



# The Effect of Tunneling Incentive, Exchange Rate, Good Corporate Governance, Leverage, Taxes and Profitability on Transfer Pricing

Ramandika Panji Asmara<sup>1\*</sup>, Fatchan Achyani<sup>2</sup>

<sup>1</sup>Universitas Muhammadiyah Surakarta.

<sup>2</sup>Universitas Muhammadiyah Surakarta.

**Abstract:** This study aims to determine the effect of tunneling incentives, exchange rates, good corporate governance, leverage, taxes, and profitability on transfer pricing. Transfer pricing is measured using related party transactions (RPT). Transfer pricing in this study uses a dummy indicator. The population in this study were all manufacturing companies listed on the Indonesia Stock Exchange from 2018 to 2020. The sampling method used in this study was purposive sampling and obtained 24 companies. The method of data analysis in this study is logistic regression analysis using SPSS version 25 software. The data used in this study were obtained from data on the financial statements of companies listed on the IDX. The variable of good corporate governance is proxied by the quality of KAP as the calculation of the dummy variable.

**Keywords:** Tunneling incentive, good corporate governance, tax, transfer pricing

## I. INTRODUCTION

The development of an increasingly modern era makes companies faced with increasingly fierce business competition, this is inseparable from the development of economic globalization which is marked by the emergence of many multinational companies operating in several countries (Kusumasari et al, 2018). The development of multinational companies in practice is often exploited and used to evade taxes due to differences in tax rates that apply in each country, as well as minimizing high tax levies, which can be done by means of transfer pricing (Noviastika et al, 2016).

Efforts to reduce taxes internationally are carried out by transfer pricing, namely increasing the purchase price or cost (over invoice) or reducing the selling price (under invoice) (Ilyas and Suhartono, 2009). This is used to shift profits to countries that have low tariffs by maximizing burdens and ultimately reducing revenues (PriceWaterhouseCooper 2009 in Pramana, 2014 in Noviastika, 2016). Transfer pricing is a sensitive issue in the business world and the global economy, especially in taxation. Transfer pricing activities carried out by multinational companies will affect the level of state revenue in terms of taxes, either directly or indirectly.

Transfer pricing is the determination of prices for transactions for products, services, financial transactions, or intangible assets between related companies. Transfer pricing is classified into two, namely the determination of transfer prices between divisions that are still within the same company and the determination of transfer prices for transactions between companies that have a special relationship. The transfer pricing method for transactions between divisions that are still within the same company is called intra-company transfer pricing. While the method of determining transfer prices between companies that

have a special relationship is called inter-company transfer pricing. Inter-company transfer pricing itself can be classified into domestic transfer pricing and international transfer pricing. The difference between the two is that domestic transfer pricing is carried out between companies located in the same country while international transfer pricing is carried out between companies domiciled in different countries (Setiawan, 2014). Transfer pricing can cause problems and it is difficult to solve the problem because it is related to customs, anti-dumping provisions, and unfair business competition (Yuniasih, et al, 2012). Transfer pricing can be done by companies by conducting sales transactions of goods or services, by reducing the selling price between companies in one group and transferring the profits earned to companies located in countries that have lower tax rates (Lubab, 2017).

In the business world, it has long been known that multinational companies can use internal debt to shift profits from countries with low tax rates to countries with high tax rates (Mardan, 2013). Therefore, many countries try to make arrangements related to thin capitalization to limit the use of internal debt as a tool for tax avoidance. This arrangement was initiated by the Canadian state which has regulated related to thin capitalization in 1971 and by 2015 two thirds of countries that are members of the OECD have implemented the thin capitalization rule (Buttner et al., 2012).

Transfer pricing decisions are also influenced by tunneling. Gilson and Gordon (2003) state that there are several steps that can be taken by majority shareholders to obtain personal benefits through control of the company's operating policies such as dividends, bonuses, salaries, and benefits and steps to gain personal benefits through contractual policies, among others, by tunneling. Tunneling is the majority shareholder's act of diverting the company's assets and profits to obtain private benefits, but the burden is also borne by the minority shareholder (Zhang, 2004 in Mutamimah, 2008). Tunneling can be carried out by conducting transactions with companies that have a relationship with the majority shareholder which is carried out by setting an unreasonable price, not distributing dividends,

Research on tunneling incentives has been carried out by Yuniasih et al. (2012), Pramana (2014), Syamsuddin (2014), Marfuah and Azizah (2014), Tan (2014), Mispriyanti (2015), and Noviasitika et al. (2016) who found that tunneling incentives have a positive relationship with indications of transfer pricing. The reason for using manufacturing companies as a sample is because most or as much as 55.3% of manufacturing companies listed on the Indonesia Stock Exchange in 2012-2015 have capital from foreign investment with share ownership exceeding 20% so that they have a fairly important internal relationship with the parent company in Indonesia. abroad (Secondary Data Processed, 2016).

Research from Indra Wijaya and Anisa Amalia (2020) found that the tunneling incentive variable had no effect on transfer pricing. These results indicate that a large number of foreign ownership may not necessarily make shareholders in a strong position to control the decision to tunnel in the practice of transfer pricing. However, the results are different from the research of Yuniasih, et al (2012), Saraswati and Sujana (2017), and Marfuah and Azizah (2014) which reveal that tunneling incentives have a positive effect on transfer pricing.

*Exchange rate*(the exchange rate or known as the exchange rate) is the exchange rate of a currency against current or future payments between two different currencies (Ardiyanti, 2017). Multinational companies try to reduce foreign currency exchange rate risk by moving funds to strong currencies through transfer pricing to maximize the company's overall profit (Chan, Landry, & Jalbert, 2002).

Good governance in organizational practice is associated with an internal control mechanism that aims to minimize the occurrence of fraud, whether due to intentional or negligence (Farouq, 2018). The audit committee is a proxy for the good corporate governance variable, because the audit committee is an important role in a company that is tasked with and is responsible for carrying out independent supervision in a company (Praditasari et al, 2017).

Companies that have good governance will consider all their activities, especially for activities that deviate from the rules. This can enable good corporate governance to influence companies in conducting transfer pricing.

Research conducted by Rosa et al (2017), suggests that tunneling incentives, good corporate governance have a positive effect on transfer pricing, while taxes have no effect on transfer pricing in Manufacturing Companies on the Indonesia Stock Exchange in 2013-2015.

*Leverage* used to show how much debt is used to finance the company's assets. It is eligible to take advantage of debt as a tax-deductible item in the financial statements, especially in the income statement. Companies with high leverage tend to take advantage of tax avoidance opportunities by managing debt. This is done by acquiring debts from members of the old group residing in low-tax areas (Rego, 2003; Dyreng et al., 2008; Hines et al., 1996).

Penelitian yang dilakukan oleh Rahayu et al (2020) menyatakan bahwa leverage tidak berpengaruh signifikan terhadap transfer pricing. Namun penelitian yang dilakukan oleh Bela Pratiwi (2018) menunjukkan bahwa leverage berpengaruh signifikan terhadap transfer pricing, dan penelitian Shodiq et al (2017) menemukan bahwa leverage berpengaruh positif tidak signifikan terhadap transfer pricing.

Tax is a people's contribution to the state treasury based on the law so that it can be enforced without receiving direct remuneration (Nugraha, 2016). From this definition, all taxpayers, like it or not, must set aside some of their money to pay taxes. Automatically taxes are considered a burden by the community because with the existence of taxes, their economic capacity is reduced due to setting aside money to pay taxes. In fact, since birth, people have been taxed when they use a certain product, such as a baby who must be covered in cloth that has been subject to value added tax (VAT) (Wardani, 2013). In transfer pricing activities, Multinational companies with several branches in various countries tend to shift their tax obligations from countries that have high tax rates to countries that apply low tax rates (Refgia, 2017). The higher the tax rate of a country, the more likely it is that companies will carry out transfer pricing. Taxes have a positive effect on transfer pricing.

Research conducted by Yuniasih et al. (2012), Hartati et al. (2014), Syamsudin (2014), and Noviasitika et al. (2016) prove that taxes have an effect on the company's decision to transfer pricing, this is in line with research conducted by Saraswati et al. (2017), which proves that taxes have a positive effect on indications of committing fraud. transfer pricing in manufacturing companies listed on the Indonesia Stock Exchange. Meanwhile, research conducted by Marfuah, et al (2014), and Mispiyanti (2015) found that taxes have no effect on transfer pricing decisions. In relation to these differences in results, this study again examines the effect of taxes on the decision to transfer pricing.

Profitability is a performance indicator carried out by management in managing company assets which is indicated by the profit generated, the lower the profitability of a company, the higher the possibility of a profit shift that occurs, in other words, the greater the suspicion that the company practices transfer pricing (Sudarmadji et al, 2007). ). The transfer pricing transaction is used by the company with the aim of supporting the company's operational performance that can benefit shareholders. With transfer pricing, companies can adjust transfer prices for various transactions made between members (divisions) of companies that have special relationships (Richardson et al, 2013).

Research related to the effect of profitability on transfer pricing has been carried out by Eling and Abdullah (2018) as well as by Anisa and Naniek (2018), both of these studies state that profitability has an effect on management decisions regarding transfer pricing.

This study refers to the research of Bela Pratiwi (2018) which examines the Effect of Taxes, Exchange Rates, Tunneling Incentives, and Leverage on Transfer Pricing. This study will re-examine by adding the variables of good corporate governance and profitability. This study wants to examine more thoroughly the tunneling incentive which is part of thin capitalization, exchange rate, then good corporate governance with the variables of KAP quality, leverage, tax and profitability on transfer pricing in manufacturing companies listed on the Indonesian stock exchange. The choice of a manufacturing company is because this company has a high potential for transfer pricing. The title of this research is the effect of tunneling incentive, exchange rate, good corporate governance, leverage, taxes, and profitability on transfer pricing.

## II. LITERATURE REVIEW

### ***Transfer pricing***

Garrison, Noreen and Brewer in Lingga (2012: 2) define transfer pricing as the price charged when one segment of the company provides goods or services to other segments of the same company. Transfer pricing can pose a risk of losing taxes in a country, companies seek to minimize company profits, where the main tax imposed by the government is usually based on company profits (Daniel et al, 2017). Transfer pricing practices often occur because of a special relationship between companies, which are in a multinational group of companies, so that these companies can work well together in determining transfer prices (Refiga, 2017). Transfer pricing measurement by using sales transactions between related parties or those who have a special relationship.

When viewed from taxation, Susan M Lyons in Lingga (2012: 2) mentions the definition of transfer pricing as the price charged by a company for goods, services, intangible prices to companies that have special relationships. From the elaboration of the above definition, it can be concluded that the transfer price is the price charged to the sale of goods and services borne by the buyer in a special relationship between divisions and companies.

### ***Exchange rate***

*Exchange rates* (The exchange rate or known as the exchange rate is the exchange rate of a currency against current or future payments between two different currencies (Ardiyanti, 2017). According to Marfuah & Azizah (2014) due to currency differences, most multinational companies request the exchange of one currency for another to make payments, because the exchange rates are constantly fluctuating, the amount of cash needed to make payments is also uncertain. As a result, multinational companies try to reduce foreign currency exchange rate risk by moving funds to strong currencies through transfer pricing to maximize the company's overall profit (Chan et al, 2002).

### ***Good corporate governance(GCG)***

GCG is good corporate governance, which can assist the management of the company, in ensuring and ensuring that the company complies with applicable laws and regulations (Henry, 2016). According to Cadbury in Sutedi, (2012:1) the definition of good corporate governance is directing and controlling the company in order to achieve a balance between the power and authority of the company. The Center for European Policy Study (CEPS) defines good corporate governance as the entire system formed starting from rights, processes and controls both inside and outside the company's management with a note that rights here are the rights of all stakeholders and not only from only one stakeholder.

The principles in good corporate governance according to Study are:

1. *Transparency*(Disclosure of Information)
2. *Accountability*(Can be accounted for)
3. *Fairness*(Honesty)
4. *Sustainability*(Continuity)

Measurement of good corporate governance uses KAP quality by seeing whether the company is audited by KAP The Big 10 because it will be difficult if the company avoids tax, including transfer pricing (Annisa and Kurniasih, 2012).

### ***Leverage***

According to (Kasmir, 2012) in (Cahyadi & Noviani, 2018), Leverage is a ratio used to measure the extent to which the company's assets are financed with debt, in other words the extent to which the company's ability to pay all its obligations, both short term and long term if the company dissolved (liquidated). Leverage can be measured through the debt ratio. The debt ratio will show the proportion of company funding that is financed with debt. This ratio is calculated by comparing total debt with total assets.

### Tax

Multinational companies with several branches in various countries tend to shift their tax obligations from countries that have high tax rates to countries that apply low tax rates (Refgia, 2017). The higher the tax rate of a country, the more likely it is that companies will carry out transfer pricing.

### Profitability

According to (Rego, 2003) in (Cahyadi & Noviri, 2018), Profitability is the ability of a company to earn a profit (profit) within a certain period. Profitable companies are more likely to engage in transactions or schemes to avoid corporate taxes. For companies that have high profits (profits) it means that the company will have an obligation to pay high taxes as well. For profit itself is a measure of how much tax will be paid by the company and for companies that experience losses will not pay tax obligations. The profitability ratio is used to determine the company's ability to earn profits, through this ratio investors can find out the level of taking from their investments.

### Effect of tunneling incentive on transfer pricing

Tunneling arises because of agency problems between the majority shareholder and the minority shareholder. Related party transactions are more commonly used for wealth transfer purposes than dividend payments because listed companies must distribute dividends to the parent company and other minority shareholders. The condition where share ownership in public companies in Indonesia is more concentrated so that there is a tendency for majority shareholders to tunnel. Therefore, the greater the ownership, the more triggers the practice of transfer pricing.

One form of tunneling is the role of controlling shareholders in transferring company resources through preferential transactions. By holding tunneling by the controlling shareholder, there is no dividend payment so that minority shareholders can be disadvantaged.

Research conducted by Marfuah and Andi (2014) shows that the increasing practice of tunneling incentives, the more companies will do transfer pricing with parties who have special relationships.

Based on the description above, it can be formulated the hypothesis in this study as follows:

**H1:** *Tunneling incentive* positive effect on the company's transfer pricing decisions.

### Effect of exchange rate on transfer pricing

*Exchange rate* or what is known as the exchange rate (exchange rate) is the exchange rate of currency against current or future payments, between two different currencies (Ardiyanti, 2017). Due to the difference in foreign currency values, multinational companies may try to reduce exchange rate risk by moving funds to strong currencies through transfer pricing to maximize the company's profits.

The results of research by Chan, et al (2002) stated that the exchange rate has a positive effect on transfer pricing. Different research results are expressed by Ardiyanti (2017) and Marfuah & Azizah (2014) which state that the exchange rate has no influence on transfer pricing decisions.

Based on the description above, it can be formulated the hypothesis in this research as follows:

**H2:** Exchange rate has a positive effect on the company's transfer pricing decisions.

### The effect of good corporate governance on transfer pricing

Companies with good governance will carefully consider all their activities, especially those that do not comply with the rules. This allows good corporate governance to influence the company's transfer pricing decisions (Noviastika, et al, 2016). Research conducted (Rosa et al., 2017) shows that good corporate governance has a positive effect on transfer pricing because the good corporate governance mechanism in Indonesia has not been effective in protecting the interests of stakeholders. Research conducted by Noviastika (2016), shows that good corporate governance has no significant effect on indications of transfer pricing in manufacturing companies listed on the Indonesia Stock Exchange. This shows that corporate governance does not affect the company to transfer pricing or not. The company does not consider good corporate management as the basis for transfer pricing activities.

Based on the description above, it can be formulated the hypothesis in this study as follows:

**H3:** Good Corporate Governance has a negative effect on the company's transfer pricing decisions.

#### **Effect of leverage on transfer pricing**

*Leverage* can be a factor that encourages the aggressiveness of transfer pricing with the aim of reducing the company's tax burden. Companies with high levels of debt use will prioritize their focus on debt payments which have an impact on decisions in corporate decision making, including transfer pricing (Deanti, 2017). Leverage can be measured through the debt ratio by comparing total debt with total assets. The higher the level of corporate leverage, the higher the potential for the company to transfer pricing. The results of the study support the research conducted by Richardson, et al (2013) which states that leverage has a positive effect on transfer pricing.

Based on the description above, it can be formulated the hypothesis in this study as follows:

**H4:** Leverage has a positive effect on the company's transfer pricing decisions.

#### **The Effect of Taxes on Transfer Pricing**

Tax planning is often used by multinational companies, especially in countries that have high tax rates (Indrasti, 2016). The higher the tax rate, it can make the company to do tax avoidance, by transferring the profits earned by the company to a country that has a lower tax rate (Yuniasih, et al., 2012). The company identifies tax payments as a burden in order to minimize the tax burden borne and maximize the profits received by the company (Yuniasih, Rasmini, and Wirakusuma, 2012). The results of research by Saraswati & Sujana (2017), Kiswanto & Purwaningsih (2014), and Yuniasih, et al (2012) state that taxes have a positive effect on transfer pricing. Different research results were expressed by Marfuah &

Based on the description above, it can be formulated the hypothesis in this study as follows:

**H5:** Taxes have a positive effect on the company's transfer pricing decisions.

#### **Effect of profitability on transfer pricing**

Companies with high profitability have a higher tax burden and this is a driving factor for companies to carry out transfer pricing aggressiveness in shifting earnings (Davies et al., 2014). The greater the income obtained by the company, the greater the tax to be paid, making it possible for the company to carry out transfer pricing.

In a study conducted by (Cahyadi & Noviri, 2018) it was stated that there is a significant positive relationship between profitability and transfer pricing. This is in line with research conducted by (Pradipta & Supriyadi, 2015) and (Richardson, Taylor, & Lanis, 2013) that the greater the income earned by the company, the more positive the impact on the amount of income tax that must be paid, thereby increasing the possibility of transfer pricing. . In contrast to research conducted by (Bava & Gromis, 2017) which states that the lower the profitability of a company, the higher the probability of a profit shift occurring, in other words, the greater the suspicion that the company is carrying out transfer pricing.

Based on the description above, it can be formulated the hypothesis in this study as follows:

**H6:** Profitability has a positive effect on the company's transfer pricing decisions.

### **III. METHODOLOGY**

#### **Types of research**

This study uses a quantitative approach that focuses on hypothesis testing, measuring the variables being studied, and will produce conclusions. Hypothesis testing is usually done to explain definite characteristics and relationships or to prove differences between two independent groups. This research uses purposive sampling method with the criteria to get the population and sample according to the research criteria.



### Population and Sample

The population used in this study were all manufacturing companies listed on the IDX during 2018-2020. Sample selection was done by using purposive sampling method. The purposive sampling method is a sampling technique with certain criteria (Sugiyono, 2008: 85). The sampling criteria in this study are as follows:

1. Manufacturing companies listed on the Indonesia Stock Exchange for the period 2018-2020
2. Manufacturing companies that publish financial reports or complete annual reports consecutively during the 2018-2020 period.
3. Manufacturing companies that did not suffer losses during the 2018-2020 period.
4. The company is controlled by a foreign company with an ownership percentage of 20% or more.

### Data Collection Results

This study uses a population of all manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2020 period. Sample selection using purposive sampling method, obtained 24 companies that can be used in the study, so there are 72 observational data that can be processed further to support the proof of the hypothesis. The sample results are based on the following criteria:

**Table 1: Sampling Criteria**

Criteria	Amount
Manufacturing companies listed on the Indonesia Stock Exchange for the period 2018-2020	194
Manufacturing companies that do not publish financial reports or complete annual reports consecutively during the 2018-2020 period	(30)
Manufacturing companies that suffered losses during the 2018-2020 period	(80)
Companies that are not controlled by foreign companies with an ownership percentage of 20% or more	(60)
<b>Number of companies that meet the criteria</b>	<b>24</b>
Total sample for 3 years of research	72
<b>Total sample used in research</b>	<b>72</b>

### Data Types and Sources

The type of data used in this research is quantitative data. Quantitative data is data in the form of numbers and can be calculated or measured directly. Sources of data used in this study is secondary data. Secondary data is a source of research data obtained indirectly through intermediary media or obtained and recorded by other parties. In this study, the data used are sourced from the annual financial reports of manufacturing companies listed on the Indonesia Stock Exchange ([www.idx.co.id](http://www.idx.co.id)) year 2018-2020 and the official website of related companies. Other supporting data were obtained by the literature study method from scientific journals and literature related to this research.

### Dependent Variable

The dependent variable in this study is transfer pricing. Transactions to related parties are one of the ways the company performs transfer pricing. The criterion used is a value of 1 if the company conducts sales transactions to privileged parties in other countries, while a value of 0 is for entities that do not make sales to privileged parties located in other countries (Saraswati & Sujana, 2017).

### Independent Variable

The independent variables in this study are tunneling incentive, exchange rate, good corporate governance, leverage, tax, and profitability

#### Tunneling incentive

The tunneling incentive variable is proxied using the amount of foreign ownership of at least 20% (PSAK No. 15). Foreign ownership of at least 20% indicates a controlling stake in a company (F et al, 2016).

$$\text{Tunneling Incentive} = \frac{\text{The largest number of shareholdings}}{\text{Number of shares}}$$

#### Exchange rate

The exchange rate variable in this study is calculated from the profit or loss on foreign exchange divided by the profit or loss on sales (Marfuah & Azizah, 2014). The exchange rate formula (exchange rate) is as follows:

$$\text{Exchange Rate} = \frac{\text{Profit and loss on foreign exchange}}{\text{Profit and loss before tax}}$$

#### Good corporate governance

Variable *good corporate governance* which is proxied by KAP quality using a dummy variable. The KAP in Indonesia that is affiliated with the big four is KAP The Big Ten. If the company is audited by KAP The Big 10, it is given a value of 1. Meanwhile, if the company is not audited by KAP The Big 10, it is given a value of 0.

#### Leverage

Variable *leverage* in this study it is measured by dividing the total liabilities by the company's total assets (Deanti, 2017 quoted from Richardson et al, 2013). The leverage formula is as follows:

$$\text{Leverage} = \frac{\text{Total Liabillity}}{\text{Total Assets}}$$

#### Tax

Taxes are mandatory contributions to those owed by individuals or business entities that are coercive under the law and taxes are used for state needs for the greatest prosperity of the people (Waluyo and Wirawan, 2002: 6). In this study, taxes are proxied by using the Effective Tax Rate (ETR). ETR is calculated by comparing the total income tax expense to profit before tax. ETR is formulated as follows:

$$\text{ETR} = \frac{\text{Income Tax Expense}}{\text{Profit Before Tax}}$$

#### Profitability

The profitability ratio is used to determine the company's ability to earn profits, through this ratio investors can find out the level of taking from their investments. One of the most frequently used profitability ratios is Return on Assets (ROA).

$$\text{ROA} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

Logistic regression analysis was used to explain the relationship between the dependent variable in the form of dichotomous-scale data and the independent variable in the form of interval-scale data.

The logistic regression model used by the researcher is:

$$\text{Ln} \frac{TP}{1 - TP} = a + \beta_1 TI + \beta_2 ER + \beta_3 GCG + \beta_4 LV + \beta_5 ETR + \beta_6 ROA + e$$

Information:

TP	=transfer pricing
a	= Constant
$\beta_1 - \beta_6$	= Regression Coefficient
IT	= tunneling incentive
ER	= exchange rate
GCG	= good corporate governance



LV = leverage  
 ETR = tax  
 ROA = profitability  
 $e$  = Error Term

#### IV. RESULTS AND DISCUSSION

##### Descriptive Statistical Analysis

Table 2: Descriptive Statistical Results

Variable	N	Min	Max	mean	Std Deviation
IT	72	0.217	0.995	0.52723	0.231394
ER	72	-1,742	0.347	-0.09776	0.322167
GCG	72	0	1	0.67	0.475
Lev	72	0.060	0.775	0.43318	0.160412
ETR	72	0.020	0.960	0.28109	0.163251
ROA	72	0.000	0.424	0.07845	0.080811
TP	72	0	1	0.82	0.387

Source: Processed data (2022)

Based on the results of the descriptive statistical tests that have been carried out, it shows that the number of samples in this research is 72 companies from 2018 - 2020. The following is the interpretation of each variable:

##### a. Tunneling incentive

The highest (maximum) value for the tunneling incentive variable is 0.995 at PT Akasha Wira International Tbk in 2018. The lowest (minimum) value is 0.217 Kalbe Farma Tbk in 2020. The tunneling incentive variable has an average value (mean) of 0.52723 or 52.7% which indicates that the largest share ownership of the sample companies controls more than half of the outstanding shares. The standard deviation is 0.231394, meaning that in this study there is little variation in data because the standard deviation is smaller than the average value (mean).

##### b. Exchange rate

The highest (maximum) value for the variable exchange rate is 0.347 at PT Indopoly Swakarsa Industry Tbk in 2020. The lowest (minimum) value is -1.742 at Sekar Bumi Tbk in 2020. The exchange rate variable has an average value (mean) of -0.09776 or -9.7% which indicates that the sample companies on average experience foreign exchange losses than foreign exchange gains. The standard deviation is 0.322167, meaning that this study has varied data because the standard deviation is greater than the average value (mean).

##### c. Good corporate governance

The measurement of good corporate governance in this study uses a dummy variable, meaning that it only shows values of 1 and 0. The highest (maximum) value on the good corporate governance variable is 1 in 16 companies from 24 companies in 2018-2020, this can mean that the majority of companies are audited by KAP The Big 10. The lowest (minimum) value is 0 at PT Indah Kiat Pulp & Paper Tbk, PT Indopoly Swakarsa Industry Tbk, PT Jembo Cable Company Tbk, PT Mark Dynamics Indonesia Tbk, PT Sekar Bumi Tbk, PT Sekar Laut Tbk, Factory Paper Tjiwi Kimia Tbk, and PT Voksel Electric Tbk in 2018-2020. The good corporate governance variable has an average value (mean) of 0.67 or 67% which shows that more than half of the sample companies are audited by KAP The Big 10. Standard deviation is 0.475,

##### d. Leverage

The highest (maximum) value for the leverage variable is 0.775 at the company PT Tembaga Mulia Semanan Tbk in 2019. The lowest (minimum) value is 0.060 at PT Jembo Cable Company Tbk in 2019. The leverage variable has an average value (mean) of 0.43318 or 43.3% which indicates that on average the sample companies have total liabilities of no more than half of total assets. The standard deviation of 0.160412 means

that in this study there is little variation in data because the standard deviation is smaller than the average value (mean).

*e. Tax*

The highest (maximum) value for the tax variable is 0.960 at PT Kirana Megatara Tbk in 2018. The lowest (minimum) value is 0.020 at PT Kertas Tjiwi Kimia Tbk. The tax variable has an average value (mean) of 0.28109 or 28.1% which indicates that the average tax burden of the sample companies is 28.1% of the profit before tax. The standard deviation is 0.163251, meaning that in this study there is little variation in data because the standard deviation is smaller than the average value (mean).

*f. Profitability*

The highest (maximum) value on the profitability variable is 0.424 at the company PT Tembaga Mulia Semanan Tbk in 2018. The lowest (minimum) value is 0.000 at PT Kirana Megatara Tbk in 2018. The profitability variable has an average value (mean) of 0.07845 or 7.8% which shows that the average net profit after tax is 7.8% of total assets. The standard deviation is 0.080811, meaning that this study has data that varies because the standard deviation is greater than the average value (mean).

*g. Transfer pricing*

The measurement of transfer pricing in this study uses a dummy variable, meaning that it only shows values of 1 and 0. The highest (maximum) value on the Transfer pricing variable is 1 in 20 companies out of 24 companies in 2018-2020, this can mean that the company makes sales transactions to privileged parties in other countries. The lowest (minimum) value is 0 at PT Akasha Wira International Tbk, PT Arwana Citramulia Tbk, PT Mark Dynamics Indonesia Tbk, and PT Merck Indonesia Tbk in 2018-2020. The transfer pricing variable has an average value (mean) of 0.82 or 82%, which indicates that the average sample company conducts sales transactions to a privileged party of 82%. Standard deviation 0.387,

## Test Frequency

**Table 3: Frequency Test Results**

<i>Transfer pricing</i>				
	Freq	Percent	Valid Percent	Cumulative Percent
0	13	18.1	18.1	18.1
1	59	81.9	81.9	100.0
Total	72	100.0	100.0	

Source: Processed data (2022)

Table IV.4 shows the frequency distribution for the transfer pricing variable as indicated by the sale transactions of related parties. From a total of 72 samples, there were 13 samples that did not transfer pricing or around 18.1% and the remaining 59 samples or around 81.9% did transfer pricing transactions. The comparison shows that more manufacturing companies listed on the Indonesia Stock Exchange carry out transfer pricing compared to companies that do not.

**Table 4: Frequency Test Results**

<i>Good corporate governance</i>				
	Freq	Percent	Valid Percent	Cumulative Percent
0	24	33.3	33.3	33.3
1	48	66.7	66.7	100.0
Total	72	100.0	100.0	

Source: Processed data (2022)

Table IV.4 shows the frequency distribution for the Good corporate governance variable as indicated by the company being audited by KAP The Big 10. Of the total 72 samples, there are 24 samples whose companies were not audited by KAP The Big 10 or around 33.3% and the remaining 48 samples or about 66.7% of their companies are audited by KAP The Big 10. The comparison shows that more manufacturing companies listed on the Stock Exchange have their companies audited by KAP The Big 10 compared to companies that are not audited by KAP The Big 10.

#### A. Overall Model Fit

*Overall model fit* used to determine whether all independent variables affect the dependent variable. The statistics used are based on the Likelihood function. The test is done by comparing the initial -2LL value with 2LL in the next step. The results of the overall model fit in this study are as follows:

**Table 5: Overall Model Fit Test Results**

Value Comparison -2LogL	Information
-2 initial logL (block number 0)	68,619
-2 final LogL (block number 1)	50,425
Value difference - 2 LogL = 18,194	

Source: Processed data (2022)

Based on the results of the overall model fit test above, it can be seen that the initial -2LogL value (block number 0) is 68.619 and the final -2LogL value (block number 1) is 50.425. This decrease of 18,194 indicates that the model fits the data so that  $H_0$  is accepted because there is a decrease in regression.

#### B. Coefficient of Determination Test

The correlation coefficient test is used to measure how far the model's ability to explain variations in the dependent variable is Kuncoro (2013: 246). The value of the coefficient of determination /  $R^2$  is in the range of zero (0) and one (1). The following are the results of the coefficient of determination in this study as follows:

**Table 6: Coefficient of Determination Test Results**

Cox & Snell R Square	Nagelkerke R Square
0.217	0.354

Source: Processed data (2022)

The results of the determination coefficient test data show that the Nagelkerke R Square value is 0.354, this shows that the dependent variable that can be explained by the independent variable is 35.4% while the remaining 64.6% is explained by other variables outside of this study. The Nagelkerke R Square value of 0.354 which is close to zero (0) explains that

the model's ability to explain the dependent variable is very limited.

#### C. Feasibility Test of Regression Model (Goodness of Fit Test)

The feasibility test of the regression model aims to test the null hypothesis that whether the empirical data fits the model (there is no difference between the model and the data so that the model can be said to be fit). This test is assessed using Hosmer and Lemeshow's which is measured by the chi square value. The following are the results of the regression model feasibility test (Goodness of fit test) in this study as follows:

**Table 7: Regression Model Feasibility Test Results**  
**Hosmer and Lemeshow Test**

Chi-square	df	Sig.
5,199	8	0.736

Source: Processed data (2022)

Based on table IV.8 the results of the Hosmer and Lemeshow test, it can be seen that the chi square value is 5.199 with a significance probability of 0.736 whose value is 0.05 so that the Goodness of Fit Test can predict the value of the observation and  $H_0$  is accepted.

#### D. Multicollinearity Test

The multicollinearity test aims to test whether the regression model found a correlation between the independent variables. The multicollinearity test in logistic regression uses the correlation between the independent variables to see the magnitude of the correlation between the independent variables. The following are the results of the multicollinearity test in this study as follows:

**Table 8: Multicollinearity Test Results**  
**Correlation Matrix**

Variable	Const	IT	ER	GCG	LV	ETR	ROA
	1,000	-	-	-	-	-	-
		0.234	0.146	0.241	0.397	0.645	0.060
IT	-	1,000	-	-	-	-	-
		0.234	0.035	0.354	0.144	0.238	0.328
ER	0.146	-0.35	1,000	0.064	0.024	0.179	-
							0.011
GCG	-	-	0.064	1,000	0.31	0.132	0.042
		0.241	0.354				
LV	-	-	0.024	0.031	1,000	-	-
		0.397	0.144			0.008	0.075
ETR	-	-	0.179	0.132	-	1,000	0.065
		0.645	0.238		0.008		
ROA	-	-	-	0.042	-	0.065	1,000
		0.060	0.328	0.011	0.075		

Source: Processed data (2022)

Based on the results of the multicollinearity test above, it can be seen that the test results show the value of the correlation coefficient between the variables  $< 0.8$ , so that the variable is declared not to have multicollinearity. In this research.

#### E. Classification Matrix Test

The classification matrix test is used to explain the strength of the regression model to predict the possibility of financial difficulties that occur in the company. In the 2 x 2 table the correct and incorrect estimated values are calculated. The following are the results of this research classification matrix test as follows:

**Table 9: Classification Matrix Test Results**

	Observed		Predicted <i>TP</i>		<i>Presentage Correct</i>
	There any	isn't any	There any	isn't any	
<i>TP</i>	There any	isn't any	4	9	30.8
	There is		4	55	93.2
Overall Percentage			81.9		

Source: Processed data (2022)

Based on the results of the classification matrix test above, it can be seen that the prediction rate is 93.2% of companies that do transfer pricing and those that do not do transfer pricing are 30.8%. Overall, the model with tunneling incentive, exchange rate, good corporate governance, leverage, tax, and profitability variables can be predicted as 81.9% of companies conducting transfer pricing transactions.

From table IV.10 it can be concluded that the predictive ability in the regression model is the possibility of the research sample companies doing transfer pricing by 93.2% of the 55 research samples. There are 4 research samples that are predicted not to carry out transfer pricing from a total sample of 13 research samples.

#### F. Logistics Regression Analysis

Logistic regression analysis was used to explain the relationship between the dependent variable in the form of dichotomous-scale data and the independent variable in the form of interval-scale data. The following is the logistic regression analysis of this study as follows:

**Table 10: Logistics Regression Analysis Results**

Variable	Coefficient B	Sig	Information
<i>Tunneling incentive</i>	-4.103	0.020	Received
<i>Exchange rate</i>	-2,529	0.492	Rejected
<i>Good corporate governance</i>	0.731	0.388	Rejected
<i>Leverage</i>	4,136	0.079	Rejected
<i>Tax</i>	1,665	0.743	Rejected
<i>Profitability</i>	-4.144	0.278	Rejected
<i>Constant</i>	1,780	0.287	Rejected

Source: Processed data (2022)

Based on Table 10, it can be seen that the results of the logistic regression analysis produce the following logistic regression equation models:

$$\ln \frac{TP}{1 - TP} = 1,780 + -4,103 TI + -2,529 ER + 0,731 GCG + 4,136 LV + -4,144 ETR + 1,780 ROA + e$$

The results of the logistic regression equation above are as follows:

- The constant value of 1.780 indicates that tunneling incentive, exchange rate, good corporate governance, leverage, tax, and profitability are assumed to be constant or equal to zero, then transfer pricing will increase by 1.780.
- The tunneling incentive variable has a negative regression coefficient of -4.103. This shows that any increase in the tunneling incentive variable will have a negative impact on the decision to transfer

pricing. On the other hand, any decrease in the tunneling incentive variable has a positive impact on the decision to transfer pricing.

- c. The exchange rate variable has a negative regression coefficient of -2.529. This shows that every increase in the exchange rate variable, the transfer pricing decreases. On the other hand, every time the exchange rate variable decreases, transfer pricing increases.
- d. The good corporate governance variable has a positive regression coefficient of 0.731. This shows that every increase in the good corporate governance variable, the transfer pricing increases. On the other hand, every decrease in the good corporate governance variable causes transfer pricing to decrease.
- e. The leverage variable has a positive regression coefficient of 4.136. This shows that every increase in the leverage variable, the transfer pricing increases. On the other hand, every time the leverage variable decreases, the transfer pricing decreases.
- f. The tax variable has a positive regression coefficient of 1.665. This shows that every increase in the tax variable, the transfer pricing increases. On the other hand, every decrease in the tax variable causes transfer pricing to decrease.
- g. The profitability variable has a negative regression coefficient of -4.144. This shows that every increase in the profitability variable, the transfer pricing decreases. On the other hand, every time the profitability variable decreases, transfer pricing increases.

## V. Discussion

### Effect of tunneling incentive on transfer pricing

The first hypothesis (H1) is that tunneling incentives have a positive effect on transfer pricing. Based on data processing, hypothesis one (H1) is accepted. In accordance with table 10, the results of the logistic regression analysis show that the significance value of the tunneling incentive variable is 0.020 or below 0.05, so the tunneling incentive variable has a positive effect on transfer pricing.

This study is in accordance with Wafiroh & Hapsari (2015), Santosa & Suzan (2018), Marfuah & Andi (2014), and Saraswati & Sujana (2017), that tunneling incentives have a significant positive effect on transfer pricing because they have a lower value. of 0.05.

These results indicate that transactions between related parties are more commonly used for wealth transfer purposes than dividend payments because listed companies must distribute dividends to the parent company and other minority shareholders. The condition where share ownership in public companies in Indonesia is more concentrated so that there is a tendency for majority shareholders to tunnel. Therefore, the greater the ownership, the more triggers the practice of transfer pricing.

One form of tunneling is the role of controlling shareholders in transferring company resources through preferential transactions. By holding tunneling by the controlling shareholder, there is no dividend payment so that minority shareholders can be disadvantaged.

### Effect of exchange rate on transfer pricing

The second hypothesis (H2) is that the exchange rate has a positive effect on transfer pricing. Based on data processing, hypothesis two (H2) is rejected. In accordance with table 10, the results of the logistic regression analysis show that the significance value of the exchange rate variable is 0.492 or above 0.05, so the exchange rate variable does not have a positive effect on transfer pricing.

This study is in accordance with Pratiwi (2018), Ardiyanti (2017) and Marfuah & Azizah (2014), that the exchange rate does not have a significant effect on transfer pricing because it has a value higher than 0.05.

This shows that the difference in foreign currency values in multinational companies does not affect the possibility of exchange rate risk by moving funds to a strong currency through transfer pricing to maximize company profits. According to Marfuah and Azizah (2014), the size of the exchange rate does not affect the company's considerations whether the company will choose to make transfer pricing decisions or choose not to make transfer pricing decisions within the company.

**The effect of good corporate governance on transfer pricing**

The third hypothesis (H3) is that good corporate governance has a negative effect on transfer pricing. Based on data processing, hypothesis three (H3) is rejected. In accordance with table 10, the results of logistic regression analysis show that the significance value of the good corporate governance variable is 0.388 or above 0.05, so that the good corporate governance variable does not have a negative effect on transfer pricing.

This study is in accordance with Noviasika (2016), that good corporate governance does not have a significant effect on transfer pricing because it has a value higher than 0.05.

This shows that the KAP used by the company does not affect the company's transfer pricing. Companies with good governance are not a benchmark for companies to transfer pricing. According to Noviasika (2016), corporate governance does not affect the company to carry out transfer pricing or not. The company does not consider good corporate management as the basis for transfer pricing activities.

**Effect of leverage on transfer pricing**

The fourth hypothesis (H4) is that leverage has a positive effect on transfer pricing. Based on data processing, hypothesis four (H4) is rejected. In accordance with table 10, the results of logistic regression analysis show that the significance value of the leverage variable is 0.079 or above 0.05, so that the leverage variable does not have a positive effect on transfer pricing.

This research is in accordance with Cledy & Amin (2020), and Ramadhan & Kustiani (2017), that leverage does not have a significant effect on transfer pricing because it has a significant value of more than 0.05.

This shows that the size of the level of funding with debt does not affect the company's transfer pricing. Every company has funding through debt to launch operations within the company. The higher the value of the debt, the interest expense that arises also increases. As a result, companies tend to try to reduce their tax burden so that there is a sufficient amount of funds to be distributed to shareholders or bonuses.

**The effect of taxes on transfer pricing**

The fifth hypothesis (H5) is that taxes have a positive effect on transfer pricing. Based on data processing, hypothesis five (H5) is rejected. In accordance with table 10, the results of logistic regression analysis show that the significance value of the tax variable is 0.743 or above 0.05, so the tax variable does not have a positive effect on transfer pricing.

This study is in accordance with (Pratiwi, 2018) and (Mispiyanti, 2015), that tax does not have a significant effect on transfer pricing because it has a significant value of more than 0.05.

This shows that the amount of tax charged by the company does not have a relationship that is in line with the company's decision to transfer pricing. In its development, the company's efforts to minimize the tax burden that must be paid can be done through tax management (Suandy, 2011). To minimize the tax burden borne by the company, it does not have to do transfer pricing. There are several ways that can be done, such as doing good tax planning so that the deferred burden is in accordance with the tax that should be paid.

**Effect of profitability on transfer pricing**

The sixth hypothesis (H6) that profitability has a positive effect on transfer pricing. Based on data processing, hypothesis six (H6) is rejected. In accordance with table 10 the results of logistic regression analysis, that the significance value of the profitability variable is 0.278 or above 0.05, so that the profitability variable does not have a positive effect on transfer pricing.

This study is in accordance with (Ramadhan & Kustiani, 2017), (Agustina, 2019) and (Ginting et al., 2019), that profitability does not have a significant effect on transfer pricing because it has a significant value of more than 0.05.

This shows that companies with high and low levels of profitability have the same opportunity to carry out transfer pricing. Companies with high profitability have a pre-tax profit that causes the company to maximize the use of its own capital, thereby reducing the company's intention to transfer pricing. In practical terms, SE-50/PJ/2013 states that one of the signs that a taxpayer has a high transfer pricing risk is the taxpayer's lower



profitability compared to similar companies. Therefore, the DGT (Directorate General of Taxes) should not only look at profitability, but also have to see whether the company recorded a loss or not. Besides that,

## VI. CONCLUSION

This study aims to determine the effect of tunneling incentives, exchange rates, good corporate governance, leverage, taxes, and profitability on transfer pricing. This study uses a quantitative approach with secondary data. Based on the criteria of the research sample, there are 24 companies. The analytical technique method used is logistic regression analysis. In accordance with the discussion in the fourth chapter, the conclusions of the results of this study are as follows:

1. *Tunneling incentive* positive effect on transfer pricing, so the first hypothesis is accepted.
2. *Exchange rate* does not have a positive effect on transfer pricing, so the second hypothesis is rejected.
3. *Good corporate governance* does not have a positive effect on transfer pricing, so the third hypothesis is rejected.
4. *Leverage* does not have a positive effect on transfer pricing, so the fourth hypothesis is rejected.
5. Taxes do not have a positive effect on transfer pricing, so the fifth hypothesis is rejected.
6. Profitability does not have a positive effect on transfer pricing, so the 6th hypothesis is rejected.

### Research Limitations

Based on this research, the researcher has research limitations that need to be considered by future researchers, namely:

1. The limited number of samples, namely 24 companies, does not provide a comprehensive picture of the condition of public companies in Indonesia.
2. The measurement of the transfer pricing variable is unclear in the research because it only looks at the value of receivables related to special parties.

### Suggestion

On the basis of the conclusions and limitations of the research in the study, the author has several recommendations for future researchers such as:

1. Future research can develop this research with a wider range of periods so that the results are more accurate.
2. Adding moderating variables in order to strengthen the relationship between the dependent variable and the independent variable.
3. This study only uses companies in the manufacturing sector, for further research it is expected to expand the sector such as all companies listed on the IDX.
4. For further research, it can clarify the measurement of the transfer pricing variable so that the data obtained is more valid.

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