rights of minority shareholders, hence incentivizing majority shareholders to participate in tunneling activities that detrimentally affect the interests of minority shareholders. Tunneling can manifest through related party transactions or dividend distribution, including transfers to the parent business. In the context of Indonesian stock market regulations, related party transactions are frequently employed to achieve the objective above instead of dividend distribution. This is primarily due to the requirement on listed firms to allocate dividends to both the parent company and minority shareholders. Minority shareholders frequently experience disadvantages due to tunneling incentive actions that primarily favor the parent business or controlling shareholders (Yuniasih et al., 2016). Firms may exhibit a preference for engaging in related-party transactions as a means of transferring wealth as opposed to making dividend payments. This inclination arises from the obligation of public firms to issue dividends to parent corporations and other minority stakeholders. Tunneling can be executed through multiple methods, including selling a company's products to a related entity at a price below the prevailing market rate (Marfuah, 2016).

In addition to the effective tax rate and tunneling incentive, another motivating factor that motivates management to engage in transfer pricing schemes to increase profits in the current period is implementing a bonus mechanism, sometimes called a bonus plan. Based on the bonus plan hypothesis, it is observed that managers within organizations who are entitled to specific bonuses exhibit a preference for employing accounting practices that result in an augmentation of profits within the current reporting period. This decision is anticipated to enhance the present value of the forthcoming bonus. The bonus is a form of recognition bestowed to members of the board of directors by the General Meeting of Shareholders (GMS) if the firm generates a profit (Purwanti, 2016). The company owner's perception of the directors' performance value improves as the total company profit increases. Hence, the directors can employ various strategies, such as transfer pricing methods, to optimize the company's financial gains. Providing compensation to directors can lead to agency conflicts between corporate owners and directors. The issue arises from a divergence of interests

between the owner and the directors, wherein the directors prioritize optimizing their bonuses, notwithstanding the necessity of engaging in transfer pricing activities.

The study results from Hartati (2015) state that the bonus mechanism affects the transfer pricing decision. Directors will tend to take actions that adjust net income by transfer pricing to maximize the bonus they receive if it is based on company profits. One of the impacts of this transfer pricing activity is the possibility of losses in one of the divisions. According to research by Yuniasih (2016), tax and tunneling incentives favorably impact the company's decision to conduct transfer pricing. According to a study by Hartati (2015), tax and bonus mechanisms influence the transfer pricing decision. According to research by Marfuah (2016), the tunneling incentive has a favorable impact on transfer pricing; the exchange rate positively affects transfer pricing. However, it is insignificant, and the high tax rate does not affect the company conducting specific relationship transactions.

The present study examines transfer pricing activities, effective tax rates, tunneling incentives, and bonus systems among manufacturing businesses in the primary and chemical industry sectors listed on the Indonesia Stock Exchange. The study encompasses the period from 2014 to 2018. Foreign investment is intricately linked to a company's internal operations, either by majority ownership by a foreign entity or through affiliation with a parent company located overseas. The contradictory findings seen in earlier studies about the results of variable testing served as the inspiration for choosing these variables. The present study pertains to agency theory, the theoretical foundation for the corporate business practices employed thus far. The concept of agency theory relates to an agency relationship, which materializes when one or more individuals (referred to as the principal) engage the services of another individual (known as the agent) and then confer decision-making power to such agent. The principal-agent relationship may give rise to situations characterized by an imbalance of information, commonly called asymmetrical information. This occurs due to the agent's advantageous position, which affords them access to more knowledge about the organization (Jensen & Meckling, 1976). According to Hartati (2015), agency theory refers to a theoretical framework that posits divergent interests among shareholders (owners), company professionals (directors), and employees inside an organization. This could lead to a conflict between the interests of individuals and the company.

Moreover, signal theory, grounded in pragmatic accounting theory, is employed to examine the impact of information on the behavioral modifications of information users. A relevant entity's official announcement is one potential data source that could act as a signal. According to Saraswati and Sujana (2017), the corporation's share price that issued the statement may be influenced. The underlying premise of signaling theory is predicated upon an asymmetrical distribution of information between managers and investors or those considering investment opportunities. Managers are perceived as possessing exclusive knowledge about the organization that is not accessible to investors or prospective investors. Morris (1987) posits that signaling theory elucidates the significance of corporations disseminating information to the public. The information above may encompass financial statements, corporate policy documentation, and other disclosures made willingly by company executives.

The Effective Tax Rate (ETR), often known as the effective tax rate, refers to the rate at which taxpayer income is taxed. A practical approach to evaluating a company's tax

management practices is assessing its effective tax rate. By utilizing the concept of the effective tax rate, an organization can ascertain the proportion of its income that is obligated to be allocated toward tax payments. Transfer pricing is a potential remedy when a corporation has specific challenges. This practice may adversely affect some stakeholders, particularly the state, which is crucial. In the realm of transfer pricing activities, it is observed that multinational corporations possessing multiple branches across different nations often transfer their tax liabilities from countries with high tax rates to those with lower tax rates. The correlation between a country's tax rate and the likelihood of corporations engaging in income transfer to jurisdictions with lower tax rates is seen. According to research by Swenson (2011), the presence of tariffs and taxes significantly impacts the motivation to engage in transfer pricing activities. According to Bernard's (2016) study, a correlation exists between the pricing of related party and arm's-length transactions and the taxation and import tariff levels of the country where these transactions occur. The effective tax rate impacts a company's transfer pricing strategy, according to a prior study by Bernard (2016). According to a survey by Sarifah (2019), there is a significant correlation between the effective tax rate and the transfer pricing decision-making process. Within the realm of tax avoidance strategies, the transfer pricing mechanism entails the deliberate manipulation of transactional prices between affiliated entities to reduce the corporate group's collective tax liability.

H_1: *Effective tax rate has a positive effect on transfer pricing decisions.*

Tunneling refers to diverting a corporation's assets and income to its controlling shareholders' advantage (Wafiroh & Hapsari, 2015). In cross-border mergers and acquisitions, tunneling manifests as transferring assets and corporate control to a different jurisdiction. Tunneling can manifest in two distinct forms. Firstly, controlling shareholders can divert business resources for personal gain through transactions between the company and its owners. These transactions can be facilitated through many means, including asset sales, transfer pricing agreements, inflated executive remuneration, loans, and other mechanisms. Furthermore, it is worth noting that controlling shareholders can augment their ownership stake in the company without transferring assets. To achieve this, it may be necessary to issue diluted shares or engage in other business dealings that could result in losses for non-controlling shareholders (Deanti, 2017). The capital ownership system in Indonesia is characterized by a limited number of owners, resulting in agency conflicts between dominant and minority shareholders (Hartati & Desmiyati, 2015). In this scenario, the presence of majority shareholders and minority shareholders arises from the fact that majority shareholders possess the ability to exert influence over management, hence granting them greater power over decision-making processes compared to small shareholders. According to Saifudin and Putri (2018), majority owners possess the authority to make choices that may favor their interests, often neglecting the concerns of minority shareholders. Rahmawati (2018) posits tunneling as the conduct exhibited by management or majority shareholders wherein they divert firm assets and profits for personal gain while imposing the associated expenses onto minority owners. Instances of tunneling include the omission of dividend payments, the sale of corporate assets to external entities at rates below their market value, and the preferential appointment of family members to key positions within the organization.

According to Jian (2013), in situations where a corporation possesses surplus financial resources, controlling shareholders prioritize transferring these resources toward their interests or engage in tunneling activities rather than dispersing them as dividends.

H_2: *Tunneling incentive has a positive effect on transfer pricing decisions.*

The term "bonus mechanism" refers to the incentive that the employer gives the manager as a way of rewarding them for meeting the firm's performance goals. The company's net profit may be a determining factor in the manager's bonus eligibility, or it may be based on the target growth in net profit (Mowen, 2005). According to Refgia (2017), the bonus mechanism refers to an additional kind of pay or prize provided to employees due to the organization's successful attainment of goals. The use of profit-based bonus mechanisms by organizations to motivate and pay directors and managers is a common practice. Directors or managers can manipulate profits to optimize their bonus earnings, as profit levels are the basis for such incentives. Considering the prevalent use of profit-based bonus systems to incentivize directors and managers, it is reasonable to expect that those whose remuneration is contingent upon profit levels may manipulate profit to optimize their bonus earnings and overall compensation. Hartati (2015) posits that the bonus mechanism is a strategic and motivational tool in accounting. Its primary objective is to optimize the remuneration received by directors or management by enhancing the company's overall profitability. Nevertheless, one of the divisions or subunits may incur losses due to implementing transfer pricing procedures. Hence, management can employ transfer pricing as a mechanism for transferring earnings across enterprises with the aim of augmenting management bonuses. According to the study conducted by Mispiyanti (2015), it was observed that management often employs transfer pricing transactions as a means to optimize their incentive earnings, mainly when the bonus structure is linked to profitability.

H_3: *Bonus mechanism has a positive effect on transfer pricing decisions.*

Research Design and Method

The present study was carried out on the Indonesia Stock Exchange (IDX), encompassing manufacturing firms operating in the primary and chemical sectors listed on the Indonesia Stock Exchange from 2018 to 2022, comprising 70 companies. The present study employs a purposive sample strategy, wherein a subset of 11 companies has been selected from a total population of 70 enterprises for analysis and investigation. This study utilizes secondary data in the form of financial reports from manufacturing businesses listed on the IDX for 2018–2022. The data is acquired through documentation studies and literature reviews. The methodology employed for data analysis is the panel data regression approach. Panel data, often known as pooled data, refers to a dataset that combines both time series data and cross-sectional data. The estimation procedure for regression models utilizing panel data can be accomplished through three distinct approaches: common effect or partial least squares (PLS), fixed effect model (FEM), and random effect model (REM). To conduct an analysis of panel data, assessing the appropriateness of the model specification for accurately describing the data is imperative. The tests under consideration are the Chow Test, the Hausman Test,

and the Lagrange Multiplier Test. The Ordinary Least Squares (OLS) method is employed to obtain more accurate estimates of the model parameters. However, it is crucial to ascertain whether the model adheres to the classical assumptions. This detection process involves tests for multicollinearity, heteroscedasticity, autocorrelation, and normality. The subsequent phase consists of examining all hypotheses posited in this study, which will be substantiated through statistical tests such as the coefficient of determination test, partial test (t test), and simultaneous test.

Table 1. Sample Determination Criteria

No	Criteria	Total
1	Basic industry and chemical sector companies that publish financial report data from 2018-2022	70
2	Basic industry and chemical sector companies that do not publish annual reports on the Indonesia Stock Exchange consecutively during 2018-2022.	(17)
3	Basic and chemical industry sector companies that experienced losses during the observation period.	(16)
4	Basic industry and chemical sector companies that are not controlled by foreign companies with 20% or more ownership percentage as controlling shareholders	(15)
5	Financial statements of population companies presented in foreign currency	(11)
	Companies that meet the stated criteria.	11
	Total number of sample companies (11 companies x 5 years from 2018-2022)	55

Tabel 2. Operational Variable

Variable	Indicator	Reference
Effective Tax Rate	$\text{ETR} = \frac{\text{Tax Expense} - \text{Deferred Tax Expense}}{\text{Taxable Profit}}$	(Mispiyanti, 2015)
Tunneling Incentive	$\text{TNC} = \frac{\text{Largest Shareholding}}{\text{Total Shares Outstanding}}$	(Nuradila & Wibowo, 2018)
Mekanisme Bonus	$\text{ITRENDBL} = \frac{\text{Net Income Year (t)}}{\text{Net Income Year (t} - 1)} \text{x100}$	(Rahmawati, 2018)
Transfer Pricing	$\text{RPT} = \frac{\text{Related Party Transaction Receivables}}{\text{Total Receivables}} \times 100$	(Melmusi, 2016)

Results and Discussion

Statistical Result

Statistical analysis offers a comprehensive examination of data, encompassing key metrics such as the minimum, maximum, mean, and standard deviation (SD) values. The independent variables included in this study contain the Effective Tax Rate, Tunneling Incentive, and Bonus Mechanism, whereas Transfer Pricing represents the dependent variable. Based on Table 3, descriptive statistical analysis can be explained that the transfer pricing variable with the amount of data (N) of 55 has an average value of 0.3674, a minimum value of 0.0017, and a maximum of 1.1815, while the standard deviation is 0.3825. The influential tax rate variable with a total of 55 data (N) has an average value of 0.3006, a minimum value of -1.3041, and a maximum of 1.7151, while the standard deviation is 0.4172. The tunneling incentive variable with a total of 55 data (N) has an average value of 0.6065, a minimum value of 0.0290, and a maximum of 3.7903, while the standard deviation is 0.7901. The bonus

mechanism variable with a total of 55 data (N) has an average value of 1.1264, a minimum value of 0.0012, and a maximum of 5.8556, while the standard deviation is 0.9919.

Table 3. Descriptive Statistical Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Transfer Pricing	55	0.0017	1.1815	0.3674	0.3825
Effective Tax Rate	55	-1.3041	1.7151	0.3006	0.4172
Tunneling Incentive	55	0.0290	3.7903	0.6065	0.7901
Mekanisme Bonus	55	0.0012	5.8556	1.1264	0.9919

The next stage is the selection of panel data regression models. The regression model consists of 3 models, namely pooled least square (PLS) or commonly referred to as the common effect model (CEM), fixed effect model (FEM), and random effect model (REM).

Tabel 4. Fixed Effect Model

Variabel	Coefficient	Std. Error	t-Statistic	Prob
C	0.415786	0.069116	6.051793	0.0000
ETR	0.006229	0.100095	0.062234	0.9507
TI	-0.006951	0.063210	-0.109964	0.9130
M	-0.040940	0.036392	-1.124993	0.2671
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.705772	Mean dependent var		0.367387
Adjusted R- squared	0.612481	S.D. dependent var		0.382542
S.E of regression	0.238137	Akaike info criterion		0.183385
Sum squared resid	2.325071	Schwarz criterion		0.694343
Log likelihood	8.956904	Hannan-Quinn criter.		0.380977
F-statistic	7.565218	Durbin-Watson stat		1.608922
Prob(F-statistic)	0.000000			

Source: Eviews Output

Based on the best model selection section, namely the Chow test, Hausman test, and lagrange multiplier test, the best model is the Random Effect Model (REM), but it can be seen that the F-statistic value is 0.731 which is more significant than 0.05 so that this model cannot be accepted. Based on the F-statistic value of the three models, the Fixed Effect Model, which has a value of 0.000, is smaller than the value of 0.05, so the best model selection to be used is the Fixed Effect Model (FEM).

To get a more accurate estimate of the model parameters, it is essential to see if the model does not follow the usual rules. Multicollinearity, heteroscedasticity, autocorrelation, and normality tests are used. One way to determine multicollinearity in a model is to examine the correlation coefficient of computer output. If there is a correlation coefficient greater than 0.6, then there are symptoms of multicollinearity. It is clear from Table 5 that the correlation between variables is very low, at or below 0.6. This means that there is no multicollinearity between the independent variables, which are ETR (Effective Tax Rate), TI (Tunneling Incentive), and MB (Bonus Mechanism). The heteroscedasticity test aims to test whether there is an inequality of variance in the regression model from the residuals of one observation to another.

Table 5. Multicollinearity Test Results

	ETR	TI	MB
ETR	1	-0.0789201….	0.25010897….
TI	-0.0789201…	1	-0.026363494….
MB	0.25010897….	-0.0263494	1

Source: Eviews Output

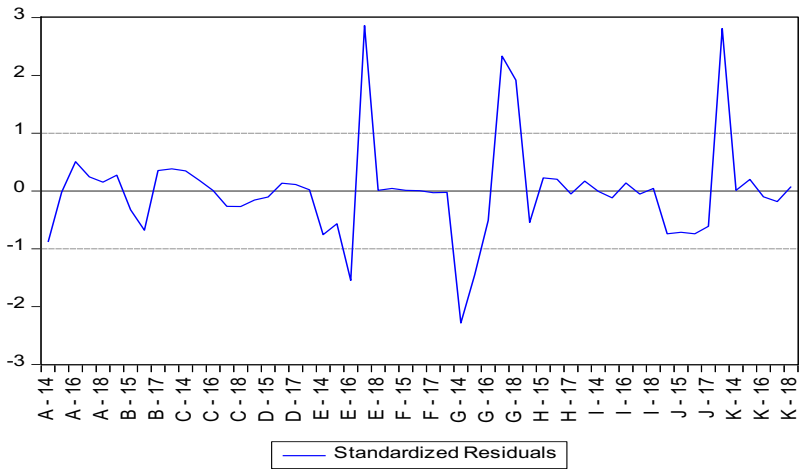

Figure 1. Heteroscedasticity Test Results
Source: Eviews Output

Based on the graph in Figure 1, the residuals have not met the assumption of homogeneity; in other words, heteroscedasticity still occurs. After handling the assumption violation, the results can be seen in Figure 2.

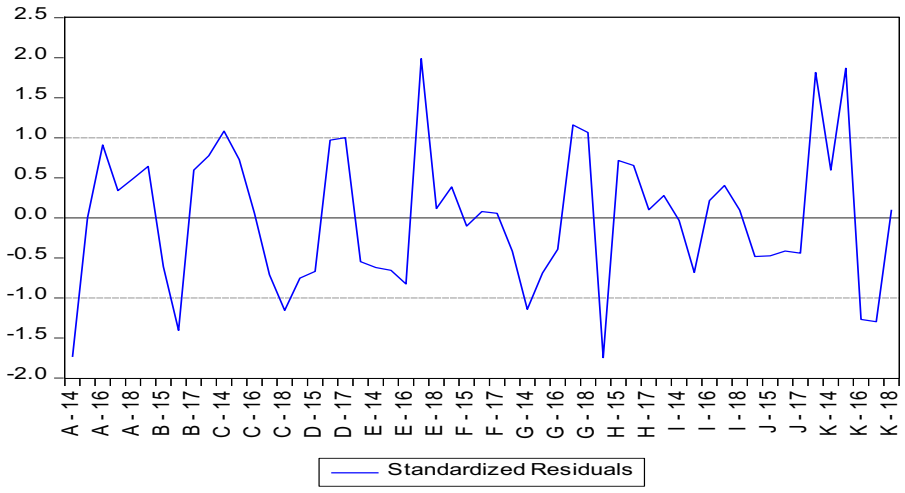

Figure 2. Results of the Last Test of Heteroscedasticity
Source: Eviews Output

The next phase is to conduct an autocorrelation test to see whether there is a relationship between the residuals of one observation and the residuals of another statement. Autocorrelation is a correlation between one word's disturbance variable and another observation's disturbance variable. The assessment is seen from the probability value. If the

probability value is smaller than 0.05, it can be concluded that the model has an autocorrelation problem. Based on table 3, Fixed Effect Model, the Durbin-Watson value is 1.609, so it can be assumed that there is no autocorrelation.

Furthermore, a normality test is carried out to test whether, in the regression model, the independent and dependent variables are both normally distributed or not. Decision-making with Jargue-Bera is if the probability value more than 5%; then the variables are normally distributed.

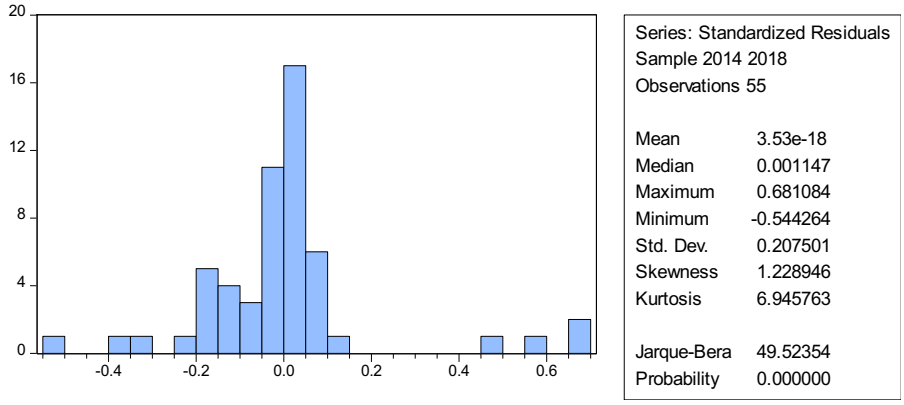

Figure 3. Normality Test Results
Source: Eviews Output

Based on the graph and normality test above, it is found that the probability value of 0.000 indicates that the prob is more than 5%, so it is concluded that the normality assumption is not met. After handling the assumption violation, the results are as follows:

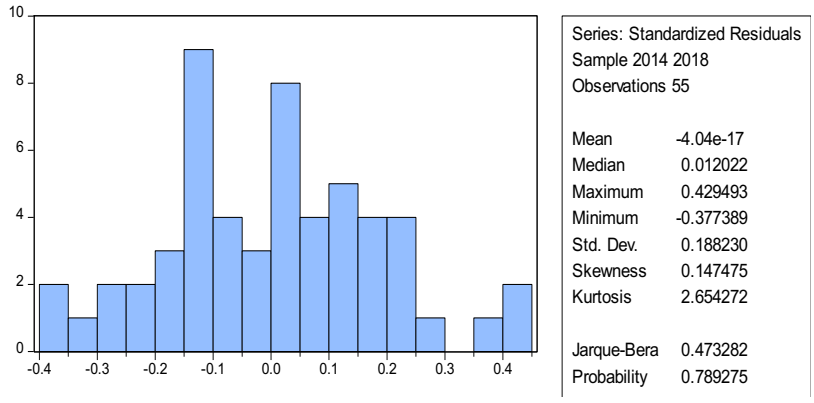

Figure 4. Final Normality Testing Results
Source: Eviews Output

The final Fixed Effect Model (FEM) after handling the assumption violation is presented in table 6:

Table 6. Fixed Effect Model Results

Variable	Coefficient	Std. Error	t-Statistics	Prob
C	0.376531	0.014373	26.19716	0.0000
ETR	0.017454	0.007648	2.282211	0.0277
TI	-0.003435	0.030074	-0.114217	0.9096
M	-0.010964	0.004729	-2.318655	0.0255
Effects Specification				
Cross-section fixed (dummy variables)				
Weighted Statistics				
R-squared	0.988879	Mean dependent var		1.071664
Adjusted R- squared	0.985352	S.D. dependent var		1.518664
S.E of regression	0.216020	Sum squared resid		1.913258
F-statistic	280.4292	Durbin-Watson stat		1.724462
Prob(F-statistic)	0.00000			

Source: Eviews Output

Based on table 6, the panel data regression equation with the Fixed Effect model is formulated as follows:

$$Y = 0.377+0.017X1it - 0.003X2ti – 0.011X3ti + e$$

The constant value obtained is 0.377, which means that if the Effective Tax Rate, Tunneling Incentive, Bonus Mechanism, and Transfer Pricing variables are 0, the level of the Transfer Pricing decision is 0.377. Regression coefficient X1 = 0.017 means that if the Effective Tax Rate increases by 1%, Transfer Pricing will increase by 0.017. The more effective the tax rate increases, the more transfer pricing decision increases. Regression coefficient X2 = - 0.003 means that if Tunneling Incentive increases by 1%, Transfer Pricing will decrease by 0.003. The more tunneling incentive increases, the more transfer pricing decision decreases. Regression coefficient X3 = -0.011 means that if Bonus Mechanism increases by 1%, Transfer Pricing will decrease by 0.011. The more the bonus mechanism rises, the more the transfer pricing decision falls.

Partial test results show that the Effective Tax Rate positively and significantly affects Transfer Pricing, as seen from the Prob. (p-value) value of 0.0277, which is smaller than the actual level of 0.05. So, the first hypothesis is accepted. So, the first hypothesis is received; this means that the high effective tax rate borne by the company will increase the tax burden paid, so to minimize the tax burden to be paid, the company shifts profits to countries with low tax rates through transfer pricing decisions. Tunneling Incentive has a negative and insignificant effect on Transfer Pricing. The Prob value indicates this. 0.909, where the value is greater than the actual level of 0.05. Therefore, the second hypothesis is rejected. This proves that controlling shareholders of manufacturing companies on the IDX in the essential and chemical industries do not engage in tunneling, which is when they take assets and profits out of the company to benefit themselves. This is done through decisions about transfer pricing. The bonus mechanism negatively and significantly affects transfer pricing decisions; this can be seen from the Prob. (p-value) value of 0.0255, which is smaller than the actual level of 0.05. So, the third hypothesis is rejected; this shows that the bonus mechanism based on profit will make management maximize the profit generated by the company so that the bonus received is also maximized, thus making management make transfer pricing decisions.

Furthermore, the simultaneous test determines whether the independent variables jointly affect the dependent variable. This test is conducted using the independent variable Effective Tax Rate, Tunneling Incentive, and Bonus Mechanism simultaneously on the dependent variable Transfer Pricing. The value of the F statistic is 0.00 or smaller than 0.05. This means that simultaneously, Effective Tax Rate, Tunneling Incentive, and Bonus Mechanism significantly affect the Transfer Pricing decision. Furthermore, the R-squared value is 0.988 or 98.8%, which indicates that the Transfer Pricing variable can be explained by the Effective Tax Rate, Tunneling Incentive, and Bonus Mechanism variables by 98.8%, while the remaining 1.2% can be explained by other variables not included in this study.

Discussion

The Effective Tax Rate (ETR) is the rate at which taxpayer income is effectively taxed. A practical approach to evaluating a company's tax management practices involves analyzing its effective tax rate. The effective tax rate lets the company determine the proportion of its income allocated toward tax obligations. The hypothesis testing results indicate a statistically significant positive relationship between the Effective Tax Rate and Transfer Pricing choices. This implies that as the effective tax rate of a firm increases, the corresponding tax burden also increases, leading the company to engage in tax avoidance strategies through transfer pricing decisions. Companies with a substantial tax burden sometimes use transfer pricing strategies, wherein they shift their profits from jurisdictions with high tax rates to those with lower tax rates to mitigate their tax liabilities. According to Azizah (2016), multinational corporations engaged in international trade would encounter a range of tax obligations for both exports and imports. It is commonplace to observe variations in the tax burden among multinational corporations. Countries with less developed economies often experience lower tax rates, while countries with more developed economies tend to face higher tax rates. In light of this, established corporations will contemplate strategies for minimizing their tax liabilities, as taxes directly impact their bottom line by diminishing profits. If tax rates are decreased, it could lower the financial burden on companies. Transfer pricing enables multinational corporations to strategically allocate their tax liabilities from higher-tax jurisdictions to lower-tax jurisdictions within their network of subsidiaries or affiliated entities. The finding aligns with other studies (Aminah, 2018; Sarifah et al., 2019) that have indicated a favorable and statistically significant relationship between the effective tax rate and transfer pricing decisions.

Tunneling refers to the practice wherein management or majority shareholders transfer a company's assets and profits for their gain while burdening minority shareholders with the associated costs. This is achieved through leveraging linked parties and employing unfair pricing mechanisms. Instances of tunneling include the omission of dividend payments, the sale of corporate assets to external entities at rates below their market value, and the preferential appointment of family members to key positions within the organization. The findings of the hypothesis test indicate a lack of statistical significance in the relationship between Tunneling Incentives and Transfer Pricing decisions, with an opposing direction of effect. This implies that the practice of tunneling is not a determining factor in the company's decision-making process regarding transfer pricing, nor is it observed among controlling or

majority shareholders in manufacturing companies operating in the primary and chemical industry sectors listed on the IDX between 2018 and 2022. To engage in tunneling, majority shareholders employ related party transactions, such as sales or purchases, to shift cash or current assets out of the company using pricing mechanisms that are deemed excessive. An inverse relationship exists between the extent of expropriation conducted by dominant shareholders and the magnitude of cash dividends disbursed. This may lead to a potential dispute between majority owners with controlling interests and minority stockholders. The conflict has significant implications for the company's operational and investment endeavors, leading controlling shareholders to resist assuming tunneling risks. The presence of robust safeguards for minority shareholders' rights is a deterrent against controlling shareholders engaging in tunneling activities. Not enough protection for the rights of minority shareholders makes controlling shareholders more likely to use their power in unfair ways, like tunneling, which hurts the interests of minority shareholders. Based on the research done by Deanti (2017), this result supports the idea that tunneling incentives do not change how decisions are made about transfer pricing. However, Mispiyanti's (2015) research findings indicate a relationship between tunneling incentives and transfer pricing decisions. Similarly, Yuniasih's (2016) study reveals that tunneling motivation has a noteworthy and favorable impact on transfer pricing.

Bonus mechanisms refer to supplementary forms of pay or awards provided to employees to acknowledge and incentivize their effective attainment of the organization's predetermined objectives. The most common method that corporations use to motivate and pay directors and managers is a profit-based bonus system. The results of hypothesis testing indicate a statistically significant and negative impact of the Bonus Mechanism on the decision-making process of Transfer Pricing. This implies that implementing profit-based bonuses incentivizes management to engage in transfer pricing practices to boost the company's profits. However, introducing an escalating bonus mechanism discourages transfer pricing decisions because higher profits generated by the company would also increase the tax burden the company would bear. Consequently, when the company is required to pay substantial taxes, its overall profit would decrease, resulting in suboptimal or nonexistent bonus provisions. Hartati (2015) asserts that the bonus mechanism is a strategic approach or calculating incentive in accounting aimed at optimizing the remuneration received by directors or management through the augmentation of total corporate profitability. Nevertheless, it is plausible that losses may occur within one or more divisions and subunits due to the implementation of transfer pricing procedures. Hence, management can employ transfer pricing as a means to shift the organization's profits to augment their own bonuses. When fulfilling their responsibilities, directors often demonstrate commendable performance to the company owner to receive recognition as an award. The award may manifest as bonuses contingent upon the directors' success in effectively overseeing the company. According to Mispiyanti (2015), the company proprietor not only provides bonuses to directors who effectively produce profits for their respective divisions and subunits but also to directors who demonstrate a willingness to collaborate for the overall well-being and advantage of the organization. This finding is in line with the research by Rachmat (2019), which contends that the bonus mechanism affects the decision-making process of transfer pricing. According to the findings of study (Melmusi, 2016), it was determined that the bonus

mechanism exerts a noteworthy impact on transfer pricing.

Conclusions

The study's findings support the conclusion that a positive and statistically significant relationship exists between the effective tax rate (ETR) and transfer pricing decisions. This implies that as the effective tax rate of a firm increases, there is a greater likelihood that the corporation will engage in transfer pricing practices to mitigate the impact of high taxes. Nevertheless, the tunneling incentive, which pertains to the actions undertaken by majority owners to divert corporate assets and revenues for their gain, does not substantially impact transfer pricing determination. Furthermore, implementing a bonus mechanism tied to the business's profit has a noteworthy and adverse impact on transfer pricing decisions. This implies that bonuses contingent upon increased corporate profits can diminish the motivation to engage in transfer pricing activities.

We suggest that companies consider carefully managing their effective tax rates and designing a balanced bonus mechanism that considers the long-term interests of the company and minority shareholders. Multinational companies, i.e., companies operating in multiple countries, must carefully consider the effective tax rates in different countries as part of their international tax policy planning. In the context of your research, an increase in the effective tax rate may affect the company's decisions regarding transfer pricing, which may affect the amount of tax payable. Therefore, multinational companies must understand how different effective tax rates across other countries can affect their tax strategies. Company managers should be able to perform effective conflict management so that tensions and potential conflicts that can harm the company can be minimized. Future research can develop a more comprehensive analysis model to understand the impact of effective tax rates, tunneling incentives, and bonus mechanisms on transfer pricing decisions. This model can consider additional variables and interactions affecting transfer pricing decisions, such as firm size, industry, or macroeconomic factors.

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