

THE EFFECT OF TAX EXPENSE, BONUS MECHANISM, AND TUNNELING INCENTIVE TO TRANSFER PRICING DECISION WITH PROFITABILITY AS A MODERATING VARIABLE

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THE EFFECT OF TAX EXPENSE, BONUS MECHANISM, AND TUNNELING INCENTIVE TO TRANSFER PRICING DECISION WITH PROFITABILITY AS A MODERATING VARIABLE

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Abstrak

Penelitian ini bertujuan untuk memperoleh bukti empiris tentang pengaruh beban pajak, mekanisme bonus, dan tunneling incentive terhadap keputusan transfer pricing pada perusahaan dan pengaruh profitabilitas sebagai variabel pemoderasi terhadap pengaruh tersebut. Data merupakan data sekunder yang diperoleh dari laporan tahunan perusahaan pertambangan yang terdaftar di Bursa Efek Indonesia tahun 2016 – 2020. Pemilihan sampel yang digunakan adalah metode purposive sampling dan jumlah perusahaan pertambangan sebagai sampel dalam penelitian ini adalah 14 perusahaan dengan 70 data observasi untuk 5 tahun. Analisis data yang digunakan adalah regresi linier berganda dengan Moderated Regression Analysis. Hasil penelitian menunjukkan bahwa (1) beban pajak berpengaruh positif signifikan terhadap keputusan transfer pricing; (2) mekanisme bonus tidak berpengaruh terhadap keputusan transfer pricing; (3) insentif tunneling berpengaruh signifikan positif terhadap keputusan transfer pricing; (4) profitabilitas mampu memperkuat pengaruh beban pajak terhadap keputusan transfer pricing; (5) profitabilitas tidak mampu memperkuat pengaruh mekanisme bonus terhadap keputusan transfer pricing; (6) profitabilitas mampu memperkuat pengaruh tunneling incentive terhadap keputusan transfer pricing.

Kata Kunci: *Beban Pajak; Mekanisme Bonus; Ongkos transfer; Profitabilitas; Tunneling Incentive.*

Abstract

The objective of research is to obtain empirical evidence about the effect of tax expense, bonus mechanism, and tunneling incentive to transfer pricing decision in companies and the effect of profitability as a moderating variable towards that its effect. The data is secondary data obtained from the annual reports of listed mining companies on the Indonesia Stock Exchange 2016 – 2020. The sample selection used is purposive sampling method and the number of mining companies as sample in this research are 14 companies with 70 observation data for 5 years. The data analysis is linear multiple regression with Moderated Regression Analysis. The results shows that (1) tax expense has a positive significant effect to transfer pricing decision; (2) bonus mechanism doesn't have effect to transfer pricing decision; (3) tunneling incentive has

a positive significant effect to transfer pricing decision; (4) profitability is able to strengthen the effect of tax expense to transfer pricing decision; (5) profitability isn't able to strengthen the effect of bonus mechanism to transfer pricing decision; (6) profitability is able to strengthen the effect of tunneling incentive to transfer pricing decision.

Keywords: *Bonus Mechanism; Profitability, Tax Expense; Transfer Pricing; Tunneling Incentive.*

JEL Classification : M48, M41, H26, C81

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INTRODUCTION

The development of the economy and technology has resulted in the activities of trade transactions between countries becoming smoother and easier. Many companies are expanding their business by establishing subsidiaries or branch companies in other countries. It aims to strengthen its strategy in the business sector and develop its export and import market share of their products in various countries. (Hidayat, Winarso, and Hendrawan, 2019).

The mining industry is an industry that basically exploits natural products which are then processed to obtain value, then sold to obtain the profit desired by the company's management. (Hidayat, Winarso, and Hendrawan, 2019). The capital of mining sector companies is dominated by foreign capital and has subsidiaries abroad. (Baroroh et al., 2021).

One of the problems faced by mining companies is the difference in tax rates in each country. Due to the difference in tax rates, mining companies tend to shift their profits to companies that have special relationships in countries with lower tax rates. This effort is transfer pricing. (Baroroh et al., 2021).

Many transfer pricing cases have been found in Indonesia, more than 80% of the Mutual Agreement Procedure (MAP) in 2018 resolved transfer pricing cases (economy.bisnis.com, 2019). The Corruption Eradication Commission (KPK) also sees the mining sector as prone to corruption, one of which is tax evasion. KPK has recorded a shortage of mining tax payments in forest areas of IDR 15.9 trillion annually (DDTCNews, 2019).

An example of a transfer pricing case in Indonesia is PT Adaro Energy in 2009-2017. Adaro's company as a coal seller is alleged to have transferred its profits to overseas companies to cut tax payments in Indonesia. PT Adaro Energy conducts transfer pricing to one of its subsidiaries in Singapore, namely Coaltrade Service International Pte Ltd. PT Adaro Energy sells coal to Coaltrade at low prices. Then Coaltrade resells the coal at a higher price. Global Witness noted that during 2009-2017 Coaltrade sold more than 70% of its coal from Adaro. Coaltrade also receives commissions from other Adaro subsidiaries. (tirto.id, 2019 in Baroroh et al. 2021).

The process from Singapore again continued where Coaltrade transferred its profits to Mauritius, the Indian Ocean which did not impose any tax so that was the

reason Coaltrade transferred its profits to Mauritius from 2009 to 2017, Coaltrade paid US\$338.5 million to Vindoor Investments in Mauritius. Moreover, in 2017 Coaltrade also paid 31 million US dollars to acquire Adaro Capital which is located in Labuan, Malaysia which is a tax haven area. Adaro Capital is used for investment activities and is suspected of owning a portion of the coal mine in Kestrel, Australia. With this report, it can be seen that the results of commodity exports are often inconsistent with tax revenues in Indonesia, so that in the Global Witness report, PT Adaro Energy is suspected of carrying out transfer pricing (tirto.id, 2019).

One of the factors that effect transfer pricing decisions is tax expense. This is supported by the results of research by Rachmat (2019) and Purwanto & Tumewu (2018) which show that taxes have a significant effect on transfer pricing. The results of research by Wijaya & Amalia (2020) and Anisyah (2018) show that tax expense has a positive effect on transfer pricing. Meanwhile, the results of research by Darma (2020), Hidayat, Winarso, and Hendrawan, (2019), Khotimah (2018), Susanti & Firmansyah (2018) and Sari & Mubarak (2017) show that taxes have a negative effect on transfer pricing. While the research results of Buroroh et al. (2021) and Saifudin & Putri (2018) show that taxes have no effect on transfer pricing decisions. So the research still indicates a research gap.

One of the non-tax factors that effect transfer pricing decisions is bonus mechanism. This is supported by the results of research by Rachmat (2019) and Saifudin & Putri (2018) which show that the bonus mechanism has a significant effect on transfer pricing. However, the results of Buroroh et al. (2021), Darma (2020), Purwanto & Tumewu (2018), Anisyah (2018), Septiyani et al. (2018), and Susanti & Firmansyah (2018) show that the bonus mechanism has no effect on transfer pricing. So the research still indicates a research gap.

Another non-tax factor that influences transfer pricing decisions is tunneling incentive. This is supported by the results of research by Purwanto & Tumewu (2018) and Nuradila & Wibowo (2018) which show that tunneling incentives have a significant effect on transfer pricing decisions. The results of research by Buroroh et al. (2021), Hidayat, Winarso, and Hendrawan (2019), and Anisyah (2018) shows that tunneling incentives have a positive effect on transfer pricing decisions. Meanwhile, the results of research by Darma (2020) and Susanti & Firmansyah (2018) shows that tunneling incentives have a negative effect on transfer pricing. Meanwhile, the results of research by Wijaya & Amalia (2020), Khotimah (2018), and Saifudin & Putri (2018) shows that tunneling incentives have no effect on transfer pricing. So the research still indicates a research gap.

The existence of this research gap gives the author an opportunity to raise the suspicion that there are other variables that strengthen or weaken the relationship between tax expense, bonus mechanism, and tunneling incentive towards transfer pricing decisions partially. So the authors propose a hypothesis by presenting the profitability variable as a moderating variable such as the research of Baroroh et al. (2021). The results of the study by Baroroh et al. (2021) show that profitability strengthens the effect of tax expense towards transfer pricing decisions, but does not moderates the effect of bonus mechanisms and tunneling incentives towards transfer pricing decisions. Meanwhile, the results of research by Anisyah (2018) and Sari & Mubarak (2017) shows that profitability has a significant positive effect towards transfer pricing.

Based on the background, the problems of this research are (1) Does tax expense have a significant effect on the company's decision to transfer pricing? (2) Does bonus mechanism have a significant effect on the company's decision to transfer pricing? (3) Does tunneling incentive have a significant effect on the company's decision to transfer pricing? (4) Is profitability able to moderate the effect of tax expense on the company's decision to transfer pricing? (5) Is profitability able to moderate the effect of bonus mechanism on the company's decision to transfer pricing? (6) Is profitability able to moderate the effect of tunneling incentives on the company's decision to transfer pricing?

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory was proposed by Jensen and Mackling for the first time in 1976. Jensen & Meckling (1976) in Baroroh et al. (2021) explains agency theory as the relationship between company management (agents) and shareholders (principals).

Agency theory is used by the author to understand the concept of tunneling incentive and tax expense. The existence of responsibility and authority given to managers can cause agency problems, namely the existence of information asymmetry between managers and company owners. Where the manager knows more information when compared to the owner of the company because the owner of the company is not directly involved in managing the company. (Septiyani et al., 2018). Ownership structure can affect the emergence of agency problems. (Ang et al., 2000 in Baroroh et al. 2021). When the company has a concentrated ownership structure, the problem will be different, namely changing between majority shareholders and minority shareholders. (Jafri & Mustikasari, 2018 in Baroroh et al. 2021). Agency problems occur because the majority shareholder can control management so that the majority shareholder has more control in decisions than the minority shareholder and the majority shareholders can make decisions that are profitable for themselves. (Nugraha 2016, in Khotimah 2018). The majority shareholder will transfer the company's assets in the form of company assets or profits for their own interests so that differences in interests arise where the majority shareholder wants the individual profit as high as the company's profit. Meanwhile, minority shareholders want high corporate profits. The transfer of assets or profits made by the majority shareholder is called tunneling incentive.

Agency theory in addition to explaining the relationship between managers and their companies, also explains the relationship between taxpayers and tax authorities. Reinganum & Wilde (1985) in Baroroh et al. (2021) explains that taxpayers can be seen as agents. The relationship between agent and principal occurs between taxpayers and tax authorities. Baroroh et al., (2021) explained that the role of the taxpayers (agent) is to pay and report taxes to the government, while the role of tax authorities (principal) is to secure tax revenues. The existence of differences in interests between taxpayers and tax authorities can cause agency problems where the taxpayers want to get high profits by minimizing the payment of their tax expense, while the tax officer wants maximum tax revenue by calculating income tax from the company in accordance with applicable tax provisions.

Positive Accounting Theory

Watts & Zimmerman (1986) in Susanti & Firmansyah (2018) explain why accounting policies can be a problem for companies and also parties with an interest in financial statements. This theory also predicts the accounting policies that the company will choose under certain conditions. Predictions in this theory are based on the relationship between managers and other groups such as investors, creditors, auditors, capital market managers, and government institutions.

One of the hypothesis in this theory is the bonus plan hypothesis which explains that company managers who take bonus plan policies tend to choose accounting procedures because a manager wants to get a high bonus so they prefer to use methods that can increase current period profits in the hope of increasing the bonuses that will be received.

Positive Accounting Theory is the basis for this research to find out which accounting procedures the managers will choose to maximize their profits and get bonuses from company owners. Managers have a tendency to take opportunistic actions, namely the actions of a manager in choosing which accounting policy is more profitable for themselves (Purwanto & Tumewu, 2018). One of the accounting policies in question is in the form of transfer pricing. With transfer pricing, a manager will take action to maximize profits to benefit themselves through bonuses. Although transfer pricing is regulated in tax regulations, if it is carried out outside the regulated reasonableness corridor, that manager's actions will harm the country's revenues, especially taxes.

This is supported by Lo et al. (2010) in Rachmat (2019) which explains the tendency of company management to use transfer pricing to maximize the bonus that will be received if the bonus is based on profit. Compensation given to managers is seen from their performance. The higher profit earned by the company as a whole, the better image of the manager in the eyes of the owner of the company. (Anisyah, 2018).

Transfer Pricing

Transfer pricing is regulated in Pasal 18 Undang-Undang Nomor 36 Tahun 2008 about the Fourth Amendment to Undang-Undang Nomor 7 Tahun 1983 about Income Tax. Based on Pasal 18 ayat (4) Undang-Undang PPh, a special relationship is deemed to exist if the taxpayers has direct or indirect capital participation of at least 25% in other taxpayers, the taxpayers who controls other taxpayers who are under the same control either directly or indirectly, or the existence of a family relationship either by blood or by marriage in a straight line and/or one degree aside.

According to PSAK 7 (2015), parties that have a special relationship is if one party has the ability to control another party, or has significant influence over another party in making decisions.

According to Suandy (2017: 79), transfer pricing is related to transactions between divisions within one entity unit or between entities within an economic unit covering various countries which aims to maximize global income, secure the competitive position of subsidiaries, evaluate subsidiaries abroad, avoid foreign exchange controls, reduce monetary risk, manage adequate cash flows of subsidiaries, and reduce tax expense and import duties.

Tax Expense

PSAK Number 46 (2018) explains that tax expense is a tax charged to individual or corporate taxpayers that must be paid to the state as state income. Tax expense or tax income is the combined amount of current tax and deferred tax which is used to determine profit/loss for a certain period.

The amount of taxable income for resident taxpayers and permanent establishments is determined based on gross income less costs to obtain, collect, and maintain income as referred to Pasal 6 ayat (1) UU Nomor 36 Tahun 2008.

Suandy (2017: 82) explains that multinational companies operating in Indonesia that have subsidiaries or branches of companies abroad or foreign multinational companies that have subsidiaries or branches in Indonesia in general will try to carry out transfer pricing which aims to maximize profits by minimizing the tax expense, especially corporate income tax.

Bonus Mechanism

PSAK Number 24 (2018) explains that bonuses are short-term employee benefits with a maturity of less than 12 months. Irpan (2010) in Purwanto & Tumewu (2018) states that the board of directors bonus scheme can be interpreted as providing compensation outside of salary to company directors for the work done by looking at the work performance of the directors themselves. The profit-based bonus mechanism is the method most often used by companies in giving awards to directors or managers. (Refgia, 2017 in Rachmat 2019). However, according to Rachmat (2019), the awarding of bonuses is not only based on the amount of profit earned in each period, but also on the performance of the directors in managing the company, so that the directors tend to show their performance to the owner of the company to get an award or bonus.

Tunneling Incentive

Tunneling incentive is an activity to transfer company assets and profits carried out by the majority shareholder but the minority shareholder shares the expense. (Hidayat, Winarso, and Hendrawan, 2019). An entity that invest 20% or more of its capital is considered to have a significant effect on other entities, either directly or indirectly (PSAK Number 15, 2017).

Tunneling incentive can make the majority shareholder get more profit. (Baroroh et al., 2021). According to Susanti & Firmansyah (2018), when the majority shareholder owns shares in other companies that are still in the same group, it will trigger tunneling activities through the transfer pricing mechanism to companies that are still under their auspices which aim to benefit the majority shareholders. The company does not object to transferring the profits to other companies that are still in the same group at a lower price than the fair price.

Mutamimah (2009) in Purwanto & Tumewu (2018) said that the ownership structure is divided into two, namely the dispersed ownership structure and the concentrated ownership structure and tunneling can occur by majority shareholders against minority shareholders through mergers and acquisitions. The unique condition is that share ownership in public companies in Indonesia tends to be concentrated so that there is a tendency for majority shareholders to tunnel and trigger agency conflicts between majority shareholders and minority shareholders. (Khotimah, 2018). Agency problems occur because the majority shareholder can control management so that the majority shareholder has more control in decisions than the minority shareholder and

the majority shareholders can make decisions that are profitable for themselves. (Nugraha 2016, in Khotimah 2018).

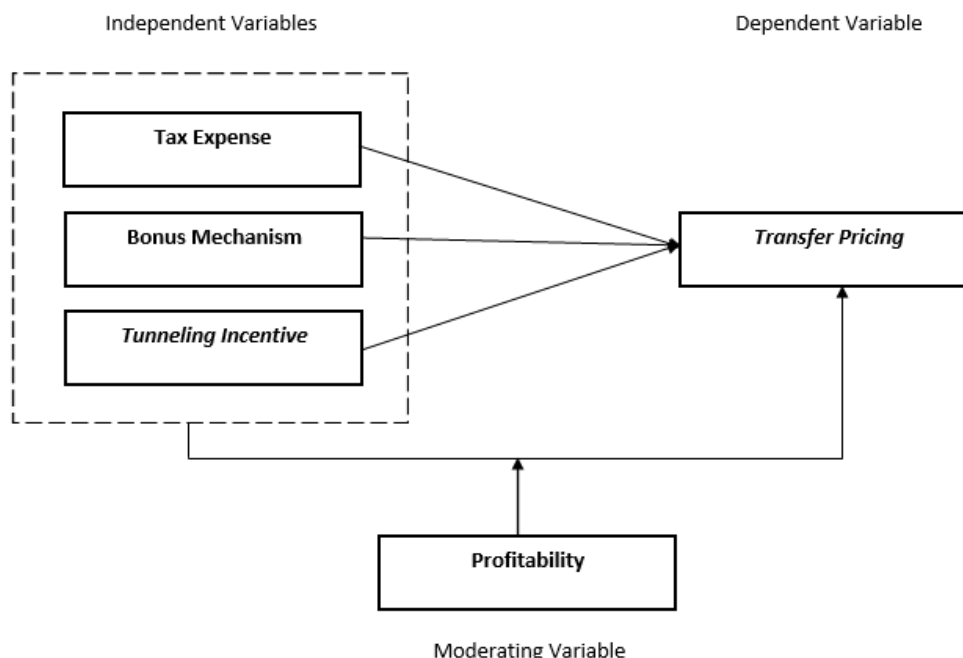
Profitability

Anisyah (2018) explains profitability as one of the measurements for the performance of a company that describes the ability of a company to generate profits during a certain period at a certain level of sales, assets, and share capital.

Baroroh et al. (2021) explain that companies with a high level of profitability tend to make transfer pricing decisions to minimize the tax expense and maximize bonuses, and transfer pricing decisions are taken by the controlling shareholder in the company's tunneling incentives. Companies as taxpayers are required to pay income tax payable, while companies want high profits by minimizing their tax expense. However, the tax authorities want maximum tax revenue by calculating income tax from the company in accordance with applicable tax provisions. So companies with a high level of profitability will make transfer pricing decisions to keep the tax expense to a minimum. (Richardson et al., 2013 in Baroroh et al. 2021).

The higher the profit desired by the majority shareholder, the higher willingness of shareholders to make transfer pricing decisions by shifting company profits to countries with lower tax rates. This aims to reduce the tax expense that must be paid when the profit earned by the company is high so that the net profit after tax of the entire company remains high. (Baroroh et al., 2021). So companies with a high level of profitability, the majority shareholder tends to make transfer pricing decisions in conducting tunneling incentives.

Thus, the research framework of this research is depicted in Picture 1 as follows:



Picture 1
Research Framework

Hypothesis

The Effect of Tax Expense to Transfer Pricing Decision

The greater tax expense borne by the company, the greater the company's motivation to make transfer pricing decisions for tax avoidance. This is supported by research by Darma (2020), Rachmat (2019), and Purwanto & Tumewu (2018) whose results show that taxes have a significant effect on transfer pricing decisions. It is also supported by the research of Wijaya & Amalia (2020) and Anisyah (2018) whose results show that taxes have a positive effect on transfer pricing.

H₁: Tax expense has a positive significant effect to transfer pricing decision.

The Effect of Bonus Mechanism to Transfer Pricing Decision

The higher bonus that the manager wants to receive, the greater the manager's motivation to make transfer pricing decisions in order to maximize the bonus. This is supported by the results of research by Rachmat (2019) which shows that the bonus mechanism has a significant effect on transfer pricing and the results of research by Saifudin & Putri (2018) which shows that the bonus mechanism has an effect on transfer pricing decisions.

H₂: Bonus mechanism has a positive significant effect to transfer pricing decision.

The Effect of Tunneling Incentive to Transfer Pricing Decision

The higher tunneling incentive done by the majority shareholder, the higher company will make the transfer pricing decisions with parties who have special relationships for their own interests. This is in line with the research results of Buroroh et al. (2021) and Hidayat, Winarso, and Hendrawan (2019) which show that tunneling incentives have a significant positive effect on transfer pricing decisions. Supported by the research results of Purwanto & Tumewu (2018) and Nuradila & Wibowo (2018) which show that tunneling incentives have a significant effect on transfer pricing and the results of Anisyah's research (2018) which show that tunneling incentives have a positive effect on transfer pricing.

H₃: Tunneling incentive has a positive significant effect to transfer pricing decision.

The Effect of Tax Expense to Transfer Pricing Decision with Profitability as Moderating

The greater tax expense borne by the company, the greater the company's motivation to make transfer pricing decisions for tax avoidance. Strengthened by a high level of companies profitability, then it will get greater the tax expense borne by the company so that the company's motivation to make transfer pricing decisions is also greater. This is in line with the research results of Baroroh et al. (2021) which shows that profitability strengthens the effect of tax expense on transfer pricing decisions.

H₄: Profitability is able to strengthen the effect of tax expense to transfer pricing decisions.

The Effect of Bonus Mechanism to Transfer Pricing Decision with Profitability as Moderating

The higher bonus that the manager wants to receive, the greater the manager's motivation to make transfer pricing decisions in order to maximize the bonus. Strengthened by a high level of companies profitability, the bonus that will be given to

managers is getting bigger so that the motivation to make transfer pricing decisions is also getting bigger.

H₅: Profitability is able to strengthen the effect of bonus mechanism to transfer pricing decisions.

The Effect of Tunneling Incentive to Transfer Pricing Decision with Profitability as Moderating

The higher tunneling incentive done by the majority shareholder, the higher company will make the transfer pricing decisions with parties who have special relationships for their own interests. Strengthened by a high level of companies profitability, then it will get higher tunneling incentive done by the majority shareholder so that the company's transfer pricing with related parties is also greater.

H₆: Profitability is able to strengthen the effect of tunneling incentive to transfer pricing decisions.

RESEARCH METHODS

Research Design

The research design used in this study is a hypothesis test to analyze the effect of the independent variables are tax expense, bonus mechanism, tunneling incentive to dependent variables is transfer pricing decision with profitability as moderating. The unit of analysis of this research is mining sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2016 – 2020. The data collected in this study is an annual report.

Variables and Measurement

The variables and measurement are presented at Table 1, as follow:

Tables 1
Variables and Measurement

Variables	Measurement
Transfer Pricing	$RPTAL = \frac{RPTAsset + RPTLiabilities}{Equity} \times 100\% \text{ (Baroroh et al, 2021)}$ RPTAL: <i>relative share of RPT assets and liabilities to book value of equity</i>
Tax Expense	$GAAP ETR = \frac{Total Tax Expense}{Pretax Income} \text{ (Alfandia, 2018)}$
Bonus Mechanism	$ITRENDI = \frac{Net Income for year t}{Net Income for year t-1} \times 100\% \text{ (Nuradila \& Wibowo, 2018)}$
Tunelling Incentive	$Foreign Ownership = \frac{Number of foreign shareholding}{Number of share outstanding} \times 100\% \text{ (Septiyani et.al, 2018)}$
Profitability	$ROE = \frac{Net Income After Tax}{Total Equity} \text{ (Baroroh et.al, 2021)}$

Population and Sample

The population used in this research are mining sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2016 – 2020. The sampling method

used in this research is purposive sampling method, with the criteria are (1) mining companies that are consistently listed in the Indonesian Stock Exchange from 2016 to 2020; (2) mining companies that publish Annual Reports for the period 2016 to 2020; and (3) mining companies controlled by foreign entities with an ownership percentage of 20% or more in 2016 to 2020.

Method of Analysis Data

The hypothesis analysis method used in this research is Moderated Regression Analysis (MRA). The analytical method is used to measure the moderating variable with the following formula:

$$Y = a + b_1BP + b_2MK + b_3TI + b_4BP \times ROE + b_5MK \times ROE + b_6TI \times ROE + E$$

RESULTS AND DISCUSSION

Based on the data obtained and the company criteria, there are 14 companies that fulfil the criteria and are used as research samples with a total of 70 observational data for annual reports. Data processing is then carried out using the IBM SPSS Statistic Version 25 for windows program. The results of the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test shows that this regression model is good.

Descriptive Statistics Analysis

Table 2 shows the result of descriptive statistics for describing research data in the lowest value (minimum), the highest value (maximum), the average value (mean), and standard deviation of each variable.

Table 2
Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Tax Expense	70	-6.16	13.81	.3702	1.84504
Bonus Mechanism	70	-49.81	16.75	-.3720	8.49898
Tunneling Incentive	70	.20	.99	.5309	.25381
Transfer Pricing	70	-.31	1.95	.1520	.34461
Profitability	70	-7.56	38.33	.4634	4.71904
Valid N (listwise)	70				

Overall Model Fit

The value of determination coefficient that shown in Table 3 has an adjusted R-square is 0,435 or equal to 43,5%. This result means that the independent variables (tax expense, bonus mechanism, tunneling incentive, as well as interactions on profitability variables) can explain the variation of the dependent variable of 43,5%, while the remains of 56,5% explained by other independent variables that effect the transfer pricing decision which were not examined in this research.

Table 3
Adjusted R Square

<i>Model Summary^b</i>	
Model	Adjusted R Square
1	,435

Result of Hypothesis Testing

Table 4 shows the result of hypothesis testing for each variables:

Table 4
Hypothesis Testing

Model	T	Sig. (1-tailed)	Result of research
1 (Constant)	-1,531	,066	
Tax Expense	1,392	,003	Accepted H ₁
Bonus Mechanism	,567	,287	Rejected H ₂
Tunneling Incentive	1,761	,003	Accepted H ₃
Profitability_Tax Expense	2,694	,003	Accepted H ₄
Profitability_Bonus Mechanism	-,633	,265	Rejected H ₅
Profitability_Tunneling Incentive	2,186	,020	Accepted H ₆

The Effect of Tax Expense to Transfer Pricing Decision

The results of this research indicate that the tax expense has a positive significant effect towards transfer pricing decisions. The results of this research support agency theory regarding the relationship between taxpayers (agents) and tax authorities (principals) and support Suandy's explanation (2017:82) that multinational companies operating in Indonesia have subsidiaries or branch companies abroad or foreign multinational companies that operate in Indonesia having subsidiaries or branches in Indonesia in general will try to do transfer pricing as a way to minimize the tax expense, especially corporate income tax.

The Effect of Bonus Mechanism to Transfer Pricing Decision

The results of this research indicate that bonus mechanism doesn't have effect to transfer pricing decisions. The results of this research do not prove the bonus plan hypothesis in positive accounting theory. Descriptive statistical analysis shows that the minimum value of the bonus mechanism variable as proxied by ITRENDLB is -49.81 on Astrindo Nusantara Infrastruktur Tbk. Seen in the Financial Statements of Astrindo Nusantara Infrastruktur Tbk. In the period 2016, net profit for the previous year (as of December 31, 2015) was US\$3.464.524 and net loss for the year (as of December 31, 2016) was US\$172.571.348. Although there was no increase in profit for the current period, instead stating a loss, in the periode 2016 there were short-term employee benefits provided to managers and directors. This is related to the achievement of non-financial targets which include improving the quality of human resources, project and company expansion targets, increasing efficiency and effectiveness of cost management and project quality, and so on.

The results of this research indicate that the company's management does not choose transfer pricing to maximize the current period's net profit in order to get a bonus from the owner of the company. The tendency is that bonuses are not the main

motivation for the board of directors to make transfer pricing decisions. Giving bonuses is not only based on the amount of profit each period, but also on the performance of the directors in managing the company, so that the directors tend to show their performance to the owner of the company to get bonuses. (Rachmat, 2019). According to Baroroh et al. (2021), presenting information that is not actual is very unethical for a manager. Managers want the results of their performance to be assessed well through the presentation of financial statements according to actual conditions. These financial reports can later be used for decision making. As a result, managers want their performance results to get a good image, so that professional managers will present financial reports in accordance with the actual situation which is not only for personal gain, but also pays attention to the quality of the information produced as a form of credibility and professionalism.

The Effect of Tunneling Incentive to Transfer Pricing Decision

The results of this research indicate that tunneling incentives have a positive significant effect to transfer pricing decisions. The results of this research support agency theory regarding the relationship between majority and minority shareholders. Agency problems occur because the majority shareholder can control management so that the majority shareholder has more control in decisions than the minority shareholder and the majority shareholders can make decisions that are profitable for themselves. (Nugraha, 2016 in Khotimah 2018).

According to Susanti & Firmansyah (2018), majority shareholders owning shares in other companies in the same group will create tunneling incentive through transfer pricing of companies that are still under their auspices with the aim of majority shareholders. (Susanti & Firmansyah, 2018). Related party transactions are more commonly used for tunneling than dividend payments because listed companies must distribute dividends to the parent company and minority shareholders. (Purwanto & Tumewu, 2018).

The Effect of Tax Expense to Transfer Pricing Decisions with Profitability as moderating

The results of this research indicate that profitability is able to strengthen the effect of the tax expense to transfer pricing decisions. The results of this research support agency theory regarding the relationship between taxpayers and tax authorities. Earnings After Tax (EAT) is profit obtained from commercial profit before tax minus the company's income tax expense payable for a year. (Muljono & Baruni, 2009:79 in Alfandia 2018). The results of this study also support Suandy's explanation (2017: 79 and 82) that multinational companies operating in Indonesia in general will try to carry out transfer pricing whose objectives include maximizing global income and reducing tax expense, especially corporate income tax.

The amount of Taxable Income for resident taxpayers and permanent establishments is determined based on gross income less costs to obtain, collect, and maintain income as referred to Pasal 6 ayat (1) UU Nomor 36 Tahun 2008.

The Effect of Bonus Mechanism to Transfer Pricing Decisions with Profitability as moderating

The results of this research indicate that profitability isn't able to strengthen the effect of bonus mechanism to transfer pricing decisions. The results of this research do

not prove the bonus plan hypothesis in positive accounting theory. Descriptive statistical analysis shows that minimum value of the bonus mechanism variable as proxied by ITRENDLB is -49.81 on Astrindo Nusantara Infrastruktur Tbk. Seen in the Financial Statements of Astrindo Nusantara Infrastruktur Tbk. in the period 2016, net profit for the previous year (as of December 31, 2015) was US\$3.464.524 and net loss for the year (as of December 31, 2016) was US\$172.571.348. The profitability variable proxied by ROE in the current period (2016) is -1.1991. Although profitability was not good and there was no increase in profit for the current period, instead stating a loss, in the period 2016 there were short-term employee benefits provided to managers and directors. This is related to the achievement of non-financial targets which include improving the quality of human resources, project and company expansion targets, increasing efficiency and effectiveness of cost management and project quality, and so on.

The results of this research indicate a tendency that the company's management prefers the results of its performance to be considered good by the owner of the company so that the bonuses obtained by management will be higher. The board of directors bonus scheme can be interpreted as the provision of rewards other than salary to the company's directors for the work done by looking at the work performance of the directors themselves which is assessed and measured based on an assessment that has been determined by the company objectively. (Irpan, 2010 in Purwanto & Tumewu 2018).

The Effect of Tunneling Incentive to Transfer Pricing Decisions with Profitability as moderating

The results of this research indicate that profitability is able to strengthens the effect of tunneling incentives to transfer pricing decisions. The results of this research support agency theory regarding the relationship between majority and minority shareholders. Agency problems occur because the majority shareholder can control management so that the majority shareholder has more control in decisions than the minority shareholder and the majority shareholders can make decisions that are profitable for themselves. (Nugraha, 2016 in Khotimah 2018). The majority shareholder will transfer the company's assets in the form of company assets or profits for their own interests so that differences in interests arise where the majority shareholder wants the individual profit as high as the company's profit. Meanwhile, minority shareholders want high corporate profits. The transfer of assets or profits made by the majority shareholder is called tunneling incentive.

The results of this research support Suandy's explanation (2017:79) that transfer pricing is related to transactions between divisions within one entity unit or between entities in an economic unit covering various countries, one of which is to maximize global income.

CONCLUSIONS, LIMITATIONS, AND SUGGESTIONS

Conclusions

Based on the results of hypothesis tests, it is concluded that (1) The tax expense has a positive significant effect to transfer pricing decisions; (2) The bonus mechanism doesn't have effect to transfer pricing decisions. (3) The higher tunneling incentive has a positive effect to the transfer pricing decisions; (4) The profitability is able to

strengthen the effect of tax expense to transfer pricing decisions; (5) Profitability isn't able to strengthen effect of bonus mechanism to transfer pricing decisions; (6) The profitability is able to strengthen effect of tunneling incentive to transfer pricing decision.

Limitations

The limitations in this research are the limited disclosure of related parties in the financial statements of the sample companies of this research, the limited number of observational data in this research, and limited number of independent variables used in this research;

Suggestions For Further Research

The suggestions that can be given to further research are: 1) for companies, it is better to be able to provide complete financial statement information by disclosing related parties in accordance with PSAK 7 (2015), such as related receivables and payables including the names and relationships of the related parties, 2) further research can be carried out with a larger number of observational data by adding a period of research and/or conducting research on companies from other sectors. Such as the plantation, electronics, or automotive sectors which are suspected of being prone to tax evasion by transfer pricing, 3) further researchers can use other independent variables that are suspected of effecting transfer pricing, such as debt covenants, exchange rates, Good Corporate Governance (GCG), and others.

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THE EFFECT OF TAX EXPENSE, BONUS MECHANISM, AND TUNNELING INCENTIVE TO TRANSFER PRICING DECISION WITH PROFITABILITY AS A MODERATING

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THE EFFECT OF TAX EXPENSE, BONUS MECHANISM, AND TUNNELING INCENTIVE TO TRANSFER PRICING DECISION WITH PROFITABILITY AS A MODERATING VARIABLE

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Abstrak

Penelitian ini bertujuan untuk memperoleh bukti empiris tentang pengaruh beban pajak, mekanisme bonus, dan tunneling incentive terhadap keputusan transfer pricing pada perusahaan dan pengaruh profitabilitas sebagai variabel pemoderasi terhadap pengaruh tersebut. Data merupakan data sekunder yang diperoleh dari laporan tahunan perusahaan pertambangan yang terdaftar di Bursa Efek Indonesia tahun 2016 – 2020. Pemilihan sampel yang digunakan adalah metode purposive sampling dan jumlah perusahaan pertambangan sebagai sampel dalam penelitian ini adalah 14 perusahaan dengan 70 data observasi untuk 5 tahun. Analisis data yang digunakan adalah regresi linier berganda dengan Moderated Regression Analysis. Hasil penelitian menunjukkan bahwa (1) beban pajak berpengaruh positif signifikan terhadap keputusan transfer pricing; (2) mekanisme bonus tidak berpengaruh terhadap keputusan transfer pricing; (3) insentif tunneling berpengaruh signifikan positif terhadap keputusan transfer pricing; (4) profitabilitas mampu memperkuat pengaruh beban pajak terhadap keputusan transfer pricing; (5) profitabilitas tidak mampu memperkuat pengaruh mekanisme bonus terhadap keputusan transfer pricing; (6) profitabilitas mampu memperkuat pengaruh tunneling incentive terhadap keputusan transfer pricing.

Kata Kunci: Beban Pajak; Mekanisme Bonus; Ongkos transfer; Profitabilitas; Tunneling Incentive.

Abstract

The objective of research is to obtain empirical evidence about the effect of tax expense, bonus mechanism, and tunneling incentive to transfer pricing decision in companies and the effect of profitability as a moderating variable towards that its effect. The data is secondary data obtained from the annual reports of listed mining companies on the Indonesia Stock Exchange 2016 – 2020. The sample selection used is purposive sampling method and the number of mining companies as sample in this research are 14 companies with 70 observation data for 5 years. The data analysis is linear multiple regression with Moderated Regression Analysis. The results shows that (1) tax expense has a positive significant effect to transfer pricing decision; (2) bonus mechanism doesn't have effect to transfer pricing decision; (3) tunneling incentive has

a positive significant effect to transfer pricing decision; (4) profitability is able to strengthen the effect of tax expense to transfer pricing decision; (5) profitability isn't able to strengthen the effect of bonus mechanism to transfer pricing decision; (6) profitability is able to strengthen the effect of tunneling incentive to transfer pricing decision.

Keywords: *Bonus Mechanism; Profitability, Tax Expense; Transfer Pricing; Tunneling Incentive.*

JEL Classification : M48, M41, H26, C81

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INTRODUCTION

The development of the economy and technology has resulted in the activities of trade transactions between countries becoming smoother and easier. Many companies are expanding their business by establishing subsidiaries or branch companies in other countries. It aims to strengthen its strategy in the business sector and develop its export and import market share of their products in various countries. (Hidayat, Winarso, and Hendrawan, 2019).

The mining industry is an industry that basically exploits natural products which are then processed to obtain value, then sold to obtain the profit desired by the company's management. (Hidayat, Winarso, and Hendrawan, 2019). The capital of mining sector companies is dominated by foreign capital and has subsidiaries abroad. (Baroroh et al., 2021).

One of the problems faced by mining companies is the difference in tax rates in each country. Due to the difference in tax rates, mining companies tend to shift their profits to companies that have special relationships in countries with lower tax rates. This effort is transfer pricing. (Baroroh et al., 2021).

Many transfer pricing cases have been found in Indonesia, more than 80% of the Mutual Agreement Procedure (MAP) in 2018 resolved transfer pricing cases (economy.bisnis.com, 2019). The Corruption Eradication Commission (KPK) also sees the mining sector as prone to corruption, one of which is tax evasion. KPK has recorded a shortage of mining tax payments in forest areas of IDR 15.9 trillion annually (DDTCNews, 2019).

An example of a transfer pricing case in Indonesia is PT Adaro Energy in 2009-2017. Adaro's company as a coal seller is alleged to have transferred its profits to overseas companies to cut tax payments in Indonesia. PT Adaro Energy conducts transfer pricing to one of its subsidiaries in Singapore, namely Coaltrade Service International Pte Ltd. PT Adaro Energy sells coal to Coaltrade at low prices. Then Coaltrade resells the coal at a higher price. Global Witness noted that during 2009-2017 Coaltrade sold more than 70% of its coal from Adaro. Coaltrade also receives commissions from other Adaro subsidiaries. (tirto.id, 2019 in Baroroh et al. 2021).

The process from Singapore again continued where Coaltrade transferred its profits to Mauritius, the Indian Ocean which did not impose any tax so that was the

reason Coaltrade transferred its profits to Mauritius from 2009 to 2017, Coaltrade paid US\$338.5 million to Vindoor Investments in Mauritius. Moreover, in 2017 Coaltrade also paid 31 million US dollars to acquire Adaro Capital which is located in Labuan, Malaysia which is a tax haven area. Adaro Capital is used for investment activities and is suspected of owning a portion of the coal mine in Kestrel, Australia. With this report, it can be seen that the results of commodity exports are often inconsistent with tax revenues in Indonesia, so that in the Global Witness report, PT Adaro Energy is suspected of carrying out transfer pricing (tirto.id, 2019).

One of the factors that effect transfer pricing decisions is tax expense. This is supported by the results of research by Rachmat (2019) and Purwanto & Tumewu (2018) which show that taxes have a significant effect on transfer pricing. The results of research by Wijaya & Amalia (2020) and Anisyah (2018) show that tax expense has a positive effect on transfer pricing. Meanwhile, the results of research by Darma (2020), Hidayat, Winarso, and Hendrawan, (2019), Khotimah (2018), Susanti & Firmansyah (2018) and Sari & Mubarak (2017) show that taxes have a negative effect on transfer pricing. While the research results of Buroroh et al. (2021) and Saifudin & Putri (2018) show that taxes have no effect on transfer pricing decisions. So the research still indicates a research gap.

One of the non-tax factors that effect transfer pricing decisions is bonus mechanism. This is supported by the results of research by Rachmat (2019) and Saifudin & Putri (2018) which show that the bonus mechanism has a significant effect on transfer pricing. However, the results of Buroroh et al. (2021), Darma (2020), Purwanto & Tumewu (2018), Anisyah (2018), Septiyani et al. (2018), and Susanti & Firmansyah (2018) show that the bonus mechanism has no effect on transfer pricing. So the research still indicates a research gap.

Another non-tax factor that influences transfer pricing decisions is tunneling incentive. This is supported by the results of research by Purwanto & Tumewu (2018) and Nuradila & Wibowo (2018) which show that tunneling incentives have a significant effect on transfer pricing decisions. The results of research by Buroroh et al. (2021), Hidayat, Winarso, and Hendrawan (2019), and Anisyah (2018) shows that tunneling incentives have a positive effect on transfer pricing decisions. Meanwhile, the results of research by Darma (2020) and Susanti & Firmansyah (2018) shows that tunneling incentives have a negative effect on transfer pricing. Meanwhile, the results of research by Wijaya & Amalia (2020), Khotimah (2018), and Saifudin & Putri (2018) shows that tunneling incentives have no effect on transfer pricing. So the research still indicates a research gap.

The existence of this research gap gives the author an opportunity to raise the suspicion that there are other variables that strengthen or weaken the relationship between tax expense, bonus mechanism, and tunneling incentive towards transfer pricing decisions partially. So the authors propose a hypothesis by presenting the profitability variable as a moderating variable such as the research of Baroroh et al. (2021). The results of the study by Baroroh et al. (2021) show that profitability strengthens the effect of tax expense towards transfer pricing decisions, but does not moderates the effect of bonus mechanisms and tunneling incentives towards transfer pricing decisions. Meanwhile, the results of research by Anisyah (2018) and Sari & Mubarak (2017) shows that profitability has a significant positive effect towards transfer pricing.

14 Based on the background, the problems of this research are (1) Does tax expense have a significant effect on the company's decision to transfer pricing? (2) Does bonus mechanism have a significant effect on the company's decision to transfer pricing? (3) Does tunneling incentive have a significant effect on the company's decision to transfer pricing? (4) Is profitability able to moderate the effect of tax expense on the company's decision to transfer pricing? (5) Is profitability able to moderate the effect of bonus mechanism on the company's decision to transfer pricing? (6) Is profitability able to moderate the effect of tunneling incentives on the company's decision to transfer pricing?

17 LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory was proposed by Jensen and Mackling for the first time in 1976. Jensen & Meckling (1976) in Baroroh et al. (2021) explains agency theory as the relationship between company management (agents) and shareholders (principals).

Agency theory is used by the author to understand the concept of tunneling incentive and tax expense. The existence of responsibility and authority given to managers can cause agency problems, namely the existence of information asymmetry between managers and company owners. Where the manager knows more information when compared to the owner of the company because the owner of the company is not directly involved in managing the company. (Septiyani et al., 2018). Ownership structure can affect the emergence of agency problems. (Ang et al., 2000 in Baroroh et al. 2021). When the company has a concentrated ownership structure, the problem will be different, namely changing between majority shareholders and minority shareholders. (Jafri & Mustikasari, 2018 in Baroroh et al. 2021). Agency problems occur because the majority shareholder can control management so that the majority shareholder has more control in decisions than the minority shareholder and the majority shareholders can make decisions that are profitable for themselves. (Nugraha 2016, in Khotimah 2018). The majority shareholder will transfer the company's assets in the form of company assets or profits for their own interests so that differences in interests arise where the majority shareholder wants the individual profit as high as the company's profit. Meanwhile, minority shareholders want high corporate profits. The transfer of assets or profits made by the majority shareholder is called tunneling incentive.

Agency theory in addition to explaining the relationship between managers and their companies, also explains the relationship between taxpayers and tax authorities. Reinganum & Wilde (1985) in Baroroh et al. (2021) explains that taxpayers can be seen as agents. The relationship between agent and principal occurs between taxpayers and tax authorities. Baroroh et al., (2021) explained that the role of the taxpayers (agent) is to pay and report taxes to the government, while the role of tax authorities (principal) is to secure tax revenues. The existence of differences in interests between taxpayers and tax authorities can cause agency problems where the taxpayers want to get high profits by minimizing the payment of their tax expense, while the tax officer wants maximum tax revenue by calculating income tax from the company in accordance with applicable tax provisions.

Positive Accounting Theory

Watts & Zimmerman (1986) in Susanti & Firmansyah (2018) explain why accounting policies can be a problem for companies and also parties with an interest in financial statements. This theory also predicts the accounting policies that the company will choose under certain conditions. Predictions in this theory are based on the relationship between managers and other groups such as investors, creditors, auditors, capital market managers, and government institutions.

One of the hypothesis in this theory is the bonus plan hypothesis which explains that company managers who take bonus plan policies tend to choose accounting procedures because a manager wants to get a high bonus so they prefer to use methods that can increase current period profits in the hope of increasing the bonuses that will be received.

Positive Accounting Theory is the basis for this research to find out which accounting procedures the managers will choose to maximize their profits and get bonuses from company owners. Managers have a tendency to take opportunistic actions, namely the actions of a manager in choosing which accounting policy is more profitable for themselves (Purwanto & Tumewu, 2018). One of the accounting policies in question is in the form of transfer pricing. With transfer pricing, a manager will take action to maximize profits to benefit themselves through bonuses. Although transfer pricing is regulated in tax regulations, if it is carried out outside the regulated reasonableness corridor, that manager's actions will harm the country's revenues, especially taxes.

This is supported by Lo et al. (2010) in Rachmat (2019) which explains the tendency of company management to use transfer pricing to maximize the bonus that will be received if the bonus is based on profit. Compensation given to managers is seen from their performance. The higher profit earned by the company as a whole, the better image of the manager in the eyes of the owner of the company. (Anisyah, 2018).

Transfer Pricing

Transfer pricing is regulated in Pasal 18 Undang-Undang Nomor 36 Tahun 2008 about the Fourth Amendment to Undang-Undang Nomor 7 Tahun 1983 about Income Tax. Based on Pasal 18 ayat (4) Undang-Undang PPh, a special relationship is deemed to exist if the taxpayers has direct or indirect capital participation of at least 25% in other taxpayers, the taxpayers who controls other taxpayers who are under the same control either directly or indirectly, or the existence of a family relationship either by blood or by marriage in a straight line and/or one degree aside.

According to PSAK 7 (2015), parties that have a special relationship is if one party has the ability to control another party, or has significant influence over another party in making decisions.

According to Suandy (2017: 79), transfer pricing is related to transactions between divisions within one entity unit or between entities within an economic unit covering various countries which aims to maximize global income, secure the competitive position of subsidiaries, evaluate subsidiaries abroad, avoid foreign exchange controls, reduce monetary risk, manage adequate cash flows of subsidiaries, and reduce tax expense and import duties.

Tax Expense

PSAK Number 46 (2018) explains that tax expense is a tax charged to individual or corporate taxpayers that must be paid to the state as state income. Tax expense or tax income is the combined amount of current tax and deferred tax which is used to determine profit/loss for a certain period.

The amount of taxable income for resident taxpayers and permanent establishments is determined based on gross income less costs to obtain, collect, and maintain income as referred to Pasal 6 ayat (1) UU Nomor 36 Tahun 2008.

Suandy (2017: 82) explains that multinational companies operating in Indonesia that have subsidiaries or branches of companies abroad or foreign multinational companies that have subsidiaries or branches in Indonesia in general will try to carry out transfer pricing which aims to maximize profits by minimizing the tax expense, especially corporate income tax.

Bonus Mechanism

PSAK Number 24 (2018) explains that bonuses are short-term employee benefits with a maturity of less than 12 months. Irpan (2010) in Purwanto & Tumewu (2018) states that the board of directors bonus scheme can be interpreted as providing compensation outside of salary to company directors for the work done by looking at the work performance of the directors themselves. The profit-based bonus mechanism is the method most often used by companies in giving awards to directors or managers. (Refgia, 2017 in Rachmat 2019). However, according to Rachmat (2019), the awarding of bonuses is not only based on the amount of profit earned in each period, but also on the performance of the directors in managing the company, so that the directors tend to show their performance to the owner of the company to get an award or bonus.

Tunneling Incentive

Tunneling incentive is an activity to transfer company assets and profits carried out by the majority shareholder but the minority shareholder shares the expense. (Hidayat, Winarso, and Hendrawan, 2019). An entity that invest 20% or more of its capital is considered to have a significant effect on other entities, either directly or indirectly (PSAK Number 15, 2017).

Tunneling incentive can make the majority shareholder get more profit. (Baroroh et al., 2021). According to Susanti & Firmansyah (2018), when the majority shareholder owns shares in other companies that are still in the same group, it will trigger tunneling activities through the transfer pricing mechanism to companies that are still under their auspices which aim to benefit the majority shareholders. The company does not object to transferring the profits to other companies that are still in the same group at a lower price than the fair price.

Mutamimah (2009) in Purwanto & Tumewu (2018) said that the ownership structure is divided into two, namely the dispersed ownership structure and the concentrated ownership structure and tunneling can occur by majority shareholders against minority shareholders through mergers and acquisitions. The unique condition is that share ownership in public companies in Indonesia tends to be concentrated so that there is a tendency for majority shareholders to tunnel and trigger agency conflicts between majority shareholders and minority shareholders. (Khotimah, 2018). Agency problems occur because the majority shareholder can control management so that the majority shareholder has more control in decisions than the minority shareholder and

the majority shareholders can make decisions that are profitable for themselves. (Nugraha 2016, in Khotimah 2018).

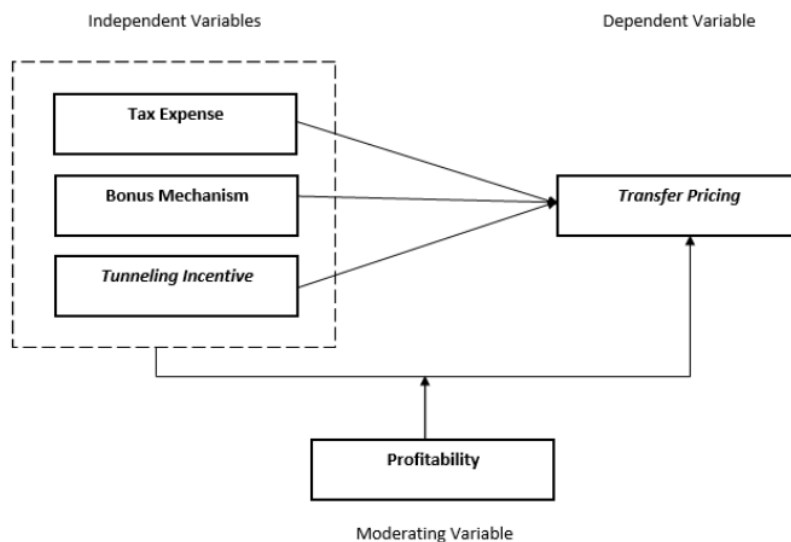
Profitability

Anisyah (2018) explains profitability as one of the measurements for the performance of a company that describes the ability of a company to generate profits during a certain period at a certain level of sales, assets, and share capital.

Baroroh et al. (2021) explain that companies with a high level of profitability tend to make transfer pricing decisions to minimize the tax expense and maximize bonuses, and transfer pricing decisions are taken by the controlling shareholder in the company's tunneling incentives. Companies as taxpayers are required to pay income tax payable, while companies want high profits by minimizing their tax expense. However, the tax authorities want maximum tax revenue by calculating income tax from the company in accordance with applicable tax provisions. So companies with a high level of profitability will make transfer pricing decisions to keep the tax expense to a minimum. (Richardson et al., 2013 in Baroroh et al. 2021).

The higher the profit desired by the majority shareholder, the higher willingness of shareholders to make transfer pricing decisions by shifting company profits to countries with lower tax rates. This aims to reduce the tax expense that must be paid when the profit earned by the company is high so that the net profit after tax of the entire company remains high. (Baroroh et al., 2021). So companies with a high level of profitability, the majority shareholder tends to make transfer pricing decisions in conducting tunneling incentives.

Thus, the research framework of this research is depicted in Picture 1 as follows:



Picture 1
Research Framework

Hypothesis

The Effect of Tax Expense to Transfer Pricing Decision

The greater tax expense borne by the company, the greater the company's motivation to make transfer pricing decisions for tax avoidance. This is supported by research by Darma (2020), Rachmat (2019), and Purwanto & Tumewu (2018) whose results show that taxes have a significant effect on transfer pricing decisions. It is also supported by the research of Wijaya & Amalia (2020) and Anisyah (2018) whose results show that taxes have a positive effect on transfer pricing.

H₁: Tax expense has a positive significant effect to transfer pricing decision.

The Effect of Bonus Mechanism to Transfer Pricing Decision

The higher bonus that the manager wants to receive, the greater the manager's motivation to make transfer pricing decisions in order to maximize the bonus. This is supported by the results of research by Rachmat (2019) which shows that the bonus mechanism has a significant effect on transfer pricing and the results of research by Saifudin & Putri (2018) which shows that the bonus mechanism has an effect on transfer pricing decisions.

H₂: Bonus mechanism has a positive significant effect to transfer pricing decision.

The Effect of Tunneling Incentive to Transfer Pricing Decision

The higher tunneling incentive done by the majority shareholder, the higher company will make the transfer pricing decisions with parties who have special relationships for their own interests. This is in line with the research results of Buroroh et al. (2021) and Hidayat, Winarso, and Hendrawan (2019) which show that tunneling incentives have a significant positive effect on transfer pricing decisions. Supported by the research results of Purwanto & Tumewu (2018) and Nuradila & Wibowo (2018) which show that tunneling incentives have a significant effect on transfer pricing and the results of Anisyah's research (2018) which show that tunneling incentives have a positive effect on transfer pricing.

H₃: Tunneling incentive has a positive significant effect to transfer pricing decision.

The Effect of Tax Expense to Transfer Pricing Decision with Profitability as Moderating

The greater tax expense borne by the company, the greater the company's motivation to make transfer pricing decisions for tax avoidance. Strengthened by a high level of companies profitability, then it will get greater the tax expense borne by the company so that the company's motivation to make transfer pricing decisions is also greater. This is in line with the research results of Baroroh et al. (2021) which shows that profitability strengthens the effect of tax expense on transfer pricing decisions.

H₄: Profitability is able to strengthen the effect of tax expense to transfer pricing decisions.

The Effect of Bonus Mechanism to Transfer Pricing Decision with Profitability as Moderating

The higher bonus that the manager wants to receive, the greater the manager's motivation to make transfer pricing decisions in order to maximize the bonus. Strengthened by a high level of companies profitability, the bonus that will be given to

managers is getting bigger so that the motivation to make transfer pricing decisions is also getting bigger.

H₅: Profitability is able to strengthen the effect of bonus mechanism to transfer pricing decisions.

The Effect of Tunneling Incentive to Transfer Pricing Decision with Profitability as Moderating

The higher tunneling incentive done by the majority shareholder, the higher company will make the transfer pricing decisions with parties who have special relationships for their own interests. Strengthened by a high level of companies profitability, then it will get higher tunneling incentive done by the majority shareholder so that the company's transfer pricing with related parties is also greater.

H₆: Profitability is able to strengthen the effect of tunneling incentive to transfer pricing decisions.

RESEARCH METHODS

Research Design

The research design used in this study is a hypothesis test to analyze the effect of the independent variables are tax expense, bonus mechanism, tunneling incentive to dependent variables is transfer pricing decision with profitability as moderating. The unit of analysis of this research is mining sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2016 – 2020. The data collected in this study is an annual report.

Variables and Measurement

The variables and measurement are presented at Table 1, as follow:

Tables 1
Variables and Measurement

Variables	Measurement
Transfer Pricing	$RPTAL = \frac{RPTAsset + RPTLiabilities}{Equity} \times 100\% \text{ (Baroroh et al, 2021)}$
Tax Expense	$GAAP ETR = \frac{RPTAL: \text{relative share of RPT assets and liabilities to book value of equity}}{Total Tax Expense} \text{ (Alfandia, 2018)}$
Bonus Mechanism	$ITRENDI = \frac{Net Income for year t}{Net Income for year t-1} \times 100\% \text{ (Nuradila \& Wibowo, 2018)}$
Tunelling Incentive	$Foreign Ownership = \frac{Number of foreign shareholding}{Number of share outstanding} \times 100\% \text{ (Septiyani et.al, 2018)}$
Profitability	$ROE = \frac{Net Income After Tax}{Total Equity} \text{ (Baroroh et.al, 2021)}$

Population and Sample

The population used in this research are mining sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2016 – 2020. The sampling method

used in this research is purposive sampling method, with the criteria are (1) mining companies that are consistently listed in the Indonesian Stock Exchange from 2016 to 2020; (2) mining companies that publish Annual Reports for the period 2016 to 2020; and (3) mining companies controlled by foreign entities with an ownership percentage of 20% or more in 2016 to 2020.

Method of Analysis Data

The hypothesis analysis method used in this research is Moderated Regression Analysis (MRA). The analytical method is used to measure the moderating variable with the following formula:

$$Y = a + b_1BP + b_2MK + b_3TI + b_4BP \times ROE + b_5MK \times ROE + b_6TI \times ROE + E$$

RESULTS AND DISCUSSION

Based on the data obtained and the company criteria, there are 14 companies that fulfil the criteria and are used as research samples with a total of 70 observational data for annual reports. Data processing is then carried out using the IBM SPSS Statistic Version 25 for windows program. The results of the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test shows that this regression model is good.

Descriptive Statistics Analysis

Table 2 shows the result of descriptive statistics for describing research data in the lowest value (minimum), the highest value (maximum), the average value (mean), and standard deviation of each variable.

Table 2
Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Tax Expense	70	-6.16	13.81	.3702	1.84504
Bonus Mechanism	70	-49.81	16.75	-.3720	8.49898
Tunneling Incentive	70	.20	.99	.5309	.25381
Transfer Pricing	70	-.31	1.95	.1520	.34461
Profitability	70	-7.56	38.33	.4634	4.71904
Valid N (listwise)	70				

Overall Model Fit

The value of determination coefficient that shown in Table 3 has an adjusted R-square is 0,435 or equal to 43,5%. This result means that the independent variables (tax expense, bonus mechanism, tunneling incentive, as well as interactions on profitability variables) can explain the variation of the dependent variable of 43,5%, while the remains of 56,5% explained by other independent variables that effect the transfer pricing decision which were not examined in this research.

Table 3
Adjusted R Square

<i>Model Summary^b</i>	
Model	Adjusted R Square
1	,435

31

Result of Hypothesis Testing

Table 4 shows the result of hypothesis testing for each variables:

Table 4
Hypothesis Testing

Model	T	Sig. (1-tailed)	Result of research
1 (Constant)	-1,531	,066	
Tax Expense	1,392	,003	Accepted H ₁
Bonus Mechanism	,567	,287	Rejected H ₂
Tunneling Incentive	1,761	,003	Accepted H ₃
Profitability_Tax Expense	2,694	,003	Accepted H ₄
Profitability_Bonus Mechanism	-,633	,265	Rejected H ₅
Profitability_Tunneling Incentive	2,186	,020	Accepted H ₆

The Effect of Tax Expense to Transfer Pricing Decision

The results of this research indicate that the tax expense has a positive significant effect towards transfer pricing decisions. The results of this research support agency theory regarding the relationship between taxpayers (agents) and tax authorities (principals) and support Suandy's explanation (2017:82) that multinational companies operating in Indonesia have subsidiaries or branch companies abroad or foreign multinational companies that operate in Indonesia having subsidiaries or branches in Indonesia in general will try to do transfer pricing as a way to minimize the tax expense, especially corporate income tax.

The Effect of Bonus Mechanism to Transfer Pricing Decision

The results of this research indicate that bonus mechanism doesn't have effect to transfer pricing decisions. The results of this research do not prove the bonus plan hypothesis in positive accounting theory. Descriptive statistical analysis shows that the minimum value of the bonus mechanism variable as proxied by ITRENDLB is -49.81 on Astrindo Nusantara Infrastruktur Tbk. Seen in the Financial Statements of Astrindo Nusantara Infrastruktur Tbk. In the period 2016, net profit for the previous year (as of December 31, 2015) was US\$3.464.524 and net loss for the year (as of December 31, 2016) was US\$172.571.348. Although there was no increase in profit for the current period, instead stating a loss, in the periode 2016 there were short-term employee benefits provided to managers and directors. This is related to the achievement of non-financial targets which include improving the quality of human resources, project and company expansion targets, increasing efficiency and effectiveness of cost management and project quality, and so on.

The results of this research indicate that the company's management does not choose transfer pricing to maximize the current period's net profit in order to get a bonus from the owner of the company. The tendency is that bonuses are not the main

motivation for the board of directors to make transfer pricing decisions. Giving bonuses is not only based on the amount of profit each period, but also on the performance of the directors in managing the company, so that the directors tend to show their performance to the owner of the company to get bonuses. (Rachmat, 2019). According to Baroroh et al. (2021), presenting information that is not actual is very unethical for a manager. Managers want the results of their performance to be assessed well through the presentation of financial statements according to actual conditions. These financial reports can later be used for decision making. As a result, managers want their performance results to get a good image, so that professional managers will present financial reports in accordance with the actual situation which is not only for personal gain, but also pays attention to the quality of the information produced as a form of credibility and professionalism.

The Effect of Tunneling Incentive to Transfer Pricing Decision

The results of this research indicate that tunneling incentives have a positive significant effect to transfer pricing decisions. The results of this research support agency theory regarding the relationship between majority and minority shareholders. Agency problems occur because the majority shareholder can control management so that the majority shareholder has more control in decisions than the minority shareholder and the majority shareholders can make decisions that are profitable for themselves. (Nugraha, 2016 in Khotimah 2018).

According to Susanti & Firmansyah (2018), majority shareholders owning shares in other companies in the same group will create tunneling incentive through transfer pricing of companies that are still under their auspices with the aim of majority shareholders. (Susanti & Firmansyah, 2018). Related party transactions are more commonly used for tunneling than dividend payments because listed companies must distribute dividends to the parent company and minority shareholders. (Purwanto & Tumewu, 2018).

The Effect of Tax Expense to Transfer Pricing Decisions with Profitability as moderating

The results of this research indicate that profitability is able to strengthen the effect of the tax expense to transfer pricing decisions. The results of this research support agency theory regarding the relationship between taxpayers and tax authorities. Earnings After Tax (EAT) is profit obtained from commercial profit before tax minus the company's income tax expense payable for a year. (Muljono & Baruni, 2009:79 in Alfandia 2018). The results of this study also support Suandy's explanation (2017: 79 and 82) that multinational companies operating in Indonesia in general will try to carry out transfer pricing whose objectives include maximizing global income and reducing tax expense, especially corporate income tax.

The amount of Taxable Income for resident taxpayers and permanent establishments is determined based on gross income less costs to obtain, collect, and maintain income as referred to Pasal 6 ayat (1) UU Nomor 36 Tahun 2008.

The Effect of Bonus Mechanism to Transfer Pricing Decisions with Profitability as moderating

The results of this research indicate that profitability isn't able to strengthen the effect of bonus mechanism to transfer pricing decisions. The results of this research do

not prove the bonus plan hypothesis in positive accounting theory. Descriptive statistical analysis shows that minimum value of the bonus mechanism variable as proxied by ITRENDLB is -49.81 on Astrindo Nusantara Infrastruktur Tbk. Seen in the Financial Statements of Astrindo Nusantara Infrastruktur Tbk. in the period 2016, net profit for the previous year (as of December 31, 2015) was US\$3.464.524 and net loss for the year (as of December 31, 2016) was US\$172.571.348. The profitability variable proxied by ROE in the current period (2016) is -1.1991. Although profitability was not good and there was no increase in profit for the current period, instead stating a loss, in the period 2016 there were short-term employee benefits provided to managers and directors. This is related to the achievement of non-financial targets which include improving the quality of human resources, project and company expansion targets, increasing efficiency and effectiveness of cost management and project quality, and so on.

The results of this research indicate a tendency that the company's management prefers the results of its performance to be considered good by the owner of the company so that the bonuses obtained by management will be higher. The board of directors bonus scheme can be interpreted as the provision of rewards other than salary to the company's directors for the work done by looking at the work performance of the directors themselves which is assessed and measured based on an assessment that has been determined by the company objectively. (Irpan, 2010 in Purwanto & Tumewu 2018).

The Effect of Tunneling Incentive to Transfer Pricing Decisions with Profitability as moderating

The results of this research indicate that profitability is able to strengthens the effect of tunneling incentives to transfer pricing decisions. The results of this research support agency theory regarding the relationship between majority and minority shareholders. Agency problems occur because the majority shareholder can control management so that the majority shareholder has more control in decisions than the minority shareholder and the majority shareholders can make decisions that are profitable for themselves. (Nugraha, 2016 in Khotimah 2018). The majority shareholder will transfer the company's assets in the form of company assets or profits for their own interests so that differences in interests arise where the majority shareholder wants the individual profit as high as the company's profit. Meanwhile, minority shareholders want high corporate profits. The transfer of assets or profits made by the majority shareholder is called tunneling incentive.

The results of this research support Suandy's explanation (2017:79) that transfer pricing is related to transactions between divisions within one entity unit or between entities in an economic unit covering various countries, one of which is to maximize global income.

CONCLUSIONS, LIMITATIONS, AND SUGGESTIONS

Conclusions

Based on the results of hypothesis tests, it is concluded that (1) The tax expense has a positive significant effect to transfer pricing decisions; (2) The bonus mechanism doesn't have effect to transfer pricing decisions. (3) The higher tunneling incentive has a positive effect to the transfer pricing decisions; (4) The profitability is able to

strengthen the effect of tax expense to transfer pricing decisions; (5) Profitability isn't able to strengthen effect of bonus mechanism to transfer pricing decisions; (6) The profitability is able to strengthen effect of tunneling incentive to transfer pricing decision.

Limitations

The limitations in this research are the limited disclosure of related parties in the financial statements of the sample companies of this research, the limited number of observational data in this research, and limited number of independent variables used in this research;

Suggestions For Further Research

The suggestions that can be given to further research are: 1) for companies, it is better to be able to provide complete financial statement information by disclosing related parties in accordance with PSAK 7 (2015), such as related receivables and payables including the names and relationships of the related parties, 2) further research can be carried out with a larger number of observational data by adding a period of research and/or conducting research on companies from other sectors. Such as the plantation, electronics, or automotive sectors which are suspected of being prone to tax evasion by transfer pricing, 3) further researchers can use other independent variables that are suspected of effecting transfer pricing, such as debt covenants, exchange rates, Good Corporate Governance (GCG), and others.

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