http://ejournal.seaninstitute.or.id/index.php/Ekonomi
Jurnal Ekonomi, Volume 11, No 01 June 2022
ISSN: 2301-6280 (print) ISSN: 2721-9879 (online)

EMPIRICAL STUDY OF TRANFER PRICING ON CONSUMPTION COMPANIES ON THE INDONESIA STOCK EXCHANGE

Mamay Komarudin*[1], Grace Citra Dewi[2]

[1]Universitas Bina Bangsa
[2]Universitas Katolik Widya Mandala

ARTICLEINFO

Keywords:
good corporate governance,
pricing transfer,
tunneling incentive,
intangible assets and profitability

ABSTRACT

The purpose of this study is to analyze the effect of good corporate governance (GCG) on transfer pricing; analyze the effect of tunneling incentives on transfer pricing, the effect of intangible assets on transfer pricing, and the effect of profitability on transfer pricing . This type of research is explanatory research. The population of this study is multinational companies in the consumption industry listed on the Indonesia Stock Exchange (IDX). The method analysis of multiple linear analysis to search for its regression equation. The data analysis results show that Good Cooporate Goverment (GCG) has a positive and significant effect on the company's decision to carry out transfer pricing. Tunneling Incentive (TNC) positively and significantly affects the company's decision to carry out transfer pricing. Intangible Assets do not have a positive and insignificant effect on the company's decision to transfer pricing. Profitability does not have a positive effect on the company's decision to transfer pricing,

E-mail:
mamaykomarudin2014@gmail.com

1. INTRODUCTION

Multinational companies have some of the transactions and economic activities such as sales transactions, purchases of raw materials, provision of services, and so on. The company *conducts transfer pricing* to multinational companies in addition to increasing business motivation, it is also intended to control, the mechanism of resource flow between group members and the maximization of profit after tax (Suandy, 2014). Horngren and Sundem (2012) explained that *transfer pricing* is an effort by multinational companies to reduce income tax by allocating company profits to subsidiaries with a lower tax burden. Multinational companies that pursue high profits will get in trouble if their subsidiaries are in a country with high tax rates. Some experts admit that *the transfer pricing* activities of multinational companies can trigger abuse aimed at obtaining higher profits and also efforts to avoid taxes through transactions between multinational companies in one business group that tend to shift their tax obligations from countries that apply *high tax* rates to countries that have low tax rates (*low tax countries*) or countries that do not have the obligation to pay taxes (*tax haven countries*).

The issue of *transfer pricing* in Indonesia itself occurred in the alleged *tax avoidance* carried out by the coal company PT Adaro Energy Tbk with a *transfer pricing* scheme through a subsidiary in Singapore. The alleged *transfer pricing* based on the Global Witness report is one of the inputs to ensure that corporate taxpayers (WP) comply with applicable regulations. The NGO International Global Witness, engaged in environmental issues, published an investigation report on adaro energy's alleged corporate tax evasion. PT Adaro Energy Tbk is reportedly indicated to have fled its revenue and profits abroad in order to reduce taxes paid to the Government of Indonesia. According to Global Witness, this is done by selling coal at a low price to Adaro's Singapore subsidiary Coaltrade *Services International* to be sold again at a high price. *Global Witness* found the potential for lower-than-expected tax payments of $125 million to the Indonesian government. *Global Witness* also pointed to the role of tax haven countries that allow Adaro to reduce its tax bill by $14 million per year (Tirto.id, January 7, 2021). Based on the case that has been described, it is concluded that *transfer pricing* is one of the schemes that is very vulnerable to be used as a shortcut in obtaining profits. This is supported by data from the *Organization for Economic and Development* (OECD) that 60% of total world trade is indicated to be *transferring pricing* practices (Nurhayati, 2013: 32). This certainly makes *transfer pricing* a crucial thing to study and knowing what factors can affect it is necessary.

Multinasional companies that carry out transactions in the capital market require sources of funds obtained also from investors. Therefore, investor dapat menanamkan dana mereka di bursa efek inmana terda pat banyak sektor industri yang *listing* diantaranyaitu industri barang k onsumsi. Industri ini sangat penting bagi masyarakat karena salah satu industri yang dapa t memenuhi kebutuhan pokok masyarakat sehar i-h ari. Berikut merupakan condition ra ta-r ata harga saham sektor industri barang konsu msi periode 2015-2019 following.

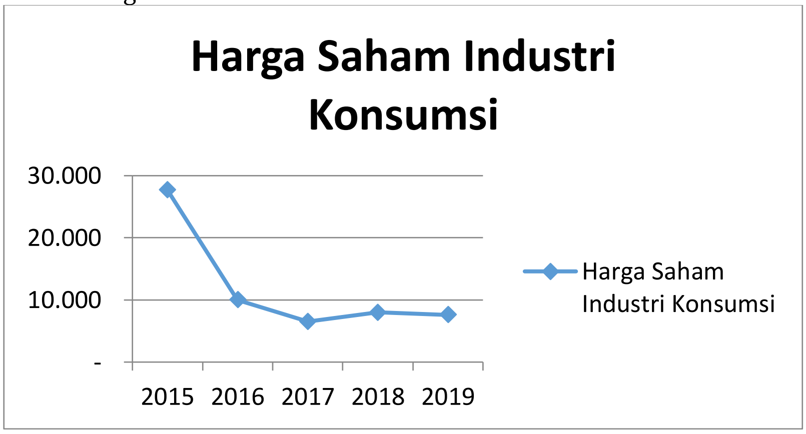

Figure 1. Development of Consumption Industry Stock Price on IDX

Figure 1 is a detailed list of companies in the consumption goods sector listed on the Indonesia Stock Exchange (IDX) for the 2015-2019 period. In 2015 the average share price for the year was in the position of Rp2 8,592.00. In the year in 2016 the average share price for the year was in the position of Rp1.0304.0 0. In 2017, the average share price for the year was at a position of Rp6,686.00. In 2017 the average share price year was at Rp8,198.00. In the year in 2019, the average share price for the year was in the position of Rp7.78 8.00. A decrease in stock prices can cause a decrease in profits, which can be a driver of transfer pricing.

Several factors influence the company's decision to *make transfer pricing.* Both tax and non-tax reasons drive multinational corporations. Along with the times, *transfer pricing* practices are often carried out to minimize the amount of tax that must be paid. The increasingly significant tax burden triggers companies to carry out *transfer pricing* in the hope of reducing this burden. *Transfer pricing* in transactions for goods or services is carried out by reducing the selling price between companies in one group and transferring the profits earned to companies domiciled in countries with low tax rates.

Transfer pricing is a classic issue in taxation, especially regarding international transactions carried out by multinational companies (Lingga, 2012: 220). Rossing (2013) shows that multinational companies, especially management, tend to control tax payments through price control with *a transfer pricing* mechanism. Marfuah and Azizah (2014) revealed that taxes and *tunneling incentives* have a significant positive effect on *transfer pricing* and *exchange rates* have a positive but not significant effect

The application *of levers of control* carried out by the company more or less influences the decision of companies that want to implement good corporate governance, clean, comply with applicable laws and care for the environment based on high social values of cultivation (*Good Corporate Governance*) can be considered and influence the company's decisions in conducting *transfer pricin* (Sutedi, 2012:12). Noviastika et al (2016) showed that *good corporate governance* positively affects indications of *transfer pricing.*

Agency problems arise between majority and minority shareholders, one of which is the protection of the rights of weak minority shareholders, thus encouraging majority shareholders to carry out *tunneling* practices that harm minority shareholders (Mitton, 2002). Companies listed on the Exchange must distribute dividends to parent companies and other minority shareholders. Minority shareholders of listed companies are often harmed when the transfer price benefits the parent company or controlling shareholder (Lo *et al.,* 2010). Noviastika (2016) found that *tunneling incentives* positively affect the decision to make *transfer pricing*.

Agency theory explains that agency conflicts can occur between majority and *minority shareholders*, where *majority shareholders* will take specific actions against company managers to increase prosperity. *Majority shareholders* will encourage managers to manage the excess information they have to meet their interests. Grant, *et al.* (2013), it is alleged that *intangible assets* affect the decision to make *transfer pricing*. In contrast, Ohnuma and Kato (2015) and Muhammadi et al. (2016) found empirical evidence that intangible assets had no effect because the large number of intangible asset transactions did not reflect the opportunistic actions of company management in carrying out *transfer pricing* behavior.

Profitability is the ability of an enterprise to make a profit (profit) in a certain period. Profitability is an indicator of performance carried out by management in managing company wealth which is indicated by the profit generated, the lower the profitability of a company, the higher the possibility of profit shifts that occur, in other words, the greater the company's suspicion of transfer pricing practices (Sudarmadji et al, 2007). Companies with an advantage are more likely to engage in transactions or schemes to avoid corporate taxes (Rego, 2003). The *company uses the transfer pricing transaction* to support the company's operational performance that can benefit shareholders. Companies conducting *transfer pricing* can adjust *the transfer* prices for various transactions made between members (divisions) of companies with unique relationships (Richardson *et al,* 2013).

Research is carried out using the *variables of good corporate governance* (GCG), *tunneling incentives*, *intangible assets* and profitability. This study used ten years from 2010-2019, which is different from the previous study with a five-year observation period. This study's measurement of transfer pricing practices uses a proxy for the value ratio of *related party transactions*. The proxy measures sales and purchase transactions that will cause debts and receivables that can affect the company's accounting profit calculation. The purpose of this study is to analyze the effect of *good corporate governance* (GCG) on *transfer pricing*; analyze the effect of *tunneling incentives* on *transfer pricing*, analyze the effect of *intangible assets* on *transfer pricing* and analyze the effect of profitability on *transfer pricing*

2. METHOD

This type of research is explanatory research (Explanatory Research) This research tests factors consisting of Good Corporate Governance, tunneling incentives, intangible assets and profitability to dependent variables, namely transfer pricing.

The population of this study is multinational companies in the consumption industry listed on the Indonesia Stock Exchange (IDX). The sample was selected based on the purposive sampling method with the characteristicsthat the sample must have is 1)This research uses multinational companies in the manufacturing industry listed on the Indonesia Stock Exchange during 2010-2019, never delisted on the Indonesia Stock Exchange during 2010-2019 and p The sample company is controlled by a foreign company with an ownership percentage of 20% or more in 2010-2019 of 20% or more. Secondary data in this study are in the form of financial statements and independent auditor reports of each public company for the 2010-2019 period, as well as company data obtained from www.idx.co.id. The method of datanalysis used in this study is classical assumption analysis to test data quality and multiple linear analysis to find its regression equation.

3. RESULT AND DISCUSSION

The population of this study is all consumer goods industry companies listed on the Indonesia Stock Exchange (IDX) between 201-201 0 as many as 54 companies. Based on the sampling criteria, 4 4 companies were selected The summary statistics displayed are the magnitude of the minimum value, maximum value, average, and standard deviation of each research variable other than *the dummy* variable. Table 1 presents a statistical summary of the research variables.

Table 1. Descriptive Resultsf Statistics of Research Variables

Information	Minimum	Maximum	*Mean*	*Std. Deviation*
GCG (*Dummy*)	0	1	0,460	0,499
TNC (%)	0,176	0,925	0,568	0,197
Intangible Asset (*Dummy*)	0	1	0,780	0,414
Profitability (%)	0,050	43,170	8,045	8,557
Transfer pricing (%)	0,010	0,930	0,143	0,198

http://ejournal.seaninstitute.or.id/index.php/Ekonomi
Jurnal Ekonomi, Volume 11, No 01 June 2022
ISSN: 2301-6280 (print) ISSN: 2721-9879 (online)

Source: data processed

Based on Table 1, it is explained thatthe average *value of tunneling incentive* (TNC) is 0.568%. The lowest value of TNC is 0.176% and the highest value of *Tunneling Incentive* (TNC) is 0.925%. The standard deviation value of 0.197% means that the value of the *Tunneling Incentive* (TNC) variable indicates a reasonably large data spread, this is supported by the standard deviation value that is getting further away from the average value. The lowest *Tunneling Incentive* (TNC) value of 0.176% indicates that T *unneling* is lower in the low concentrated ownership structure than in the low concentrated ownership structure. In other words, *greater tunneling* is done on majority shareholders than low minority shareholders. In contrast, the highest Tunneling Incentive (TNC) value of 0.925% indicates that several majority shareholder interns control the shareholding.

Theaverage N value of profitability is 8.045%. The minimum value of profitability is 0.050% and the maximum is 43.170%. The standard deviation of 8.557% means that the profitability value is close to the average with the size of the data spread getting smaller. The lowest value of 0.001% shows that the source of company funds obtained from debt is minimal by 0.001%.

The average transfer *pricing* value is 0.143%. The lowest value of *the Transfer pricing* variable is 0.010% and the highest is 0.930%. The standard deviation of 0.143% means that the *transfer pricing* value is close to the average with an increasingly small data spread. This means thatthe price set for various transactions is relatively low.

This study uses the multiple linear regression method as a tool that accommodates the influence of free and bound variables. The research-free variables are GCG, TNC, *Intangible Asset* and profitability The results of the regression equation are shown as per Table 2.

Table 2. Multiple Linear Regression Analysis Results

Type	*Standardized Coefficients*	t	Sig.	Information
	Beta			
(Constant)	-2,301	-10,126	0,000	-
GCG	0,104	2,468	0,014	Significant
Ln TNC	0,117	2,474	0,014	Significant
Intangible Asset (ITG)	-0,064	-1,399	0,162	Insignificant
Ln Profitability	-0,074	-1,362	0,174	Insignificant

Source: processed data

Based on the results of the analysis inthe regression equation can be described:

Y= -2.301 – 0.104GCG + 0.117 TNC - 0.064ITG - 0.074X6 -0.016Ptofit + e

The explanation of the results of the regression model equation obtained is as follows:

a. Hypothesis H1 , which states that GCG has a positive effect on transfer pricing, is proven. The regression coefficient of Good Coorporate Goverment (GCG) of 0.104 means that in Tunneling Incentive (TNC), Intangible Assets and profitability are constant if corporate governance (Good Coorporate Goverment (GCG) is increasing, the transfer pricing will be higher. The significance level of GCG is 0.014 with a calculated significance value (p-value) of 0.014 less than α (= 0.05), Partially based on the results of GCG testing has a positive and insignificant effect on the company's decision to transfer pricing.
b. The *Tunneling Incentive* (TNC) regression coefficient of 0.117 means that in *Good Corporate Goverment* (GCG), *Intangible Assets* and profitability, if *the Tunneling Incentive* (TNC) increases, the *transfer pricing* will be higher. The TNC significance level is 0.014 with a calculated t significance value (*p-value*) of 0.014 less than α (= 0.05), Partially based on the results of the TNC test, it has a positive and significant effect on the company's decision to *transfer pricing*. Hypothesis H_2 which states TNC has a positive effect on *Transfer pricing* is proven.
c. *The Intangible Asset* regression coefficient of -0.064 means that in *Good Corporate Goverment* (GCG), *Tunneling Incentive* (TNC), and constant profitability, if *Intangible Asset* is carried out, *transfer pricing* will decrease. The significance level of *Intangible Assets* is 0.162 this value of significance t count (*p-value*) of 0.162 more than α (= 0.05), Partially based on the results of *the Intangible Asset* test , it has no positive and insignificant effect on the company's decision to transfer *pricing*. Hypothesis H_3 which

http://ejournal.seaninstitute.or.id/index.php/Ekonomi
Jurnal Ekonomi, Volume 11, No 01 June 2022
ISSN: 2301-6280 (print) ISSN: 2721-9879 (online)
JURNAL EKONOMI

states *Intangible Assets* have a positive effect on the company's decision to transfer *pricing* is not proven.

The profitability regression coefficient of -0.074 means that *Good Corporate Goverment* (GCG), *Tunneling Incentive* (TNC), *Intangible Asset* is constant, so if profitability increases by 1% then *Transfer pricing* will decrease. Leverage significance level is 0.144 with value The profitability significance level is 0.174 with this value of significance t count (*p-value*) of 0.174 more than α (= 0.05), Partially based on the results of profitability testing positively affects the company's decision to *transfer pricing*. Hypothesis H_4 which states that taxes have a positive effect on the company's decision to do *transfer pricing* is not proven

The Effect *of Good Corporate Goverment* (GCG) on the Company's Decision to Transfer *Pricing*

The regression analysis results stated that ***Good Corporate Government* (GCG)** had a positive and significant effect on the company's decision to transfer *pricing*. *Good Corporate Goverance* is a process and structure used by company organs to increase business success and corporate accountability based on laws and regulations and ethical values (Cadbury in Sutedi, 2012: 1). A company with good governance will consider all its activities, especially those that deviate from the rules. This can allow *good corporate governance to* influence companies in making *transfer pricing*.

Based on *the Theory of Agency Problem,* it is explained that company audits reduce the asymmetry of information between management and company *stakeholders* by allowing parties outside the company to verify the validity of financial statements. It explained that the quality of auditing lowered the positive bias in *preaudit net earnings* and net assets in the financial statements. The effectiveness of *auditing* and its ability to prevent *transfer pricing* practices are expected to vary with varying quality of auditors.

This research is done by Annisa and Kurniasih (2012) which found that GCG has a significant effect on the company's decision to *transfer pricing*. This research by Noviastika et al (2016) shows that *good corporate governance* positively affects indications of *transfer pricing*.

The Effect of *Tunneling Incentive* (TNC) on the Company's Decision to Transfer *pricing*

The regression analysis results stated that *tunneling incentives* had a positive and significant effect on the company's decision to carry out *transfer pricing*. This means that if the *tunneling incentive is* higher, the company's decision to do *transfer pricing*. This is by the opinion of Hartati, *et al.* , (2014) explains that *tunneling incentive* is a behavior of majority shareholders transferring company assets and profits for the benefit of the shareholders themselves, but the holders' fees are charged to minority shareholders. That means *tunneling incentives are* done for the majority shareholders' benefit.

According to Sari (2012) in Marfuah and Azizah (2014), the results of this study stated that two things are considered an impetus for companies to carry out *Tunneling*. First, the ownership structure. The existence of significant control and influence that is owned, the controlling shareholder can take policies that benefit him, including contractual policies with parties who have a special relationship. Second, the availability of financial resources to the company to be tunneled. *Tunneling incentive* juga berpengaruh terhadap *transfer pricing*. Gilson dan Gordon (2003) identified two possible ways that the controlling shareholder could benefit from the dickrol of the company's policies through the wiseness of the company's operations and the contractual policies of the other party. The private benefits that can be obtained through the company's operating policies include high salaries and support, large bonuses and compensation, and dividends. The way for obtaining private benefits through a contractual policy between l ain dilayokean through Tunneling which transfers resources out of the company to the interests of n shareholders (controlling Johnson et al. 2000)

The Effect of *Intangible Assets* on the Company's Decision to Transfer *Pricing*

The regression analysis results stated that *Intangible Assets* did not have a positive and significant effect on the company's decision to carry out *transfer pricing*. This means that if the *Intangible Asset* is higher, it will not determine the company's decision to transfer *pricing*. The results of this study are inconsistent with Grant, et al. (2013), which alleged that intangible assets affect the decision to make transfer pricing. Brauner (2008:86) explained that intangible assets are important for the sustainability of multinational companies. This is because multinational corporations have become the most important part of the majority of intangible property transactions between countries, regulations regarding the pricing of transfers are automatically widely applied to transactions involving the transfer of intangible assets in one way or another.

Intangible Assets do not affect *transfer pricing*. This is because it is known that the higher the value of intangible assets owned by the company, the company does not necessarily *transfer pricing* Based on agency theory, the information gap between *majority* and *minority shareholders* can be minimized with information that can provide trust from *minority shareholders*. *Intangible Asset* is an additional information presented by the company to minimize existing information gaps. The presentation of *Intangible Asset* information can be a tool for company management to foster the trust of *minority shareholders* in the possibility of manipulation practices carried out by company managers such as *transfer pricing* practices.

If this research is associated with positive accounting theory, the results of this study are in line with the bonus plan hypothesis. The hypothesis says that companies are free to determine the accounting methods to be used. This Hal certainly makes it easier for companies to choose which method will increase the company's profit in annual company financial reporting. The measurement *of intangible assets* is complicated, causing the company to have more opportunities to divert the profits that the company has to a country with a low tax rate (*tax heaven*) by transferring payments such as royalties which is difficult when measured by *arm's length price* . Companies tend to have a strategy to move intangible assets owned by the company to affiliated corporate entities located in countries with low tax rates, where the company that transfers such intangible assets is located in a country with a high tax rate

This study's results align with research conducted by Ohnuma and Kato (2015), which found empirical evidence that *Intangible Assets* do not affect *transfer pricing*. The results of this study prove that *Intangible Asset* transactions that do not reflect *transfer pricing* practices to transfer profits to *tax heaven countries*, but to trace the availability of *Intangible Assets* due to limited information to find comparable prices under the same conditions and negotiations with other countries in the exchange of information also require significant resources.

The Effect of Profitability on the Company's Decision to Transfer *pricing*

The regression analysis results stated that profitability did not have a positive and insignificant effect on the company's decision to *carry out transfer pricing*. This means that if the company's ability to generate profits increases, it does not affect its decision to make *transfer pricing*. It also indicates that profitability is the company's ability to obtain net profit after tax.

This result is not by the theory put forward by Bava and Gromis (2015) stating that the lower the profitability of a company, the higher the possibility of a profit shift that occurs, in other words, the greater the company's suspicion of *transfer pricing* practices. This research does not support the research of Richardson and Lanis (2007) in Pradipta and Supriyadi (2015) stated that the greater the income earned by the company, the more it will affect the income tax that must be paid. Based on research conducted by Grant, *et al.* (2013), it is alleged that profitability affects the decision to make *transfer pricing*

4. CONCLUSION

Based on the results of data analysis, it shows the following conclusions. 1) *Good Cooporate Goverment* (GCG) positively and significantly affects the company's decision to transfer *pricing*. Hypothesis H_1 which states that GCG has a positive effect on the company's decision to carry out *transfer pricing* is proven. *Tunneling Incentive* (TNC) positively and significantly affects the company's decision to carry out *transfer pricing*. Hypothesis H_2 which states TNC has a positive effect on the company's decision to do *transfer pricing* is proven. *Intangible Assets* do not have a positive and insignificant effect on the company's decision to transfer *pricing*. Hypothesis H3 which states *Intangible Assets* have a positive effect on the company's decision to transfer *pricing* is not proven. Profitability does not positively affect the company's decision to transfer *pricing*. Hypothesis H5 which states profitability positively affects the company's decision to do Transfer pricing, *is* not proven.

Suggestions submitted in this study include 1)companies should be careful in taking *transfer pricing*. Because excellent and optimal *transfer pricing* will be able to increase the sustainability of the company' s company; 2) Further research needs to be more in-depth so that better research results are obtained by adding other research variables that can affect *transfer pricing* in addition to the variables studied such as liquidity , macro conditions such as inflation, love value and other factors affecting the *transfer pricing of* international companies

REFERENCES

[1] Anthony, Robert N, and Vijay Govindarajan. 2012. *Management Control System*. Jakarta: Salemba Empat.

http://ejournal.seaninstitute.or.id/index.php/Ekonomi
Jurnal Ekonomi, Volume 11, No 01 June 2022
ISSN: 2301-6280 (print) ISSN: 2721-9879 (online)

[2] Brundy, I Gede Siswantaya, and Edwin Pratama. 2014. Effect of Surveillance Mechanisms on Tunneling Activities. *National Symposium on Accounting 17* Mataram University Lombok.
[3] Grant. , Richardson, Grantley Taylor, and Roman Lanis. 2013. *Determinants of transfer pricing aggressiveness*: Empirical evidence from Australian firms. *Journal of Contemporary Accounting and Economics*. 9(2): 136–150.
[4] Horngren, Charles T., Gary L. Sundem, David Burgstahler, and Jeff Schatzberg. 2012. *Introduction to Management Accounting.* Jakarta: Erlangga
[5] Horngren, Charles T., Srikant M. Datar, and George Fost. 2010. *Cost Accounting: A Managerial Emphasis*. Twelfth Edition. New Jersey : Pearson Prentice Hall. Translation of P.A Lestari. 2012. *Cost accounting: managerial emphasis*. Twelfth Edition. Volume 2. Jakarta: Erlangga.
[6] Marfuah, and Andi Pooren. Nur Azizah. 2014. Effect of Taxes, *Tunneling Incentives*, and *Exchange Rates* on The Company's Decision to Transfer *pricing*. *Accounting Department, Faculty of Economics, Universitas Islam Indonesia*. 18 (2): 157
[7] Muhammadi, Abdul Haris., Zahir Ahmed, and Ahsan Habib. 2016. Multinational *Transfer pricing* of Intangible Assets: Indonesian Tax Auditors Perspectives. *Asian Review of Accounting*. 24 (3): 313-337.
[8] Nurhayati, Beautiful Goddess. 2013. Evaluation of Tax Treatment of *Transfer pricing* Transactions in Multinational Companies in Indonesia. *Journal of Management and Accounting*. 2 (1): 32.
[9] Richardson, Grant. , Grantley Taylor, and Roman Lanis. 2013. *Determinants of transfer pricing aggressiveness*: Empirical evidence from Australian firms. *Journal of Contemporary Accounting and Economics*. 9(2): 136–150.
[10] Rossing, Christian Plesner. 2013. *Tax Strategy Control* : The Case of *Transfer pricing* Tax Risk Management. *Management Accounting Research.* 24(2): 175-194.
[11] Suandy, Erly. 2014. *Tax Planning*. Jakarta: Salemba Empat.
[12] Sutedi, Adrian. 2012. *Good Corporate Governance*. Jakarta: Sinar Grafika.
[13] Tirto.id. 2019. DGT Investigates Pt Adaro Energy's Alleged Tax Evasion. https://tirto.id/djp-dalami-dugaan-penghindaran-pajak-pt-adaro-energy-edKk [Accessed 12 January 2020]