



ANALYSIS OF FINANCIAL AND NON-FINANCIAL ASPECTS IN DETERMINATION OF *TRANSFER PRICING*

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Abstract

This research aims to analyze financial and non-financial aspects in determining transfer pricing. Transfer pricing is a crucial practice in the management of multinational companies as it directly impacts company profits, tax obligations, and relationships with investors. In transfer pricing practices, many companies misuse this method to manipulate prices for certain benefits. Transfer pricing practices occur due to various influencing factors. This research employs a descriptive analysis method using a literature review approach. A total of 30 previous studies from the period 2019 - 2024 were used as research samples, sourced from both national and international journals. Based on these previous studies, several variables were found to influence transfer pricing actions, observable from financial aspects such as profitability, taxes, and leverage, as well as non-financial aspects such as tunneling incentives, bonus mechanisms, and company size.

Keywords: Financial Factors, Non-Financial Factors, Transfer Pricing

INTRODUCTION

Economic developments in the world have provided opportunities for companies to expand to various countries. In the era of globalization that is increasingly deepening economic integration between countries, national companies in Indonesia are increasingly stepping towards transformation into multinational entities by expanding their operations through the establishment of branches or subsidiaries in various parts of the world. This global presence not only strengthens their position in the international market but also brings new challenges in cost management, performance control, and pricing of products and services. This complexity requires a more strategic and structured transfer pricing approach to ensure that pricing decisions are not only compliant with applicable regulations but also support the goals of tax optimization and operational efficiency globally. The implementation of transfer pricing is not only important but also crucial for companies operating internationally to maintain a balance between regulatory compliance, risk management, and their long-term strategic goals.

Transfer pricing is defined as the action taken by a company to calculate transaction costs, both related to services and goods, as well as financial transactions and intangible assets both domestically and internationally (Liana et al., 2020). Transfer pricing is an effort and strategy applied by companies in setting transfer prices in internal transactions between divisions or subsidiaries, as well as in transactions between companies that have a special relationship. This concept involves a fair valuation of the value of goods and services transactions, including intangible assets and other financial transactions both within one country, which is often referred to as domestic transfer pricing or cross-border or international transfer pricing. The pricing of these transfers not only takes into account the commercial aspect, but also follows the tax regulations and legal provisions applicable in each jurisdiction involved.



The company's decision to transfer pricing can be influenced by several factors such as financial and non-financial aspects. Financial factors, namely taxes, high or low tax burdens that companies must pay, are one of the factors that can motivate companies to carry out transfer pricing (Rahayu et al., 2020). This is done by companies by delegating their tax obligations from countries with too high tax rates (high tax countries) to countries with too low tax rates (low tax countries).

Another factor in the financial aspect is profitability, because the transfer pricing decisions taken by the company are also influenced by profitability. The higher the profitability figure, the more the practice of using transfer pricing will increase (Retno Kusumaningrum, 2022). Companies that record significant profits have the opportunity to adjust their transfer prices to minimize or increase profits reported in tax jurisdictions.

Then another factor in the financial aspect is *leverage*. Based on the results of research stated by Azhar & Setiawan (2021), it shows that leverage affects a company's decision to transfer pricing. Companies that have a high debt-to-equity ratio tend to adopt a more active tax strategy compared to companies that have a low debt-to-equity ratio.

In addition, there are factors in non-financial aspects that can motivate companies to take *transfer pricing* steps. One of them is *tunneling* which affects *transfer pricing*. According to Hartati et al. (2015) in (Azhar & Setiawan, 2021), *tunnelling incentive* is an action taken by the majority shareholder by delegating the company's assets and profits for personal gain, but minority shareholders also bear the burden. The company takes the action of *tunneling* with the aim of falsifying profit records.

Furthermore, another factor in non-financial aspects is the bonus mechanism. The bonuses given are intended to have a positive impact on the company's performance by prioritizing efficiency in tax payments. When directors can increase profits by selling inventory to other group companies at prices below market prices, this is considered an effective application of the bonus mechanism. This is because large profits will improve the image of the board of directors in the eyes of the company owner. Research that has been carried out by (M. Ridwan, A. D. Arofah, A P.R.Z Putri, 2023) supports the theory that companies can provide bonuses to employees in the hope that managers can carry out transfer pricing activities.

Then another factor in the non-financial aspect that can affect transfer pricing is the size of the company. Companies that have a larger size tend to have greater resources and opportunities in carrying out transfer pricing practices. Larger companies will increase profits, including by doing transfer pricing. Previous research that has examined the influence of company size on transfer pricing decisions was conducted by Sa'diah & Afriyenti (2021).

Referring to the description and description above, this paper is devoted to examining the factors that affect transfer pricing from financial and non-financial aspects using literature review studies with descriptive analysis. This research also makes a practical contribution by providing recommendations to regulators that there are many factors that trigger the company's actions or decisions in implementing transfer pricing actions that have the potential to harm the state in tax revenue.

LITERATURE REVIEW

Tax

Sumarsan (2017) in Wijaya & Amalia (2020) states that taxes are a process of transferring funds from the private sector to the government sector, which is carried out in accordance with the rules that have been set, without any commensurate and proportionate direct returns, with the aim of allowing the government to carry out its functions appropriately. Meanwhile, Prof. Dr. Rochmat



Soemitro, S.H defines tax as a contribution in the form of contributions that can be imposed by the state on the people based on the law, and does not get direct rewards or counter-achievements that can be mentioned, and is used to fund public needs. Tax calculation can be implemented in the *effective tax rate (ETR) formula*, namely:

$$ETR = \frac{\text{Tax Expense} - \text{Deferred Tax}}{\text{Taxable Profit}}$$

Profitability

Profitability is the ability of a company to generate profits (profits) in a certain period. This profitability is measured using ROA (Return on Assets). This ratio measures the company's ability to generate profits from its total assets. The higher this ratio, the more effective the use of assets in generating profits (Rahayu et al., 2020). This ratio is measured by the following calculations:

$$ROA = \frac{\text{Net Profit}}{\text{Total Asset}}$$

The higher the profitability of a company, the greater the opportunity to carry out transfer pricing practices by moving profits (Cahyadi & Noviari, 2018) and (M. Ridwan, A. D. Arofah, A P.R.Z Putri, 2023).

Leverage

Leverage can be interpreted as a ratio that indicates the amount of debt that a company has to finance its operations (Azhar & Setiawan, 2021). In addition, leverage can also be defined as a measuring tool to find out how far a company's assets are financed by debt and how quickly (the company's ability) can pay off its debts within a certain time (Wahyudi & Fitriah, 2021). The leverage ratio (Debt to Equity Ratio) can be measured by the following indicators:

$$DER = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

Tunneling Incentive

Tunneling incentives are a behavior of majority shareholders who transfer the company's assets and profits for their own benefit, but minority shareholders also bear the costs they charge (Hartati et al., 2015). Tunneling incentives are the transfer of resources, in the form of assets, profit sharing, and the granting of privileges from majority shareholders that have a detrimental impact on minority shareholders (Wijaya & Amalia, 2020). There are several examples of tunneling , namely, selling company assets to other companies at prices below market prices, not paying dividends, and choosing family members to occupy important positions in the company (Saifudin & Putri, 2018). The Tunneling Incentive ratio can be measured by:

$$TNC = \frac{\text{Total Foreign Share Ownership}}{\text{Total Shares Outstanding}} \times 100\%$$

PSAK No. 15 concerning Investment in Associate Entities provides a statement that if an entity has a minimum of 20% direct or indirect share ownership, it can be considered as a controller and has significant influence.

Bonus Mechanism

The bonus mechanism is one of the various factors used to calculate the total bonus prepared by the company owner or shareholders in the GMS. This bonus is given to members of the board of directors who are considered to have good performance and competence in achieving the company's internal targets. Suryatingsih, et al., (2009) via Ayshinta et al. (2019). On the other hand, the bonus mechanism can also be interpreted as an additional reward or a form of appreciation



given by the company to its employees on the basis of success in achieving the goals and objectives that have been set by the company (Istiqomah & Baihaqi Fanani, 2022).

According to Azhar & Setiawan (2021), one of the usual efforts made by companies in providing rewards is to provide bonuses based on profits. In its calculation, the Net Profit Trend Index (ITRENDLB) is used as a reference for the calculation of the bonus mechanism, the calculation is as follows:

$$ITRENDLB = \frac{Net\ Profit}{Net\ Profit\ t - 1} \times 100\%$$

Company Size

The size of a company can be defined as an indicator that shows how big or small a company is (M. Ridwan, A. D. Arofah, A P.R.Z Putri, 2023). Company size can also be interpreted as a comparison of how big a company can be done in various ways, such as referring to total assets, sales, and stock market value. In addition, perceptions related to the company by investors and potential investors can also be influenced by the size of the company (Wahyudi & Fitriah, 2021). Large-sized companies have more resources and opportunities to do transfer pricing, which can also increase the company's profits (Sa'diah & Afriyenti, 2021).

METHODS

This study uses a descriptive analysis method with a literature review approach. The selection of this method is based on the researcher's efforts to review the literature in accordance with the theory and discussion to be analyzed. According to Nasution, L. M. (2020), descriptive analysis is a type of research data analysis that aims to test the generalization aspects of research results from one or more independent variables. This process involves testing a descriptive hypothesis to determine whether or not the research hypothesis can be applied in general.

The data used in this study is secondary data, which is a source of data obtained by the researcher indirectly from the object of the literature, but through the intermediary of other sources. Secondary data in this study refers to previous studies related to Transfer Pricing.

To accommodate potential variation, a combination of different keywords was used in this study to find a study that examined the factors that affect Transfer Pricing. These keyword phrases are Profitability, Taxes, Leverage, Tunneling Incentives, Bonus Mechanisms, and Company Size.

The databases used in this study include SINTA, *Publish and Perish*, and *Google Scholar*. Through a comprehensive literature search, a total of 52 relevant studies were obtained in the range of the research period of 2019-2024. Table 1. presenting studies selected based on sample size, dependent and independent variables, and the findings of the study



Tabel 1. Studi Terpilih

No	Studi	Sampel	IV	DV	Hasil
1	Oktaviari Dwi Putri, Efrizal Syofyan (2023) Dianty Putri Purba, Doanrikus Manalu, Sinta Friska Br Ketaren,	44	Pr	TP	Not Sig.
2	Pebriyanti Tampubolon, Yunita Sari Rioni (2023)	69	Pr	TP	Not Sig.
3	Retno Kusumaningrum (2022) Mohammad Ridwan, Annisa Diah Arofah, Anindya P.R.Z	49	Pr	TP	Pos.
4	Putri,Untung PrasetyoIlham (2023)	30	Pr	TP	Pos.
5	Tunjung Tri Rahayu, Endang Masitoh, Anita Wijayanti (2020) Dianty Putri Purba, Doanrikus Manalu, Sinta Friska Br Ketaren,	100	Pr	TP	Pos.
6	Pebriyanti Tampubolon, Yunita Sari Rioni (2023)	15	Tax	TP	Neg.
7	Indra Wijaya, Anisa Amalia (2020)	25	Tax	TP	Pos.
8	Fathul Jannah, Sarwani, Rifqi Novriyandana, Enny Hardi (2022)	16	Tax	TP	Neg.
9	Widiastuti, Ela Fauziah, Fikko Bangun Persada (2023)	55	Tax	TP	Neg.
10	Ani, Enda Mora Siregar (2022)	26	Tax	TP	Neg.
11	Firdha Nanda Adhika, Sartika Wulandari (2023)	72	Tax	TP	Neg.
12	Dian Nafiati, Arni Karina, Kumba Digdowiseiso (2023) Anggun Rizki Novira, Leny Suzan, and Ardan Gani Asalam	14	Tax	TP	Pos.
13	(2020)	13	Tax	TP	Neg.
14	Aida Yulia, Nurul Hayati, Rulfah M. Daud (2019)	110	Tax	TP	Pos.
15	Hani Sri Mulyani, Endah Prihartini, Dadang Sudirno (2020) Mohammad Ridwan, Annisa Diah Arofah, Anindya P.R.Z	100	Tax	TP	Pos.
16	Putri,Untung PrasetyoIlham (2023)	30	Tax	TP	Pos.
17	Murtanto dan Bonita (2021)	14	Tax	TP	Pos.
18	Wulandari Cahyani Putri, Lindawati	61	Tax	TP	Pos.
19	Sapta Setia Darma (2020)	157	Tax	TP	Neg.
20	Tunjung Tri Rahayu, Endang Masitoh, Anita Wijayanti (2020)	100	Tax	TP	Pos.
21	Al Hafizil Azhar, Mia Angelina Setiawan (2021)	54	Lev	TP	Not sig.
22	Ickhsanto Wahyudi, Nur Fitriah (2021)	12	Lev	TP	Pos.
23	Ani, Enda Mora Siregar (2022) Mohammad Ridwan, Annisa Diah Arofah, Anindya P.R.Z	26	Lev	TP	Not sig.
24	Putri,Untung PrasetyoIlham (2023)	30	Lev	TP	Pos.
25	Sari Nuzullina Rahmadhani, Rana Fathinah Ananda (2022) Tunjung Tri Rahayu, Endang Masitoh Wahyuningsih, Anita	15	Lev	TP	Pos.
26	Wijayanti (2020)	25	Lev	TP	Neg.
27	Al Hafizil Azhar, Mia Angelina Setiawan (2021)	54	TI	TP	Pos.
28	Fathul Jannah, Sarwani, Rifqi Novriyandana, Enny Hardi (2022)	16	TI	TP	Pos.
29	Patriot Jaya Ayshinta, Henri Agustin, Mayar Afriyenti (2019)	192	TI	TP	Pos.
30	Wulandari Cahyani Putri, Lindawati	61	TI	TP	Pos.



31	Indra Wijaya, Anisa Amalia (2020)	25	TI	TP	Neg.
32	Widiastuti, Ela Fauziah, Fikko Bangun Persada (2023)	55	TI	TP	Neg.
33	Hani Sri Mulyani, Endah Prihartini, Dadang Sudirno (2020)	100	TI	TP	Neg.
34	Retno Kusumaningrum (2022)	49	TI	TP	Neg.
35	Sapta Setia Darma (2020)	157	TI	TP	Neg.
36	Tunjung Tri Rahayu, Endang Masitoh, Anita Wijayanti (2020)	100	TI	TP	Neg.
37	Al Hafizil Azhar, Mia Angelina Setiawan (2021)	54	BM	TP	Not sig.
38	Weni Avri Rahman, Charoline Cheisviyanny (2020)	93	BM	TP	Not sig.
39	Patriot Jaya Ayshintana, Henri Agustin, Mayar Afriyenti (2019)	48	BM	TP	Not sig.
40	Isra Maulina, Almira Keumala Ulfah, Heny Rofizar, Husni Kamal, Muhammad Syafril Nasution (2021)	25	BM	TP	Not sig.
41	Fathul Jannah, Sarwani Sarwani, Rifqi Novriyandana, Enny Hardi (2022)	16	BM	TP	Not sig.
42	Ani Ani, Enda Mora Siregar (2022)	26	BM	TP	Not sig.
43	Firdha Nanda Adhika, Sartika Wulandari (2023)	72	BM	TP	Not sig.
44	Mohammad Ridwan, Annisa Diah Arofah, Anindya P.R.Z Putri, Untung PrasetyoIlham (2023)	30	BM	TP	Pos.
45	Murtanto, Bonita (2021)	14	BM	TP	Not sig.
46	Ita Salsalina Lingga, Debbianita Debbianita, I Nyoman Agus Wijaya, Clairine Angelica Riona Saputra (2022)	13	BM	TP	Not sig.
47	Ickhsanto Wahyudi, Nur Fitriah (2021)	12	CS	TP	Neg.
48	Mohammad Ridwan, Annisa Diah Arofah, Anindya P.R.Z Putri, Untung PrasetyoIlham (2023)	30	CS	TP	Pos.
49	Fatimah Sa'diah, Mayar Afriyenti (2021)	85	CS	TP	Pos.
50	Aida Yulia, Nurul Hayati, Rulfah M. Daud (2019)	110	CS	TP	Neg.
51	Retno Kusumaningrum (2022)	49	CS	TP	Pos.
52	Tiolina Evi, Ign. Septo, Fajar Sasongko (2023)	16	CS	TP	Pos.
Total Observasi		2764			

Table 1 shows that there are six independent variables used in this study, namely Profitability (Pr), Tax, Leverage (Lev), Tunneling Incentive (IT), Bonus Mechanism (MB), and Company Size (CS). Of the 52 studies analyzed, 5 studies used Profitability as an independent variable, 15 studies used Tax, 6 studies used Leverage, 10 studies used Tunneling Incentives and Bonus Mechanisms, and 6 studies used Company Size.

RESULTS AND DISCUSSION

The Effect of Tax on Transfer Pricing Decisions

Taxes are often the reason behind *the transfer pricing* actions taken by a company. This happens because companies want to reduce the amount of tax they are obliged to pay. Multinational companies often use *transfer pricing* practices to capitalize on the potential for greater growth and



profits on a global scale than domestic operations. *Transfer pricing* refers to a strategy in which a company can move the tax burden from a country with a high tax rate to a country with a low tax rate by adjusting the price between related entities within a group of companies. This practice allows companies to optimize their tax structures, especially in countries that set higher tax rates, by increasing the selling price of goods or services transferred to entities within the country.

This statement is supported by research conducted by Wijaya & Amalia (2020) and Murtanto & Bonita (2021) which states that taxes have a positive and significant effect on transfer pricing because the lower the Effective Tax Rate (ETR), the better it is considered because the company can minimize the tax liability that must be paid. In accordance with the statement quoted by Yulia et al. (2019) taxes have a significant positive effect on the implementation of transfer pricing, where the higher the motivation of company management in implementing transfer pricing is determined by the higher the tax burden that must be paid by the company.

However, the results of research conducted by Rizki et al. (2020) state that taxes are not the reason why companies do transfer pricing because of course companies do not always do transfer pricing just to reduce the tax burden but for other purposes and purposes such as innovation in product efficiency, cooperation agreements with other parties, assessments and evaluations between group companies, and others. Research conducted by Darma (2020) and Adhika & Wulandari (2023) also indicates that taxes have a negative effect on transfer pricing decisions because companies can minimize the high tax liability of companies by conducting tax management, not by implementing transfer pricing.

The Effect of Profitability on Transfer Pricing Decisions

Profitability provides important information for investors because it helps analyze the development of profits generated by the company. This shows that the company's high profits provide a positive signal for investors to make a profit. According to agency theory, the owner of the company or shareholders as the principal is considered to be only interested in the return on the investment they invest in the company. Instead, agents are considered to get satisfaction from financial compensation and the conditions that exist in the relationship (Putri & Syofyan, 2023).

Profitability is one of the performance indicators used by management to control the company's wealth, which is shown through the revenue generated (Cahyadi & Noviari, 2018). High profitability encourages companies to do transfer pricing. Agency conflicts arise between shareholders and managers, prompting the diversion of profitability by company managers who are able to generate large profits. The high profitability of the company causes a high tax burden to be borne by the state, thus encouraging management to consider transfer pricing. To improve the company's operational performance, they use transfer pricing transactions that generate profits for their shareholders. Previous research conducted by (Wahyu Hariaji & Syaiful Akbar, 2021), (Nurwati et al., 2021), and (Sulistiyowati & Kananto, 2019) shows that transfer pricing is influenced by the level of profitability (M. Ridwan, A. D. Arofah, A P.R.Z Putri, 2023). According to research on profitability conducted by Cahyadi & Naniek (2018), it was found that the level of profitability affects the company's decision to implement transfer pricing.

According to research conducted by Linda Santioso (2021) and Suastini & Yuniasih (2022), transfer pricing is not affected by the level of profitability. Another study by Ramadhan & Kustiani (2017) and Rahayu et al (2020) also indicated that profitability has no effect on transfer pricing.

The Effect of Leverage on Transfer Pricing Decisions



Funding for a company can be obtained from various sources, one of which is debt. Debt is one of the important aspects because companies need loans to meet operational and investment needs. The interest generated from the loan can be deducted in the calculation of corporate taxes (Rahayu et al., 2020). So that this aspect can be a company's choice to reduce the tax burden, one of the ways is through transfer pricing.

According to M. Ridwan, A. D. Arofah, A P.R.Z Putri (2023), companies that have a high level of leverage tend to rearrange their debts by utilizing transfer pricing between companies. This is also quoted by (Wahyudi & Fitriah, 2021) which includes that leverage has a positive and significant effect on transfer pricing decisions in companies. Rahmadhani & Ananda (2022) also revealed that partially, the leverage variable has a positive and significant effect on the company's decision to transfer pricing. Because when viewed from an economic aspect, the debt-to-equity ratio describes the ability of a company's capital to meet all its obligations to measure the level of financial health of a company. However, this ratio can also be used to manipulate transfer pricing to avoid taxes from the taxation aspect

However, the results of research conducted by Rahayu et al. (2020), stated that leverage has no effect on transfer pricing in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2015-2018. This is also in line with research conducted by Ani & Siregar (2022), that there was no significant influence between leverage and transfer pricing in food and beverage companies listed on the IDX during 2016-2020. Azhar & Setiawan (2021), also stated that *the* leverage variable has no effect on transfer pricing because leverage has a close relationship with the company's debt policy in obtaining debt from related parties to replace transfer pricing for the benefit of the company, be it for tax planning or profit management.

The Effect of Tunneling Incentives on Transfer Pricing Decisions

Transfer pricing activities in multinational companies can trigger abuse aimed at obtaining higher profits and tax evasion through transactions (Saragih et al., 2021). One of the factors for companies to carry out transfer pricing actions is asset transfer or known as tunneling. Azhar & Setiawan (2021) found that tunneling incentives have a significant effect on a company's decision to transfer pricing. The larger the tunneling incentive in the company, the more it will encourage transfer pricing behavior. Jannah et al. (2022) also found that tunneling incentives have a significant effect on a company's decision to transfer pricing. The size of foreign ownership affects the company's actions in carrying out transfer pricing. The position of shareholders in a company greatly affects the act of tunneling incentives by way of transfer pricing, especially if the position is as a controller because they will use their right of control to carry out these actions. This research is also in line with research conducted by Ayshintia et al. (2019).

However, based on research conducted by Wijaya & Amalia (2020), it was found that tunnelling incentives did not have a significant effect on transfer pricing practices. The measurement of tunneling incentives uses shareholders by foreign parties with a percentage of share ownership of 20% or more. A large amount of foreign ownership does not necessarily put shareholders in a strong position to control the decision to tunnel in transfer pricing practices. This activity is due to the existence of agreements within the company, either operations or investments that must be discussed with other shareholders, especially the majority shareholders. Controlling shareholders prefer to tunnel incentives to reduce transaction costs on the grounds of a special relationship between controlling shareholders and minority shareholders (Mulyani et al., 2020). Controlling shareholders prefer to tunnel incentives to reduce transaction costs on the grounds of a special relationship between controlling shareholders and minority shareholders (Widiastuti et al., 2023). This research is also in line with



research conducted by (Retno Kusumaningrum, 2022), (Darma, 2020), and (Rahayu et al., 2020) that tunneling incentives negatively affect transfer pricing.

The Effect of the Bonus Mechanism on Transfer Pricing Decisions

Transfer pricing is the practice carried out by companies that have a privileged relationship or affiliation with a specific purpose. The company's management conducts transfer pricing in order to optimize the company's profit. When the profits generated are large and continue to increase, the management will appear to perform well, which then opens up opportunities for them to obtain large rewards or bonuses from the board of directors.

The results of a study conducted by Ayshinta et al. (2019), stated that the bonus mechanism did not show a significant influence, either positive or negative, on companies in the Manufacturing, Plantation, and Mining sectors. This is based on the opinion that the bonus mechanism is not the main factor that can be used as a consideration for the management through the practice of transfer pricing.

The insignificance of the bonus mechanism variable in this study may be due to the existence of a stakeholder supervision mechanism that is considered adequate in the company. This supervision has been strengthened by the existence of an audit committee that has expertise and capacity in financial accounting, which is tasked with detecting potential fraud that may be committed by management through transfer pricing transactions in the hope of increasing profits and getting bonuses. With the existence of this audit committee, it can clearly help minimize the occurrence of fraudulent practices in the company.

This research is in line with the results of studies carried out by Avri Rahman & Cheisviyanny (2020), Ayshinta et al., (2019), Maulina et al., (2021), Jannah et al., (2022), Ani & Siregar (2022), Adhika & Wulandari (2023), Murtanto & Bonita (2021), and Lingga et al., (2022), namely agreeing to state that the bonus mechanism does not show a significant influence on the management's decision to implement transfer pricing.

However, on the other hand, research by M. Ridwan, A. D. Arofah, A P.R.Z Putri (2023) found that the bonus mechanism has a positive influence on transfer pricing. These findings are supported by the theory that companies can give bonuses to employees in the hope that managers will transfer pricing. The main requirement is that the company must have good management because one of the divisions or sub-units may suffer losses due to the transfer pricing process. In addition, transfer pricing can be used to divert company profits and increase management bonuses.

The Effect of Company Size on Transfer Pricing Decisions

Transfer pricing can be done by any company. However, usually one of the factors that drives the transfer pricing decision is the size of the company. According to research conducted by Sa'diah & Afriyenti (2021), company size has a positive effect on transfer pricing practices in companies operating in the agriculture, mining, and basic and chemical industries sectors listed on the IDX in 2017-2019. This is because the number of resources owned by a larger company makes it easier for the company to transfer pricing. Large companies can also set up subsidiaries in different countries to benefit the company and attract more public attention, so they seek to increase profits in order to attract investors (Sa'diah & Afriyenti, 2021). This finding is also in line with research that has been conducted by M. Ridwan, A. D. Arofah, A P.R.Z Putri (2023), Retno Kusumaningrum (2022) and Evi (2023) that company size positively affects transfer pricing.

However, based on research conducted by Wahyudi & Fitriah (2021), it is stated that the size of the company partially has a negative effect on transfer pricing. The study concluded that small companies have more opportunities to do transfer pricing with the aim of showing good and



satisfactory performance to the public. In addition, large companies may tend to avoid aggressive tax management to avoid attention from tax authorities and public anger that could harm them (Wahyudi & Fitriah, 2021). This research is also in accordance with research conducted by Yulia et al. (2019) that company size negatively affects transfer pricing.

CONCLUSION

Based on the research conducted, transfer pricing is influenced by two things, namely financial factors consisting of taxes, profitability, and leverage as well as non-financial factors including bonus mechanisms, company size, and incentive tunneling. From the financial aspect, taxes affect transfer pricing because the lower the Effective Tax Rate (ETR) will be considered the better because the company can minimize the tax burden that must be paid. Likewise, profitability has a dominant influence on transfer pricing because it is an important strategy to optimize profits and reduce tax burdens. Leverage affects transfer pricing because companies with high levels of leverage tend to take advantage of transfer pricing to re-manage their debts.

Viewed from a non-financial aspect, company size is also an aspect that affects transfer pricing because company size positively affects transfer pricing practices, especially in large companies. Tunneling incentives can have a positive effect on transfer pricing if the controlling shareholder transfers assets. However, the existence of an agreement within the company related to the company's operations and investments will reduce the opportunity for the majority shareholders to transfer pricing. Meanwhile, the bonus mechanism does not have a significant influence on transfer pricing because it is not the main factor considered by management in conducting transfer pricing.

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