



THE INFLUENCE OF TAX BURDEN, FOREIGN OWNERSHIP AND COMPANY SIZE ON TRANSFER PRICING IN SECURITIES COMPANIES LISTED ON THE INDONESIAN STOCK EXCHANGE 2019–2022

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Abstract

This study aims to investigate the impact of tax burden, foreign ownership, and company size on transfer pricing among securities firms listed on the Indonesia Stock Exchange during 2019–2022. The independent variables analyzed include tax burden, foreign ownership, and company size, with transfer pricing as the dependent variable. Logistic regression was employed for hypothesis testing using SPSS (version 26). The quantitative-descriptive data in this study were derived from documentation and analyzed through a logistic regression model. The study population comprises all financial statements of securities firms from 2019–2022. Purposive sampling, based on complete financial report publications from this period and excluding firms with losses, resulted in a sample of 52 samples. Findings reveal a negative association between tax and transfer pricing, a negative relationship between foreign ownership and transfer pricing, while company size showed no effect on transfer pricing.

Keywords: Company size, Foreign ownership, Tax burden, Transfer pricing.

INTRODUCTION

According to Article 1(1) of Law No. 6 of 1983, last amended by Law No. 7 of 2021 on Taxation General Provisions and Procedures, a tax is a compulsory payment owed to the state by individuals or entities, without direct compensation, and used to support public needs and welfare. Given that nearly 80% of state revenue is derived from taxes, they play a vital role in national revenue. Thus, taxes are essential to the operation of the Indonesian government. The Directorate General of Taxes is tasked with meeting annual revenue targets established in the State Budget approved by the legislature. However, achieving these targets fluctuates yearly, with challenges such as cross-border transfer pricing by multinational firms. Transfer pricing often results in profit shifting to affiliates overseas, thereby reducing Indonesia's tax revenue.

The Organization for Economic Co-operation and Development (OECD) defines transfer pricing as the valuation of transactions among affiliated multinational entities, which can differ from fair market value if appropriately aligned with the group's objectives. The OECD report states that tax factors can lead to transfer pricing, especially if their objectives are more focused on the amount of overall profit after tax rather than how the profit is obtained (OECD, 1979). Tax considerations often drive transfer pricing, particularly when the emphasis is on maximizing post-tax profits rather than profit generation. Multinational firms commonly use transfer pricing for tax planning, which remains legal when aligned with national requirements. Proper transfer pricing may minimize a multinational's tax obligations globally while still adhering to governmental guidelines. In Indonesia, PT. Adaro Energi Tbk reportedly shifted revenues to a Singapore affiliate, Coaltrade Service International, reducing tax liabilities through transfer pricing. This scheme reportedly reduced Indonesia's annual tax revenue by up to USD 14 million. This problem is not new because it arose around 11 years ago when Adaro went public in 2008.

Apart from Adaro, transfer pricing actions were also carried out by PT Bentoel Internasional Investama Tbk. The Tax Justice Network Institute report reported that Bentoel had diverted some of his income out of Indonesia. Bentoel does this in two ways, namely through intra-company loans and through payments back to the UK for royalties, fees and services. PT Bentoel obtained a loan from Rothman Far East BV which is domiciled in the



Netherlands. The Dutch company's accounts show that the funds lent to Bentoel came from another BAT group company, namely Pathway 4 (Jersey) Limited, which is based in England. The existence of these loan funds requires Bentoel to pay loan interest of IDR 2.25 trillion, equivalent to US\$ 164 million. The loan interest payments will later be deducted from taxable income in Indonesia. Bentoel's actions caused Indonesia to lose revenue of US\$ 11 million per year. Bentoel also makes payments for royalties, fees and IT costs totaling US\$ 19.7 million per year. The existence of an agreement between Indonesia and the UK means that the tax for royalties on trademarks is only 15%. Bentoel's actions caused Indonesia to lose revenue of US\$ 2.7 million per year (Prima, 2019). A recent case highlighting transfer pricing issues in Indonesia involves multinational companies misreporting profits to reduce their taxable income. This practice often results in shifting profits to low-tax jurisdictions. For example, several firms have been scrutinized for using pricing mechanisms in related-party transactions that fail to comply with the arm's length principle. The Directorate General of Taxes (DJP) has focused on these cases, especially following the issuance of updated transfer pricing regulations through PMK No. 172/2023. This regulation reinforces compliance with international standards such as the OECD guidelines. A significant challenge lies in detecting profit-shifting practices among companies with complex structures, particularly those involving foreign ownership. Enhanced regulations now emphasize substance over form in analyzing transfer pricing and require detailed documentation to ensure compliance. The DJP has adopted stricter supervision, including penalties and adjustments on deemed dividends when discrepancies in reported margins are identified. For example, an ongoing case involves companies manipulating inter-company service fees or royalties that fail to reflect actual economic activity, resulting in reduced taxable profits in Indonesia. The enforcement of secondary adjustments, like withholding taxes on deemed dividends, is part of the efforts to combat this issue.

The Organization for Economic Co-operation and Development (OECD) estimates that intercompany transactions represent over 70% of global trade flows (Merle et al., 2019). Recent reports highlighted cases of tax avoidance through transfer pricing by global companies like Amazon, Google, and Starbucks (Barford & Holt, 2013), where profits were shifted to lower-tax jurisdictions. The Tax Justice Network estimates that such tax strategies could cost Indonesia as much as USD 4.86 billion annually, equating to IDR 68.7 trillion (Herman et al., 2023). Meanwhile, Indonesia's foreign exchange reserves at the end of December 2023 were recorded at 146.4 billion US dollars (Haryono, 2024). According to Kompas, transfer pricing in Indonesia is estimated at IDR 1,200 trillion, potentially reducing state revenue by up to IDR 120 trillion annually.

Article 18 of Indonesia's Law No. 36 of 2008 on income tax outlines guidelines for transfer pricing, covering definitions of special relationships, debt-to-equity ratios, deemed dividends, beneficial ownership, and adjustments for non-arm's length transactions. Article 18 of Indonesia's Law No. 36 of 2008 on Income Tax provides a comprehensive framework for regulating transfer pricing practices to safeguard Indonesia's tax base. It establishes key principles and enforcement mechanisms to ensure that transactions between related parties adhere to the arm's length principle, which dictates that such transactions should be priced as if they were conducted between independent, unrelated parties. A significant aspect of Article 18 is the definition of a special relationship. This occurs when one entity directly or indirectly owns at least 25% of another entity's equity, when entities are controlled by the same party, or when there is a family relationship or overlap in management that affects decision-making. This definition underpins the application of the arm's length principle to prevent profit-shifting through related-party transactions. The article also addresses Debt-to-Equity Ratios (DER), which are used to limit the extent to which debt can be leveraged to reduce taxable income. High interest payments resulting from excessive debt are discouraged to prevent erosion of the



Indonesian tax base. Companies must maintain reasonable DER levels to ensure that their interest expenses are deductible for tax purposes. Another crucial provision is the regulation of deemed dividends, which allows the Directorate General of Taxes (DJP) to recharacterize profits shifted to related parties, especially in low-tax jurisdictions, as dividends. These deemed dividends are subject to withholding tax, ensuring that profits are not unfairly removed from Indonesia's tax jurisdiction. In addition, the law emphasizes the importance of identifying beneficial ownership. This provision ensures that only the actual owner of income benefits from reduced withholding tax rates under tax treaties, thereby preventing treaty abuse. To ensure compliance, Article 18 grants the DJP the authority to make adjustments for non-arm's length transactions. If a transaction does not meet arm's length standards, the DJP can adjust taxable income by disallowing certain deductions or reallocating profits. Such measures align with global best practices and discourage profit-shifting. The regulation empowers the Directorate General of Taxes to address profit shifting, or base erosion and profit shifting (BEPS), often motivated by disparities in tax rates between Indonesia and other countries. Companies aim to reduce tax liabilities domestically, often rerouting profits to lower-tax jurisdictions. The Ministry of Finance's Regulation No. 172/2023 specifies documentation requirements for transactions between related parties, detailing the application of fair pricing principles in these transactions. Additionally, Director General of Taxes Regulation No. 32 of 2011 mandates arm's length pricing in related party transactions.

The financial industry in Indonesia is one of the active industries in the world. Active stock transactions via the Indonesian Stock Exchange can be seen in January 2023, cumulatively amounting to IDR 216,199,626,045,737.00. In February 2023 it was IDR 412,632,002,031,163.00, in March 2023 it was IDR 626,765,288,830,705 and in April 2023 it reached IDR 780,943,215,606,097.00. Based on data from www.idx.co.id (the official website of the Indonesian Stock Exchange), 94 securities companies are listed as intermediaries in securities trading in Indonesia. Not a few of these companies have shareholders who come from abroad. Among these companies is PT. UBS Sekuritas Indonesia (98.35% owned by UBS AG-Zurich), PT CGS CIMB Sekuritas Indonesia (85% owned by (CGS-CIMB Securities International PTE LTD), PT CLSA Sekuritas Indonesia (60% owned by Credit Lyonnais Securities Asia BV) and others.

According to Purwanto & Tumewu (2018), One of the factors that makes transfer pricing decisions increasingly complicated is the difference in tax rates between countries. Transfer pricing can cause a country's potential tax revenue to be reduced or lost. Multinational companies will have a tendency to shift their tax obligations from countries with high tax rates to countries with low tax rates. So that there is a shift in the basis of taxation from one country to another. This is what makes the transfer pricing problem an international problem because many countries have an interest, especially for developing countries like Indonesia, where transactions containing transfer pricing are the country's source of income.

Studies like Kusumasari et al. (2018) indicate a positive relationship between tax burden and transfer pricing, while Khotimah (2020) reports a negative correlation. Foreign ownership is also linked to transfer pricing decisions, with Prasetyo et al. (2021) finding a positive association, suggesting that higher foreign ownership increases the likelihood of transfer pricing, although Putri (2016) found no significant effect. Company size, as defined in PSAK No. 15, refers to entities holding at least 20% ownership directly or indirectly. Shareholders may include individuals, governments, or foreign entities. Wahyudi & Fitriah (2021) find that company size has a significant negative impact on transfer pricing, while Agustina (2019) reports a positive correlation. While existing studies provide valuable insights, they highlight significant inconsistencies and gaps in understanding the determinants of transfer pricing. First, the divergent findings on the role of tax burden and foreign ownership underscore the need for



more comprehensive analysis. Second, the contradictory evidence on company size's impact suggests a lack of consensus in the academic discourse. These gaps are particularly relevant in the context of Indonesia, where regulatory frameworks emphasize the importance of preventing profit-shifting. Given these gaps, this study aims to contribute to the ongoing discourse by critically analyzing the interplay of tax burden, foreign ownership, and company size in influencing transfer pricing practices among companies operating in Indonesia. By addressing these inconsistencies, the research seeks to provide policymakers with actionable insights to enhance regulatory measures and strengthen compliance with transfer pricing guidelines.

LITERATURE REVIEW

Stewardship Theory

The grand theory that forms the foundation of this study is stewardship theory, which is an extension of agency theory. According to agency theory, the relationship between the agent (manager) and the principal (owner) is essentially a contractual arrangement, wherein the principal delegates authority to the agent to manage the company on their behalf (Meckling & Jensen, 1976). Stewardship theory is a concept in organizational management and corporate governance that emphasizes the alignment of goals between principals (e.g., shareholders or owners) and stewards (e.g., managers or executives). It posits that managers, when entrusted with the resources and authority to run a company, naturally act in the best interest of the principals, driven by intrinsic motivations such as organizational commitment, responsibility, and the pursuit of collective goals. Unlike agency theory, which assumes that managers prioritize personal gain over organizational objectives, stewardship theory assumes that managers are intrinsically motivated to achieve organizational success. This motivation stems from a sense of duty, professional ethics, and personal satisfaction in achieving collective goals. Stewardship theory suggests that giving managers autonomy and resources fosters trust, allowing them to make decisions that benefit the organization without micromanagement. This reduces the need for extensive monitoring and control mechanisms.

Stewards align their interests with those of the principals, believing that the success of the organization directly correlates with their own success. They prioritize long-term growth and sustainability over short-term personal benefits. Stewards are influenced by their psychological connection to the organization, including job satisfaction, a sense of belonging, and alignment with the organizational mission and values. Stewardship theory often contrasts with agency theory, which assumes a natural conflict between managers and owners. While agency theory promotes control mechanisms like audits, performance-based pay, and strict oversight, stewardship theory advocates for trust, collaboration, and minimal intervention. In corporate governance, stewardship theory supports structures where managers and directors are empowered to act autonomously in the best interests of shareholders, provided that alignment and trust are maintained.

Transfer Pricing

Chairil Anwar Pohan (2019:196) defines transfer pricing as the value set for transferring goods, services, or intangible assets from one affiliated entity to another within a special relationship, guided by the arm's length principle. Darussalam & Kristiaji (2013) explain transfer pricing as a shift of taxable income among companies in a multinational corporation group, specifically from one firm to another located in lower-tax jurisdictions. These expert definitions highlight that transfer pricing involves reallocating taxable income or assets among multinational group members to countries with favorable tax rates, often disadvantaging the higher-tax countries (Chalimatussa'diyah et al., 2020). The use of transfer pricing in sales transactions to related parties is often carried out with the aim of streamlining the tax burden that must be paid, namely by practicing reducing sales of company goods so that the company's



income is lower (Rahayu et al., 2022). Thus, the higher a country's tax rate and the greater the tax burden borne by the company, the greater the possibility that the company will avoid tax by carrying out transfer pricing. Study by Prananda & Triyanto (2020), and Khotimah (2020) obtained research results that the tax burden has an influence on transfer pricing.

Tax Burden

Tax constitutes a legally enforceable contribution that taxpayers must fulfill, often seen as a cost to business operations. According to the Statement of Financial Accounting Standards 46 (PSAK 46), the tax burden, as detailed in Waluyo (2017:272), encompasses both current and deferred tax expenses, impacting reported profit or loss. Zain (2010:187) defines the tax burden as the variance between payable income tax (derived from actual taxable income) and reported tax expense (based on pretax income), particularly when temporary differences arise. The concept of tax burden refers to the financial load imposed on individuals or businesses due to taxation requirements. It is often defined as the portion of income or profit that is allocated to fulfilling tax obligations set by government authorities. In corporate settings, the tax burden typically includes income taxes, VAT, and other applicable charges, which can significantly impact a company's profitability and strategic decisions. A high tax burden can influence various financial behaviors within organizations, particularly in their tax planning and cost management practices. From an economic perspective, the tax burden is not merely a statutory obligation but also a factor that can impact the allocation of resources within a company. Higher taxes reduce the available resources for reinvestment or operational expenses, which can lead businesses to seek methods of minimizing taxable income. Tax burden also plays a role in influencing companies' operational structures, including the choice of business locations, supply chains, and financial structuring, to leverage favorable tax jurisdictions or conditions. The theory of tax avoidance suggests that companies with a high tax burden might be more motivated to engage in strategies to reduce their tax expenses. However, the extent to which companies can mitigate the tax burden is often constrained by regulatory oversight. In sectors like financial services, including securities, regulatory agencies such as the Financial Services Authority and the tax authorities enforce compliance with stringent tax rules, making it challenging for companies to fully optimize tax positions without risk of penalties.

Foreign Ownership

As stipulated in Law Number 25 of 2007, Article 1 (6), foreign ownership includes individuals, foreign entities, and governments investing in Indonesia. Multinational corporations (MNCs) consider long-term returns through stakeholder legitimacy established in the domestic stock market (Barkemeyer, 2007). The higher the proportion of foreign ownership, the more influence foreign shareholders wield over corporate decisions, including transfer pricing strategies (Sari, 2012). Studies by Prananda & Triyanto (2020) and Refgia et al. (2017) further demonstrate that foreign ownership positively impacts transfer pricing. This research measures foreign ownership based on the percentage of shares held by foreign parties in the company.

Company size, indicating a company's scale of operations, often correlates with greater business activities and more complex financial transactions, which can open avenues for tax reduction strategies (Suprianto & Pratiwi, 2017). Larger asset bases suggest heightened operational complexity, including decision-making challenges (Refgia et al., 2017). Following Wati & Putra (2017), this research measures company size using the natural logarithm of total assets, which reflects both scale and complexity.

METHODS

Based on the views of Nuryaman & Christina (2015), research design encompasses the overall plan, structure, and strategy for conducting the research, detailing each stage from the



formulation of the research problem to the final analysis of data. The ultimate objective is to ensure the resolution of the research problem through a systematic and coherent approach. It serves as the blueprint or framework guiding the research process, including all activities from inception to conclusion. In this study, the research paradigm deployed is positivism, which emphasizes objectivity and the use of quantitative methods. The positivist paradigm is rooted in the belief that reality is measurable, observable, and governed by general laws, allowing for the derivation of conclusions based on empirical evidence. This paradigm is particularly suitable for examining phenomena like transfer pricing, which can be quantified and analyzed using financial data. The approach ensures that conclusions are derived through the rigorous application of statistical analysis, minimizing bias and maximizing reliability. The population for this research consists of the financial reports of securities companies listed as members of the Indonesian Stock Exchange during the 2019–2022 period, totaling 372 financial reports from 93 companies. The sample was determined using a purposive sampling technique, which aligns with the positivist emphasis on targeted and criteria-based selection to enhance the relevance of findings. Based on the established criteria, the final sample comprised 52 financial reports deemed representative of the research focus. By adopting a positivist paradigm, this study ensures that the research design adheres to structured methodologies and employs systematic data analysis. This alignment strengthens the credibility and validity of the conclusions drawn from the examination of transfer pricing practices in the securities sector.

RESULTS AND DISCUSSION

This research employed logistic regression to test hypotheses, evaluating model fitness using the Hosmer and Lemeshow Goodness-of-Fit Test.

Overall Model Fit Test Results (Overall Model Fit)

Below is presented data from the overall model fit test results based on the likelihood function.

Table 1 Test Results Assessing the Overall Model

Information	-2 Log Likelihood
Block Number:0	64,213
Block Number;1	49,738

Referring to Table 1, we observe that the testing process compares the values of -2 Log Likelihood (-2LL) from the initial stage (Block Number: 0) to the concluding stage (Block Number: 1). Initially, the -2LL stood at 64.213, which then decreased to 49.738 after the inclusion of the four independent variables. This reduction in the -2LL value signals an improvement in the regression model, suggesting that the proposed model aligns well with the dataset.

Determination Coefficient Test Results (Nagelkerke R Square)

In logistic regression, the coefficient of determination is evaluated using the Nagelkerke R Square value. Below, we present the data from testing results related to the Nagelkerke R Square coefficient.

Table 2 Determination Coefficient Test Results

Model Summary			
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	46.118a	,294	,414

Table 2 indicates that the Nagelkerke R Square value is 0.414. This implies that 41.4% of the variance in the dependent variable can be explained by the independent variables, while the remaining 58.6% is attributable to external factors not covered by the research model. Examples of these external factors include tax budgeting and tax directors (as suggested by



Klassen et al., 2014), and leverage (Izadinia et al., 2013).

Regression Model Feasibility Test Results

The feasibility of the regression model was assessed using Hosmer and Lemeshow's Goodness Fit Test. Below is presented data from the results of testing the feasibility of the regression model.

Table 3
Regression Model Feasibility Test Results
Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	6,184	8	,627

Based on table 3, it shows that the Chi-Square value is 6.184 with a significance of 0.627. Based on these results, because the significance value is greater than 0.05, the model can be concluded to be able to predict the observed value.

Logistic Regression Test Results

The logistic regression model formed is presented in table 4 below:

Table 4 Logistic Regression Coefficient Test Results
Variables in the Equation

		B	Wald	Sig.
Step 1a	Tax burden	-.062	3,922	,048
	Foreign Ownership	-.109	5,770	,016
	Company Size	,721	3,567	,059
	Constant	-8,958	,788	,375

a. Variable(s) entered on step 1: tax burden, foreign ownership, company size.

The results of testing the logistic regression coefficients produce the following model:

$$TP = -0.062 - 0.109 + 0.721 - 0.768$$

In Table 4, the constant coefficient of -0.062 signifies that if the tax burden, foreign ownership, and company size variables are all zero, the likelihood of the company engaging in transfer pricing would be -0.062. The tax burden variable has a coefficient of -0.109, implying that a 1-unit increase in tax would lead to a decrease in the company's propensity to engage in transfer pricing by 0.109, assuming other independent variables remain unchanged. Similarly, the foreign ownership variable has a coefficient of 0.721, meaning that each 1-unit increase in foreign ownership raises the likelihood of transfer pricing activities by 0.721, assuming the other variables stay constant. For company size, the coefficient is -0.768, indicating that a 1-unit increase in company size would decrease the likelihood of transfer pricing by 0.768, with all other variables held constant.

Hypothesis Testing

Hypothesis testing in this study assesses the impact of independent variables – tax burden, foreign ownership, and company size – on transfer pricing through regression test results outlined in the Variables in the Equation. This logistic regression hypothesis testing involves comparing the Significant column to an alpha level of 0.05 (5%). When the significance level is below 0.05, the alternative hypothesis (Ha) is accepted.

Table 5 Hypothesis Test Results
Variables in the Equation

		B	S.E	Wald	Df	Sig.
Step 1a	Tax burden	-.062	.031	3,922	1	,048
	Foreign Ownership	-.109	,046	5,770	1	,016
	Company Size	,721	,382	3,567	1	,059
	Constant	-8,958	10,092	,788	1	,375



a. Variable(s) entered on step 1: tax burden, foreign ownership, company size.

The table of tax burden significance testing reveals a significance value of 0.048, which is less than 0.05, supporting the acceptance of the first hypothesis (Ha1). This suggests that the tax burden significantly affects transfer pricing. The negative beta value of -0.062 further highlights an inverse relationship between tax burden and transfer pricing, indicating that a substantial tax burden may prompt companies to adopt transfer pricing strategies to mitigate this burden.

The significance test for foreign ownership yields a value of 0.016, also below $\alpha = 0.05$, thus supporting the acceptance of the second hypothesis (Ha2), signifying a significant effect of foreign ownership on transfer pricing. The beta value of -1.109 denotes an inverse relationship between foreign ownership and transfer pricing, meaning that lower foreign ownership percentages correspond with a reduced capacity for transfer pricing. For company size, the significance level of 0.059, being greater than $\alpha = 0.05$, leads to the acceptance of the third hypothesis (Ha3), indicating no significant effect of company size on transfer pricing. The positive beta value of 0.721 supports the conclusion that company size does not affect a company's transfer pricing decisions.

The Influence of Tax Burden on Transfer Pricing

The hypothesis testing results indicate a significance level of $0.048 < 0.05$ for the tax burden variable, highlighting that tax burden significantly affects transfer pricing. The research findings present an inverse relationship whereby higher tax burdens correlate with a decreased likelihood of companies engaging in transfer pricing. This is reflected by a beta value of -0.062. The negative association may be partly attributed to the stringent regulations in the financial services sector, particularly for securities companies that are subject to audits by PT Bursa Efek Indonesia as a Self-Regulatory Organization (SRO), including system audits and financial audits, as well as oversight by the Financial Services Authority and the Directorate General of Tax. Such regulatory scrutiny requires securities companies to adhere to the compliance standards set by each supervisory institution.

These findings align with stewardship theory, which diverges from agency theory by positing that managers (agents) act as responsible stewards of the company's resources rather than primarily pursuing self-interest. Stewardship theory suggests that agents prioritize organizational success and align their decisions with the principal's objectives to protect the company's long-term interests. In this context, the managers of securities companies demonstrate high compliance with regulatory requirements, likely prioritizing their stewardship role to maintain the sustainability of the business and uphold the integrity of the financial market ecosystem. However, this study's findings align with research by Rihhadatul 'Aisy Prananda & Dedik Nur Triyanto (2020), which demonstrated that tax burdens affect transfer pricing, as companies facing high tax burdens may be inclined to reduce this by engaging in transfer pricing. Conversely, studies by Baiti & Suryani (2020), Prasetio et al. (2021), and Aulia Putri et al. (2020) found no relationship between tax rate size and transfer pricing. In these cases, companies utilized tax management, not to avoid taxes altogether but to ensure that taxes paid do not exceed the required amount, thereby achieving tax minimization.

The Influence of Foreign Ownership on Transfer Pricing

The results of the hypothesis test show that the significance level of the foreign ownership variable is $0.016 < 0.05$. This indicates that foreign ownership has an influence on transfer pricing. The research results produce the opposite relationship with a beta value of -0.109, meaning that the greater the foreign ownership of a securities company, the smaller the possibility of the company carrying out transfer pricing.

This result can be explained by the fact that securities companies that have foreign capital participation are closely monitored (overseeing) by the parent company. Several ways



are used by parent companies to maintain compliance with regulations in a country by conducting regular internal audits. Apart from that, for external audits the parent company shows the Big Four auditors who are trusted by the public to be reliable in assessing financial statements.

According to research Prananda & Triyanto (2020), when controlling shareholders are dominated by foreign shareholders, foreign shareholders have greater influence in determining various decisions that will be used by the company, including decisions in determining the amount of pricing that can be implemented in transfer pricing practices. The research results are in line with the research conducted Prananda & Triyanto, (2020), Prasetio et al., (2021) that foreign ownership has an influence on transfer pricing.

Regulations regarding transfer pricing have not been clearly regulated along with sanctions if they are violated, so in practice they give rise to different interpretations and this is used as an opportunity for foreign companies to carry out transfer pricing. Even though the transfer pricing provisions are regulated in Law Number 36 of 2008, the lack of clarity in the regulations regarding transfer pricing has resulted in differences of opinion as to whether transfer pricing actions fall into the category of legal actions (acceptable tax avoidance) or whether they fall into the category of illegal actions (tax evasion/unacceptable tax avoidance) which ultimately gives rise to legal uncertainty. This is used by foreign companies to freely carry out transfer pricing because there are no clear sanctions. Supports the theory put forward Soemitro, (1991) under legal certainty in tax law, it must be able to provide legal protection, both for business actors as taxpayers and for the government as the party entitled to receive tax revenues. Because this is in line with research Refgia et al. (2017) that foreign ownership affects transfer pricing.

The Influence of Company Size on Transfer Pricing

The hypothesis coefficient testing reveals a significance level of 0.059 for the company size variable, exceeding the threshold of 0.05, which suggests that fluctuations in company size do not impact shareholder decisions influencing transfer pricing activities. This implies that company size is not a driver for transfer pricing behavior.

Jayengsari and Soetedjo (2013) support this perspective, positing that company size motivates management earnings manipulation due to regulatory requirements, such as tax laws, antitrust legislation, and banking regulations. Antitrust and tax evasion laws often prompt large companies to curtail profits, typically achieved by shifting income to jurisdictions with lower tax rates through transfer pricing practices. Meanwhile, Izadinia et al. (2013) suggest that company size influences the tax burden amount, with income shifting through transfer pricing commonly used as a strategy to reduce tax expenses by relocating earnings to low-tax jurisdictions.

CONCLUSION

The size of securities companies listed on the IDX from 2019 to 2022 does not appear to influence their transfer pricing decisions. This finding suggests that the scale or overall size of the company does not act as a primary motivator for engaging in transfer pricing practices within this sector. The impact of the tax burden on transfer pricing among securities companies listed as IDX members from 2019 to 2022 demonstrates a significant pattern: as the tax burden increases, these companies tend to minimize their transfer pricing activities. This trend is likely due to the stringent regulatory environment that these securities companies must navigate. Under close supervision from the Indonesia Stock Exchange, the Financial Services Authority, and the Directorate General of Taxes, securities firms often display voluntary compliance that meets or exceeds regulatory expectations, thereby reducing their need to engage in transfer pricing practices.



Foreign ownership also plays a notable role in influencing transfer pricing among securities companies listed on the IDX during the same period. This influence can be attributed to the rigorous oversight by parent companies, which frequently employ multiple strategies to ensure adherence to local regulations, including conducting regular internal audits. In terms of external validation, these parent companies often appoint auditors from the Big Four, who are well-respected for their credibility in evaluating financial statements. This combination of internal and external audits helps maintain compliance and transparency, contributing to a moderated approach toward transfer pricing.

In contrast, the size of securities companies listed on the IDX from 2019 to 2022 does not appear to affect their transfer pricing decisions. This observation indicates that the overall scale of the company does not act as a primary motivation for these firms to engage in transfer pricing. Thus, for securities companies operating within this sector, the regulatory framework and ownership structure may have more significant impacts on transfer pricing behaviors than company size.

Suggestions

It is recommended that the Directorate General of Taxes enhance the supervision of securities firms, particularly those with foreign ownership, to ensure tax compliance. Implementing prioritized supervision through the Compliance, Risk, and Management System could aid in more effectively overseeing these companies' adherence to their tax obligations. The tax burden, particularly corporate income tax rates in Indonesia, should be made more competitive when compared to those in the Southeast Asia region and globally. This competitiveness can enhance the country's appeal as an investment destination and encourage compliance among corporations operating within its jurisdiction. A well-calibrated tax rate is essential for balancing government revenue needs with the demands of a competitive global economy.

Securities companies with foreign ownership tend to exhibit a higher level of compliance with regulations, particularly in taxation. The management practices employed by foreign firms, such as robust internal and external audit mechanisms, can serve as a model for domestic securities companies. By adopting these practices, domestic firms can enhance their reliability and competitiveness in the financial services sector. To foster a more conducive investment environment, the government must strive to create a capital market climate that is transparent, fair, and free from undue intervention. Such a climate would help build trust among investors, both domestic and international, while ensuring the sustainable growth of Indonesia's financial markets. As a part of the financial services industry, securities companies operate in a highly regulated environment. They are subject to oversight from multiple regulatory bodies, including PT Bursa Efek Indonesia (IDX), PT Kustodian Sentral Efek Indonesia (KSEI), PT Kliring Penjaminan Efek Indonesia (KPEI) as Self-Regulatory Organizations (SROs), the Financial Services Authority, and the Directorate General of Taxes. Despite this comprehensive supervision, continuous oversight is essential to maintain the integrity, reliability, and public trust in Indonesia's capital market ecosystem.

Future research in this area should consider a broader sample that includes all companies listed on the IDX. Such an expanded scope would provide more comprehensive insights into the factors influencing transfer pricing across various sectors. A broader dataset would allow researchers to identify sector-specific patterns and develop more targeted recommendations. Additionally, incorporating new independent variables into future studies could yield a deeper understanding of the drivers behind transfer pricing decisions. Variables such as debt covenants, indicators of good corporate governance (GCG), incentive mechanisms like bonuses, and tunneling incentives could shed light on the diverse motivations influencing corporate behavior in this area. Lastly, the Directorate General of Taxes is encouraged to



enhance its oversight of securities firms, especially those with foreign ownership, to ensure tax compliance. Prioritizing supervision through the Compliance, Risk, and Management System would provide a structured approach to monitoring these firms' adherence to tax obligations. This targeted oversight would not only strengthen tax compliance but also contribute to the overall stability of Indonesia's capital market.

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