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THE EFFECT OF COMPANY SIZE, PROFITABILITY, AND INTANGIBLE ASSETS ON TRANSFER PRICING AGGRESSIVENESS IN ENERGY SECTOR COMPANIES LISTED ON THE INDONESIA AND SINGAPORE STOCK EXCHANGES

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Abstract
This research investigates the impact of firm size, profitability, and intangible assets on the aggressiveness of transfer pricing in energy sector companies listed on the Indonesia Stock Exchange (IDX) and the Singapore Exchange (SGX). Employing a quantitative descriptive method, the study applies panel data regression analysis to examine the proposed hypotheses. A purposive sampling technique was used to select a sample of 13 energy companies listed on both the IDX and SGX during the 2017–2022 period. The data, spanning six years and comprising 78 observations, were sourced from the annual financial statements published by these companies. Analysis was conducted using eViews12 software. The results indicate that firm size negatively and significantly influences transfer pricing aggressiveness, with larger firms engaging less in aggressive transfer pricing. Meanwhile, profitability has no significant effect, suggesting that financial performance does not necessarily drive firms to engage in aggressive transfer pricing. Conversely, intangible assets positively and significantly impact transfer pricing aggressiveness, showing that firms with higher intangible assets tend to be more aggressive. This study provides empirical evidence on transfer pricing behavior in the energy sector under two different regulatory frameworks, offering insights for regulators and policymakers to monitor companies with substantial intangible assets.
Keywords: Company size, Intangible assets, Profitability, Transfer pricing aggressiveness

INTRODUCTION

State revenue through taxes plays a strategic role in supporting fiscal and economic functions. In 2024, the State Budget (APBN) targets revenue of IDR 2,802 trillion, most of which comes from tax revenue. Although the realization of tax revenue in 2020-2023 showed positive achievements, Indonesia's tax ratio remains low, reaching only 10.9% in 2021, far below the average for Asia Pacific and OECD countries (OECD, 2023). The low tax ratio reflects the challenges in expanding the tax base, increasing compliance, and efficiency of tax administration.

The tax ratio serves as a key metric for evaluating a nation's fiscal condition, indicating the extent to which tax revenue supports the overall economy. Countries with a high tax ratio have a broad tax base, high tax compliance rates, and efficient tax administration. However, many developing countries, including Indonesia, have relatively low tax ratios. One of the main challenges faced is tax avoidance practices, including through aggressive transfer pricing practices.

Transfer pricing involves setting the value of transactions conducted between entities within the same corporate group and is frequently employed to allocate profits to regions with lower tax rates (Zain, 2007). This practice has led to a reduction in potential tax revenues, such as the cases of PT Adaro Energy Indonesia and Coaltrade Services International. Similar cases have occurred internationally, such as the dispute between Rio Tinto and BHP Group Limited and the Australian Taxation Office regarding the transfer of profits to Singapore (Reeves & Taho, 2022; BHP Media Center., 2018).

From the government's perspective, transfer pricing practices can reduce or even eliminate a country's potential tax revenues. Multinational corporations often shift their tax responsibilities from countries with higher tax rates to those with lower rates to minimize their overall tax burden. This problem cannot be resolved unilaterally by each country, but requires

multilateral cooperation. The Indonesian government has made various efforts to address transfer pricing, including strengthening regulations and governance of the mineral and coal sector through the Mineral and Coal System (Simbara). However, the implementation of this policy faces challenges, both in terms of supervision and harmonization of interests between jurisdictions (Saputra, 2023). In this context, it is important to evaluate the effectiveness of the applicable transfer pricing regulations and identify strategies to overcome challenges in optimizing tax revenues. For global companies, such as multinational corporations, transfer pricing is often used as an effective strategy to improve cost efficiency and remain competitive in the competition for limited resources (Sari, 2004).

This study will contribute to academic discourse and tax policy practice, especially in the context of sustainable fiscal reform. In the era of globalization and technological advancement, multinational businesses are increasingly expanding across geographical boundaries, taking advantage of regulatory differences between countries. One practice that has attracted significant attention is profit shifting, which is often carried out through transfer pricing mechanisms. Differences in tax rates between countries are a loophole that companies exploit to reduce tax obligations, for example by shifting profits to countries with lower tax rates (Jones et al., 2018; Darussalam et al., 2013).

Singapore is not a tax haven country, but Singapore has a lower tax rate than Indonesia. The Corporate Income Tax (PPh) rate in Singapore is 17% and the Value Added Tax (VAT) rate is 8% (increased to 9% on January 1, 2024), while in Indonesia the Corporate Income Tax (PPh) rate is 22% and the Value Added Tax (VAT) rate is 11% (taxsummaries.pwc.com, December 19, 2023). Singapore, because of this, is often a destination for storing Indonesian taxpayer assets. However, Singapore's tax ratio of only 12.6% in 2021 shows the challenges in creating a fair and efficient tax system at the global level (OECD, 2023). On the other hand, companies in Singapore are required to ensure that transactions between related entities meet the arm's length principle according to the local tax authority's guidelines (IRAS).

Studies on the determinants of transfer pricing aggressiveness identify several influencing factors, such as firm size, profitability, and intangible assets. Richardson et al., (2013) found that these factors positively influence transfer pricing aggressiveness, noting that larger companies often benefit from enhanced tax planning capabilities due to access to substantial resources (Rego, 2003). However, Wahyudi & Rusydi (2021) and Gracia & Sandra (2022), reported contrasting findings, identifying a negative effect of company size on transfer pricing aggressiveness, which they attributed to increased scrutiny from tax authorities.

Profitability indicates how effectively a company generates profits and is often linked to aggressive tax strategies, including transfer pricing practices (OECD, 2013; Richardson et al., 2013). Firms with higher pre-tax earnings are generally more inclined to minimize corporate tax liabilities compared to those with lower pre-tax profits. However, studies such as Wahyudi & Rusydi (2021) suggest that profitability does not universally drive transfer pricing aggressiveness, as larger corporations often prioritize compliance with tax regulations to safeguard their reputations.

Intangible assets, including intellectual property rights and expenses related to research and development, play a crucial role in transfer pricing practices. The challenge of establishing fair market values for transactions involving intangible assets often creates opportunities for profit shifting (Gravelle, 2010). Studies such as those by Klimova & Eden (2019) and Firmansyah & Yunidar (2020) highlight the significant contribution of intangible assets to transfer pricing aggressiveness. Building on this foundation, this research seeks to explore the factors influencing transfer pricing aggressiveness, particularly within the framework of multinational corporations and cross-border tax policies.

LITERATUR REVIEW

Stewardship Theory

This study is grounded in agency theory and stewardship theory to analyze the dynamics between principals and agents in corporate management. According to agency theory, an agency relationship arises when a company owner (the principal) delegates authority to a manager (the agent) to handle the company's operations (Jensen & Meckling, 1976). However, this separation of ownership and control can lead to conflicts of interest, as both principals and agents are inclined to prioritize their own personal benefits. This divergence in objectives underscores the complexities of aligning the interests of the two parties within corporate governance.

Alternatively, stewardship theory shifts the perspective from a control-oriented relationship to a relationship based on trust and responsibility. Stewardship theory explains that managers act as stewards who strive to achieve the best interests of the company, prioritizing collaboration, empowerment, and mentoring (Nix & Chen, 2013). In this theory, individual interests and organizational interests are seen as complementary. The success of an organization in achieving collective goals not only improves group welfare but also provides individual benefits for both managers and owners.

In the context of public sector organizations, stewardship theory is relevant to explain the relationship between companies and governments. This theory states that corporate tax compliance is a form of contribution to collective interests, which illustrates the company's commitment to the principle of sustainability. On the other hand, the government as a steward is responsible for managing tax resources optimally for the public interest.

The tax context, especially in the case of transfer pricing, shows how these two theories can be implemented. Aggressive transfer pricing practices are often influenced by differences in interests between principals and agents, as explained by agency theory. However, stewardship theory offers a different approach, where managers are encouraged to make tax decisions based on ethics and long-term orientation. This approach not only supports organizational sustainability but also builds positive relationships with tax authorities (Nix & Chen, 2013).

Thus, stewardship theory supports the freedom and trust given to managers to make decisions without excessive supervision, thus encouraging behavior that is in line with the organization's long-term goals and collective interests. This viewpoint is crucial for comprehending the interplay between transfer pricing strategies, adherence to tax regulations, and the implementation of sustainability-focused corporate governance principles.

Transfer Pricing

Transfer pricing plays a vital role in corporate management, particularly for multinational corporations (MNCs) engaged in intercompany transactions across different jurisdictions. According to Horngren et al., (2014) transfer pricing is the value at which one division of an organization provides goods or services to another division within the same organization. Similarly, Hansen & Mowen, (2007) describe transfer pricing as the cost assigned to a component sold by one department to another within the same company. Levey et al., (2006) broaden this concept, defining transfer pricing as the valuation of transactions involving related entities, including goods, services, intangible assets, rents, and loans. The allocation of profits among these related entities depends significantly on the established transfer prices.

Based on these definitions, transfer pricing can be understood as a pricing mechanism in transactions between segments or between entities within a group of companies. This aims to ensure the overall efficiency of the company's operations, especially in a decentralized managerial environment, where divisional managers' decisions can affect the performance of the parent company.

Under Indonesian domestic regulations, transfer pricing is outlined in Article 1, point 9 of the Minister of Finance Regulation No. 172 of 2023 concerning the Application of the Principle of Fairness and Ordinary Business Practices in Transactions Influenced by Special Relationships. It is described as the determination of transaction prices influenced by the existence of special relationships between the parties involved. These transactions include goods, services, transfers of intangible assets, leases, and loans, where the determined price will affect the distribution of profits between entities.

Transfer pricing has three main objectives according to Darussalam et al., (2013) :

a. Corporate law perspective: To enhance efficiency and foster synergy between the company and its shareholders, it is essential to also prioritize the interests of creditors and minority shareholders.
b. Managerial accounting perspective: To maximize company profits by setting optimal prices for goods and services traded between organizational units within the same company.
c. Taxation perspective: To determine the appropriate allocation of income between entities within a corporate group, taking into account tax implications.

Although transfer pricing is conceptually neutral, this practice is often associated with tax avoidance strategies. OECD (2013) highlights transfer pricing as a significant method utilized in profit shifting, which can adversely impact a country's tax revenue ratio. Such manipulations often involve leveraging tax rate disparities between jurisdictions or strategies aimed at reducing overall tax obligations.

Zain (2007) distinguishes transfer pricing into two categories based on its operational scope:

a. Domestic transfer pricing, which occurs in transactions between entities in one country.
b. Cross-border transfer pricing, which involves transactions between entities in various international jurisdictions.

In practice, cross-border transfer pricing has a high risk of manipulation because it involves jurisdictions with different tax regimes. Thus, implementing the principles of fairness and standard business practices, as outlined in PMK-172 of 2023, is crucial to ensuring that transactions are conducted transparently and align with fair market value standards.

Firm Size

Firm size is an important variable in organizational theory, especially in explaining organizational structure and its influence on dimensions such as specialization and formalization. Harlacher (2010) defines firm size as a contingency factor that has been widely used in empirical studies to understand the relationship between firm size and organizational dimensions. This measure is usually measured by the number of employees, but other criteria such as company revenue or assets can also be used.

According to Samhuri et al. (2023), firm size is obtained through the average total net sales over several years and is an important indicator in evaluating company performance. If total net sales exceed fixed and variable costs, the company will earn income before tax. On the other hand, when sales revenue falls short of covering both fixed and variable costs, the company incurs losses. Therefore, it is important for companies to ensure that their income is sufficient to cover operating costs and achieve profits.

Firm size refers to specific criteria used in assessing the size of an organization or corporate entity (Samhuri et al., 2023). Within the Indonesian framework, Law Number 20 of 2008 outlines the criteria for defining the size of Micro, Small, and Medium Enterprises (MSMEs). Based on this law, companies are classified into four categories, namely micro, small, medium, and large businesses. The classification is based on parameters such as net worth and annual revenue, which aim to provide clear boundaries in grouping businesses:

A. Micro Business: A net worth of up to IDR 50 million or annual revenue not exceeding IDR 300 million.
B. Small Business: Net worth ranging from IDR 50 million to IDR 500 million or annual revenue between IDR 300 million and IDR 2.5 billion.
C. Medium Business: Net worth of IDR 500 million to IDR 10 billion or annual revenue ranging from IDR 2.5 billion to IDR 50 billion.
D. Large Business: Net worth or sales results exceeding the criteria for medium businesses.

In the review of Indonesian law, the classification of MSMEs provides a basis for fiscal and regulatory policies that are adjusted to the capacity of each type of business. Initiatives like progressive tax structures and MSME incentives are designed to promote the long-term viability of small and medium enterprises, while also enhancing the role of larger corporations in contributing to state revenue.

Company size plays a crucial role in determining a firm's transfer pricing behavior due to its influence on resource availability, regulatory scrutiny, and operational complexity. Larger firms often possess greater financial, legal, and tax expertise, enabling them to engage in sophisticated tax planning strategies, including aggressive transfer pricing. According to the political cost hypothesis, large corporations are more likely to be targeted by regulators and tax authorities due to their visibility and significant economic impact. As a result, they may adopt more cautious tax strategies to avoid legal disputes, which in turn reduces their transfer pricing aggressiveness.

Conversely, small and medium enterprises (SMEs) may exhibit higher transfer pricing aggressiveness due to limited access to tax expertise and a greater need to optimize tax efficiency to maintain competitiveness. Smaller firms often operate with higher tax burdens relative to their revenues, incentivizing them to exploit transfer pricing mechanisms as a means of reducing taxable income. Additionally, regulatory oversight for SMEs is often less stringent, providing them with greater flexibility to engage in aggressive tax strategies without attracting immediate regulatory attention.

From a regulatory perspective, governments often design progressive tax policies and compliance frameworks that differentiate between large and small enterprises. In Indonesia, for example, the classification of MSMEs (Micro, Small, and Medium Enterprises) provides the basis for differentiated tax structures, where SMEs benefit from lower tax rates and simplified reporting requirements (Indonesian Government Regulation No. 23/2018). This differentiation reduces the urgency for larger corporations to engage in transfer pricing aggressiveness, as they already operate within a more complex and transparent tax environment. On the other hand, SMEs, despite their smaller scale, might take advantage of gaps in regulatory enforcement to optimize their tax positions through aggressive transfer pricing.

In conclusion, company size impacts transfer pricing aggressiveness through a combination of tax planning capabilities, regulatory scrutiny, and compliance frameworks. Larger firms may have the resources to implement transfer pricing strategies but are also subjected to higher regulatory risks, potentially discouraging aggressive tax behavior. Meanwhile, smaller firms may engage in aggressive transfer pricing due to fewer regulatory constraints and the need for tax optimization. Understanding this dynamic is essential for policymakers in designing effective tax regulations that balance revenue collection with economic growth. From this premise, the researcher develops the hypothesis:

H1 : The size of a company positively influences its transfer pricing aggressiveness.

Profitability

Profitability serves as a key metric for evaluating operational performance and a company's capability to generate earnings. Kasmir., (2010) defines profitability ratios as tools

to measure a firm's ability to achieve profits within a specific period. *Santoso & Jamil (2023)* similarly highlight profitability as an indicator of a firm's capacity to derive income from its business operations. It reflects how effectively a company utilizes market resources to produce financial returns.

Profitability not only acts as an indicator of company performance but is also the basis for long-term business sustainability. Fareed et al., (2016) emphasized that profitability affects the increase in stakeholder value, investor attractiveness, and the company's reputation in a competitive environment. Thus, profitability is one of the core goals of every company to maintain business sustainability.

Profitability ratios assess different financial dimensions of a company's performance. According to (Hasibuan, 2023), the objectives of using profitability ratios include:

a. Measuring the company's profit performance in an accounting period.
b. Monitoring profit growth compared to the previous period to show the direction and level of profit change.
c. These ratios evaluate a company's efficiency in generating returns from its capital, including both equity and debt.
d. Determining the net profit available to shareholders after tax.
e. Assessing the stability and consistency of the company's profits in the long term.

The function of the profitability ratio also includes evaluating the efficiency of the use of assets and other resources. Hansen & Mowen (2007) added that managerial evaluation is often associated with the profitability of units managed by managers, where changes in income from one period to the next are used as an indicator of managerial ability.

Transfer pricing is a policy implemented in decentralized companies to determine transaction prices between company segments. Horngren et al. (2014) highlighted that transfer pricing plays an important role in optimizing segment profitability while supporting the company's overall goals. Managers assess transfer pricing policies based on their effectiveness in enhancing the company’s overall profitability.

Transfer pricing also functions as a financial performance management tool that allows companies to take advantage of operational efficiency, especially in the allocation of costs and revenues between segments. Effective implementation of transfer pricing policies can contribute to improving a company’s profitability ratios.

Profitability plays a significant role in shaping corporate tax strategies, including decisions related to transfer pricing aggressiveness. The extent to which a firm engages in aggressive transfer pricing practices often depends on its financial performance, managerial incentives, and regulatory scrutiny. Firms with higher profitability face greater tax liabilities, which creates incentives to minimize tax expenses through profit-shifting mechanisms.

At the same time, the agency theory provides an additional perspective on the connection between profitability and transfer pricing aggressiveness. Managers, acting in the interest of shareholders, often aim to maximize after-tax earnings, which may include implementing tax-saving strategies such as transfer pricing adjustments. In highly profitable firms, executive compensation structures frequently include performance-based incentives, further motivating managers to pursue tax efficiency through transfer pricing. However, excessive tax avoidance can expose companies to reputational risks and legal challenges, leading some firms to adopt a more cautious approach.

Regulatory scrutiny also plays a crucial role in moderating the relationship between profitability and transfer pricing aggressiveness. The political cost theory (Watts & Zimmerman, 1986) suggests that highly profitable firms attract greater attention from tax authorities due to their economic influence and visibility. Governments and regulatory agencies tend to monitor large, profitable firms more closely, as they contribute significantly to state

revenue. As a result, while some firms may aggressively use transfer pricing to optimize their tax position, others may prefer to comply with regulations to avoid potential penalties and reputational damage.

The energy sector, in particular, presents unique challenges regarding profitability and transfer pricing strategies. Energy companies, which often operate in multiple jurisdictions, generate substantial revenues and possess valuable intangible assets, such as extraction technologies and patents. These assets provide opportunities for profit shifting, especially when subsidiaries are located in tax-friendly jurisdictions. However, due to the strategic importance of the energy industry and government oversight, regulatory constraints can moderate the extent of transfer pricing aggressiveness.

Understanding the interplay between profitability, tax incentives, regulatory scrutiny, and corporate governance is essential for policymakers and tax authorities in designing effective tax compliance frameworks. While profitability increases the motivation for firms to engage in aggressive transfer pricing as a cost-minimization strategy, it also elevates regulatory risks, requiring firms to balance tax efficiency with compliance. The nuanced relationship between profitability and transfer pricing aggressiveness underscores the need for industry-specific tax regulations to ensure that tax planning practices do not undermine fair revenue distribution. Based on this analysis, the hypothesis is proposed as follows:

H2 : Profitability positively impacts transfer pricing aggressiveness.

Intangible Assets

According to Anson & Drews (2007), intangible assets encompass a broader scope than intellectual property, possessing characteristics that make them less transient and easier to classify compared to goodwill. Typically, these assets share several key traits, such as being identifiable within a company and broadly recognizable, legally owned, traceable in their creation and development, protectable (including intellectual property), demonstrable through contracts or registrations, having a determinable or renewable lifespan, being comparable with similar assets in the market, and possessing quantifiable value.

Meanwhile, according to Kieso et al., (2014) intangible assets have three main characteristics, namely:

a. Intangible assets must be identifiable, which means they can be separated from the business for purposes such as sale or transfer, or they must originate from contractual or legal rights that generate economic benefits for the company.
b. Unlike tangible assets like property or equipment, intangible assets lack a physical form, deriving their value from the rights and privileges they grant to the owning organization.
c. Intangible assets differ from monetary assets, such as receivables or investments, which derive their worth from claims to future cash flows. Monetary assets, despite lacking physical substance, are not categorized as intangible assets.

In intangible assets are also divided according to their types. There are six types of intangible assets according to Kieso et al., (2014), including:

a. Marketing-related intangible assets include those associated with promoting products or services, such as trademarks, slogans, and domain names.
b. Customer-related intangible assets are those tied to an entity's customer interactions, including items such as customer databases, production orders, and both contractual and non-contractual customer relationships.
c. Artistic-related intangible assets encompass items associated with creative works, such as copyrights for plays, literary compositions, musical pieces, visual art, photographs, videos, and other audiovisual media.

d. Contract-related intangible assets pertain to assets derived from agreements, including franchises, construction licenses, broadcasting rights, and contracts related to services or supplies.
e. Technology-related intangible assets, which are intangible assets related to innovation and technological progress, such as patents on a technological invention.
f. Goodwill, which represents the future economic benefits of a business combination.

According to Regulation VIII.C.5 (KEP-620/BL/2011), intangible assets are defined as identifiable, non-monetary items without a physical presence, excluding goodwill. Similarly, PSAK 19 characterizes them as identifiable non-monetary assets lacking physical form. The recognition of intangible assets takes into account the expected future economic benefits and the ability to accurately measure the acquisition cost of the asset.

Intangible assets play a critical role in shaping a firm's transfer pricing strategies due to their unique characteristics, including high mobility, valuation complexity, and significant contribution to profit generation. Unlike tangible assets, which have a clear physical presence and market value, intangible assets such as patents, trademarks, brand value, proprietary technology, and goodwill are often difficult to measure and assign a definitive price. This lack of transparency creates opportunities for firms to manipulate transfer prices, making intangible assets a key driver of transfer pricing aggressiveness.

From an economic perspective, firms with substantial intangible assets have greater flexibility in structuring intra-group transactions. Since these assets can be legally transferred, licensed, leased, or exchanged across jurisdictions, multinational corporations (MNCs) frequently use them to shift profits to subsidiaries located in low-tax countries. By underpricing or overpricing intangible asset transactions between related entities, firms can significantly reduce their overall tax liabilities. This practice aligns with the tax avoidance theory, which suggests that companies strategically allocate their profits in ways that minimize tax burdens while maximizing net earnings.

Legal control over intangible assets also strengthens a company's ability to engage in aggressive transfer pricing. Firms that hold proprietary technologies, patents, and intellectual property rights can dictate how these assets are utilized within their corporate structure. Through licensing agreements, royalties, and cost-sharing arrangements, companies can allocate a disproportionate share of profits to subsidiaries in jurisdictions with favorable tax regimes. This form of transfer pricing is particularly common in industries driven by innovation, such as technology, pharmaceuticals, and energy, where intangible assets represent a significant portion of a company's total value.

The difficulty in establishing arm’s-length pricing for intangible assets further exacerbates transfer pricing aggressiveness. Unlike physical goods, which have comparable market prices, intangible assets are often unique and lack direct benchmarks. This allows firms to use discretionary pricing models that favor tax-efficient allocations, making it challenging for tax authorities to detect and regulate aggressive transfer pricing practices. The OECD's Base Erosion and Profit Shifting (BEPS) initiative has attempted to address these issues by introducing stricter guidelines on the valuation of intangibles in transfer pricing, but enforcement remains a significant challenge due to the inherent subjectivity in pricing these assets.

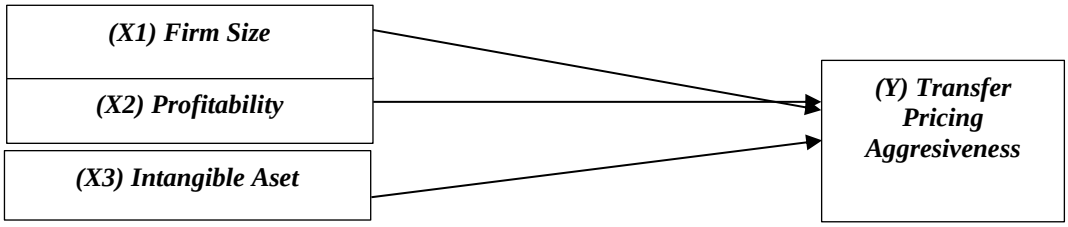
Regulatory scrutiny and compliance pressures also influence how firms with significant intangible assets engage in transfer pricing. While some companies may adopt conservative approaches to mitigate legal risks, others exploit regulatory loopholes to maximize tax savings. In the energy sector, for example, firms with proprietary extraction technologies, specialized engineering patents, and brand equity can use transfer pricing mechanisms to shift profits across subsidiaries in different tax jurisdictions. The strategic use of intangible assets in transfer

pricing highlights the need for robust regulatory frameworks that balance corporate tax planning with fair tax contributions.

In conclusion, the impact of intangible assets on transfer pricing aggressiveness stems from their mobility, valuation uncertainty, and legal control. Firms with high-value intangible assets possess greater leverage in structuring intra-group transactions to optimize tax positions, making them more susceptible to aggressive transfer pricing strategies. Addressing these challenges requires a combination of regulatory oversight, transparent valuation methodologies, and international tax cooperation to ensure that the benefits derived from intangible assets are fairly distributed across jurisdictions.. From the discussion above, the hypothesis proposed is:

H3 : Intangible assets positively influence transfer pricing aggressiveness.

Based on the explanation that has been presented, the conceptual framework is as follows:



Prior Research

The findings from Richardson et al., (2013) indicate that company size has a significant impact on the aggressiveness of transfer pricing practices. These results align with earlier research by Al-Eryani et al. (1990) which explored the determining factors influencing transfer pricing strategies. Similar conclusions were drawn in subsequent studies by Waworuntu & Hadisaputra (2016), Ahn et al., (2018), and Klimova & Eden (2019), all of which highlight a positive correlation between the scale of a company and the level of transfer pricing aggressiveness. Companies that are larger in size also have the advantage of achieving higher profits through tax planning strategies (Rego, 2003). Profit management of large companies often involves transfer pricing practices to optimize tax burdens. (Ilmi & Prastiwi, 2020).

Research by Richardson et al., (2013) and Klimova & Eden (2019) indicates that profitability has a significant positive influence on the aggressiveness of transfer pricing practices. Companies with higher profitability levels frequently participate in transactions or schemes aimed at substantially minimizing their corporate tax obligations (Rego, 2003). Such companies are inclined to adopt aggressive transfer pricing strategies to shift profits from entities operating in high-tax jurisdictions to those in lower-tax jurisdictions, a practice commonly known as profit shifting (OECD, 2013)

The study conducted by Richardson et al., (2013) demonstrates that intangible assets have a significant and positive impact on the aggressiveness of transfer pricing within companies. These findings align with the research of Klimova & Eden (2019) and Firmansyah & Yunidar (2020), which also highlight the role of intangible assets in supporting aggressive transfer pricing behaviors. Furthermore, (Irawan & Ulinnuha, 2022) suggest that intangible assets can serve as instruments for implementing such aggressive transfer pricing strategies.

Considering the existing gap and research inconsistencies, further investigation into this topic is intriguing. Previous studies have yielded varying results regarding the influence of factors such as company size, profitability, and intangible assets on transfer pricing aggressiveness, highlighting the need for more comprehensive analysis.

METHODS

This research adopts a quantitative approach, rooted in the positivist philosophy, which involves analyzing specific populations or samples. Data is gathered using research

instruments, and the analysis relies on quantitative or statistical techniques. The study is directed towards achieving predefined objectives, typically framed as hypotheses (Sugiyono, 2016). The object of research is the main focus in a study, it can be physical, abstract, or a combination of both (Ardyan, 2023). The chosen research object must align with predefined criteria, including the problem formulation, research objectives, anticipated benefits, and the availability of resources. As stated by Sugiyono (2016) , the research object refers to specific attributes, characteristics, or values inherent in individuals, objects, or activities selected for study, which are then analyzed to draw conclusions.

The core of the problem refers to the object that is the focus of research or the center of the problem identified by the researcher to then be analyzed and studied. Without a research object, the topic of the problem in research or research will not appear automatically. The object of research can also be referred to as a research variable. The core of this problem refers to the object that is the focus of research or the center of the problem identified by the researcher to be analyzed and researched. The research examines the relationship between company size, profitability, intangible assets, and transfer pricing aggressiveness, focusing on financial statements and annual reports of energy sector companies listed on the Indonesia Stock Exchange (IDX) and the Singapore Indonesia Stock Exchange (SGX) from 2017 to 2022. The study identifies company size (X1), profitability (X2), and intangible assets (X3) as independent variables that potentially influence the dependent variable, transfer pricing aggressiveness (Y).

The dependent variable (Y) in this research is transfer pricing aggressiveness. As described by Richardson et al., (2013), transfer pricing aggressiveness involves strategies to minimize tax liabilities by reallocating profits or losses within a group of entities operating in different tax jurisdictions, often through intentional manipulation of transfer prices. In this study, the level of transfer pricing aggressiveness is quantified using the ratio of related party transaction (RPT) receivables to total receivables. The author uses the proxy RPT Receivables in measuring transfer pricing aggressiveness because transfer pricing practices often occur in the context of transactions between entities in one group or transactions between parties that have special relationships.

$$\textit{Tranfer Price Aggresiveness (TPRICE)} = \frac{\textit{Related Party Transaction Receivables}}{\textit{Total Receivables}}$$

According to Harlacher (2010), company size is a widely recognized factor as a determining variable that explains various organizational structures. Companies that are larger in size are often considered to have greater ability to face challenges and crises in their operations. Additionally, company size plays a role in shaping investor confidence and is often seen as a measure of long-term growth potential (Nengsih, 2023). It is defined by specific parameters used to evaluate the scale of an organization or corporate entity (Samhuri et al., 2023). According to Murhadi (2013), company size can be determined by converting total assets into their natural logarithmic form, which helps minimize extreme data fluctuations. Similarly, research by Richardson et al. (2013) employs the natural logarithm of assets as a key metric for assessing company size.

$$\textit{Firm Size (SIZE)} = \textit{Ln Asset}$$

Profitability is one of the core goals of every company to achieve long-term reputation and business sustainability. Profitability is also the cause of increasing stakeholder and investor

value, and also reflects a company's performance in a competitive environment (Fareed et al., 2016). The profitability ratio is a tool used to evaluate a company's ability to generate profit within a specific time frame (Kasmir., 2010). As noted by Gade (2005), profit serves as a vital indicator of a company's performance, enabling businesses to identify strategies to maximize returns. Sari et al., (2021) utilized the Return on Assets (ROA) ratio as a key metric for measuring profitability. Similarly, this study adopts the ROA metric, as it effectively reflects how well a company leverages its total assets to produce profits. Small companies with limited assets can be compared to large companies in terms of asset management efficiency.

$$\textit{Return on Asset (ROA)} = \frac{\textit{Income Before Tax}}{\textit{Total Asset}}$$

According to Kieso et al. (2014), intangible assets have three main characteristics, namely: the asset can be identified, has no physical existence, and is not a monetary asset. According to PSAK 19, the acquisition cost of intangible assets includes the acquisition price, including import duties and taxes related to the purchase, less discounts, and any costs that can be directly linked to the preparation of the asset until it is ready for use. The costs incurred by the company to acquire intangible assets will reflect the expected future economic benefits.

To measure intangible assets, the author uses the natural logarithm proxy of the addition of intangible assets. The addition of intangible assets is more meaningful when viewed in terms of relative growth, not just its absolute value. This indicator is also used in the research of Richardson et al. (2013), Waworuntu & Hadisaputra (2016), Ahn et al. (2018), and Klimova & Eden (2019).

Intangible Assets (INTANG) = Ln from Addition of Intangible Assets

Panel data regression analysis of each independent and dependent variable is shown by the following equation:

$$\textit{TPRICE} = \beta + \beta_1 SIZE_{it} + \beta_2 PROFIT_{it} + \beta_3 INTANG_{it} + Ɛ$$

Information :

1. TPRICE = Transfer Pricing Aggresiveness
2. SIZE = Firm Size
3. PROFIT = Profitability Rate
4. INTANG = Intangible Assets
5. β = Coefficient
6. Ɛ = Error

RESULTS AND DISCUSSION

The purpose of descriptive statistical testing in this study is to provide an overview of the research data, which is processed using Eviews12 software. This analysis summarizes the sample characteristics, including the number of observations, average value (mean), minimum value, and maximum value for each studied variable. The variables examined include company size, profitability, intangible assets, and transfer pricing aggressiveness. The descriptive statistics of these variables, based on data from energy sector companies listed on the Indonesia Stock Exchange (IDX Energy) and the Singapore Stock Exchange (SGX Energy-Fossil Fuels and Mineral Resources) for the 2017–2022 period, encompassing 78 observations, are presented in the following table.

Table Statistics Descriptive

	TPRICE	SIZE	PROFIT	INTANG
Mean	0.523042	29.50652	0.098735	19.38446
Median	0.593186	29.53545	0.071023	23.48100
Maximum	0.998304	31.44563	0.585109	28.11501
Minimum	0.002340	27.68762	0.001021	0.000000
Std. Dev.	0.315983	1.053708	0.098303	10.10119
Skewness	-0.262687	-0.057756	2.345319	-1.325452
Kurtosis	1.735108	2.113977	10.15248	2.959618
Jarque-Bera	6.096899	2.594735	237.7702	22.84399
Probability	0.047432	0.273250	0.000000	0.000011
Sum	40.79731	2301.509	7.701323	1511.988
Sum Sq. Dev.	7.688083	85.49307	0.744089	7856.623
Observations	78	78	78	78

Source: *Output Eviews*

Based on the data presented in the table, the company size variable (SIZE), which is calculated using the natural logarithm (Ln) of total assets, has a maximum value of 31.34031, a minimum value of 27.68762, a standard deviation of 1.053708, and an average (mean) value of 29.50652. The analysis indicates that the mean value of SIZE exceeds the standard deviation, suggesting that most companies in the research sample possess substantial total assets.

The profitability variable (PROFIT), which is assessed using the Return on Assets (ROA) indicator, shows a maximum value of 0.585109, a minimum value of 0.001021, a standard deviation of 0.098303, and an average (mean) value of 0.098735. The findings indicate that the mean value of PROFIT surpasses the standard deviation, suggesting that most companies in the sample demonstrate a relatively high ROA.

The intangible assets variable (INTANG), evaluated using the natural logarithm (Ln) of intangible asset additions, recorded a maximum value of 28.11501, a minimum value of 0.000000, a standard deviation of 10.10119, and an average (mean) value of 19.38446. The analysis indicates that the mean value for the INTANG variable exceeds the standard deviation, suggesting that the majority of companies included in the research sample exhibit substantial additions to their intangible assets.

The transfer pricing aggressiveness variable (TPRICE), assessed using the ratio of Related Party Transaction Receivables (RPT-Receivable), which compares receivables from related party transactions to the company's total receivables, has a maximum value of 0.998304, a minimum value of 0.002340, a standard deviation of 0.315983, and an average (mean) value of 0.523042. The analysis reveals that the mean value surpasses the standard deviation, indicating that the data's variability is relatively low compared to the average. This suggests that the majority of companies in the research sample exhibit a high ratio of Related Party Transaction Receivables.

The Chow test is employed to identify the most suitable model between the common effect model (CEM) and the fixed effect model (FEM). If the probabilities for the cross-section F and cross-section Chi-square are greater than 0.05, the common effect model (CEM) is selected. On the other hand, if these probabilities fall below 0.05, the fixed effect model (FEM) is deemed more appropriate for the regression analysis.

Tabel Chow Test

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	19.846312	(12,62)	0.0000
Cross-section Chi-square	123.019035	12	0.0000

source: *Output Eviews*

Based on the test results, the Prob. chi-square value from the Chow test estimation is found to be 0.0000. Since this value is less than 0.05, it indicates that the fixed effect model (FEM) is the most suitable choice. Subsequently, the Hausman Test is conducted to identify the optimal model between the fixed effect model (FEM) and the random effect model (REM). If the probability value for the random cross-section is below 0.05, the fixed effect model (FEM) is deemed appropriate. On the other hand, if the probability value exceeds 0.05, the random effect model (REM) is selected.

Table Hausman Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	7.898256	3	0.0482

source: *Output Eviews*

From the test results, it is evident that the random cross-section probability value is 0.0482, which is less than 0.05. This indicates that the fixed effect model (FEM) is the most suitable choice. Utilizing the FEM model, the regression analysis yielded the following results.

Table Regression Test Results

Variable	**Coeff.**	**t-Statistic.**	**Prob.**	**Explanation**
C	6.6603	4.9356	0.0000	
SIZE	-0.2100	-4.5591	0.0000	**H_1 rejected**
PROFIT	0.1529	1.0998	0.1378	**H_2 rejected**
INTANG	0.0023	2.4422	0.0087	**H_3 accepted**
R2		0.9685		
Adj. R2		0.9609		
F-stat		127.4		
Prob (F-stat)		0.0000		

Source: *Output Eviews*

From the data processing results presented above, the constant value (C) is identified as 6.660325. The coefficient for the company size variable, represented by the SIZE indicator, is -0.210040. For the profitability variable, indicated by PROFIT, the coefficient is 0.152929, while the intangible asset variable, with the INTANG indicator, has a coefficient of 0.002330. Therefore, the resulting regression equation can be expressed as follows:

$Y = 6{,}6603 – 0{,}2100(X_1) + 0{,}1529(X_2) + 0{,}0023(X_3)$

Interpretation of the regression equation, as follows:

a. The constant value (C) of 6.6603 signifies that if all independent variables—firm size, profitability, and intangible assets—are zero, the dependent variable will have a value of 6.6603.
b. The coefficient for the firm size variable (SIZE), which is -0.2100, implies that an increase of one unit in firm size will decrease the dependent variable by 0.2100, provided that other variables remain unchanged. The negative coefficient highlights an inverse relationship between firm size and the dependent variable.
c. The profitability variable (PROFIT) has a coefficient of 0.1529, indicating that a one-unit rise in profitability will increase the dependent variable by 0.1529, assuming other variables stay constant. This positive coefficient reflects a direct relationship between profitability and the dependent variable.
d. For the intangible asset variable (INTANG), the coefficient of 0.0023 suggests that each one-unit increase in intangible assets will result in a 0.0023 rise in the dependent variable, with other variables held constant. This positive coefficient demonstrates a direct relationship between intangible assets and the dependent variable.

The Effect of Company Size on Transfer Pricing Aggressiveness

The hypothesis testing results reveal that company size has a significant negative impact on transfer pricing aggressiveness. This is supported by the probability value of 0.0000, which is below the established significance level of $\alpha = 5\%$ ($0.0000 < 0.05$). Additionally, the calculated t-value (-4.559183) exceeds the critical t-table value (-2.262000), placing it within the rejection region. Consequently, the null hypothesis (H0) is rejected, and the alternative hypothesis (H1) is accepted. These findings indicate an inverse relationship between company size and transfer pricing aggressiveness. Specifically, for every one-unit increase in company size, the transfer pricing aggressiveness decreases by 0.210040, assuming all other variables remain constant.

The study's findings reveal that as company size increases, the tendency for transfer pricing aggressiveness decreases. Conversely, smaller companies exhibit a higher likelihood of engaging in transfer pricing aggressiveness. These findings align with prior research conducted by (Wahyudi & Rusydi, 2021) and (Gracia & Sandra, 2022). The study suggests that smaller companies may have a stronger incentive to adopt aggressive transfer pricing strategies as a means to enhance their tax efficiency.

Large companies tend to comply with tax regulations more because they are under strict supervision by tax authorities. Large companies tend to be under more intensive regulatory and audit supervision. This includes more in-depth tax audits and a greater risk of sanctions if violations are found. Large companies usually have strong internal tax departments, which ensure compliance with tax regulations. The reputation of large companies is also an important asset, especially in the global market. Aggressive transfer pricing practices can damage the public image and reduce investor and customer confidence.

On the other hand, small companies with limited resources often use transfer pricing as a strategy to reduce their tax burden and increase their competitiveness in the local market. With limited resources, small companies may look for ways to reduce expenses, including by exploiting loopholes in transfer pricing policies. Supervision of small companies is often looser than that of large companies, providing more room for aggressive transfer pricing practices. Competition in the local market can also encourage small companies to use aggressive strategies to reduce their tax burden and increase their profitability.

The results of this study have several important implications for policymakers and tax authorities. Tax policies that take into account the different characteristics of large and small companies can help create a fairer and more effective tax system. For example, tax authorities can strengthen supervision of small companies. By increasing supervision of transfer pricing

practices in small companies, tax authorities can minimize the potential for abuse. Regulations that require more detailed reporting can also help increase transparency and reduce the aggressiveness of transfer pricing practices.

The Effect of Profitability on Transfer Pricing Aggressiveness

The test results indicate a positive correlation between profitability and transfer pricing aggressiveness, suggesting that a one-unit increase in profitability would lead to a 0.152929 rise in the transfer pricing aggressiveness value, assuming all other variables remain constant. However, the hypothesis test results reveal that profitability does not significantly influence transfer pricing aggressiveness. This is evidenced by the profitability probability value of 0.1378, which exceeds the established significance threshold of $\alpha = 5\%$ ($0.1378 > 0.05$). Additionally, the calculated t-value (1.099848) is lower than the critical t-table value (2.262000), placing it within the acceptance region. Therefore, the null hypothesis (H0) is accepted, and the alternative hypothesis (H1) is rejected.

The findings of this study align with previous research by Ahn et al., (2018), Ilmi & Prastiwi (2020), and Wahyudi & Rusydi, (2021) which similarly demonstrate that profitability does not influence transfer pricing aggressiveness. Companies with high levels of profitability demonstrate the ability to manage their profits and tax burdens by complying with applicable regulations. Therefore, companies tend to comply with tax regulations and avoid aggressive transfer pricing practices.

While the study indicates a positive correlation between profitability and transfer pricing aggressiveness, this relationship is not statistically significant. Companies with high profitability often have better governance and are more likely to comply with tax regulations. Companies with high profitability often have greater public exposure, so they are required to maintain their reputation by complying with tax provisions. Profitable companies, with access to greater resources, are often able to optimize their tax strategies through means other than aggressive transfer pricing practices.

The Effect of Intangible Assets on Transfer Pricing Aggressiveness

The hypothesis testing results reveal that intangible assets have a significant positive impact on transfer pricing aggressiveness. This conclusion is supported by a probability value of 0.0087, which is below the specified significance threshold of $\alpha = 5\%$ ($0.0087 < 0.05$). Additionally, the calculated t-value (2.442291) exceeds the critical t-table value (2.262000), placing it in the rejection region. Consequently, the null hypothesis (H0) is rejected, and the alternative hypothesis (H1) is accepted. The findings further indicate a positive relationship between intangible assets and transfer pricing aggressiveness, suggesting that a one-unit increase in intangible assets is associated with a 0.002330 rise in transfer pricing aggressiveness, assuming other variables remain constant.

Intangible assets, such as intellectual property rights, trademarks, and technology, possess distinctive characteristics that make it challenging to establish fair market values in intercompany transactions. This creates opportunities for businesses to leverage these assets in aggressive transfer pricing strategies. The findings of this study align with prior research by Richardson et al. (2013) , Klimova & Eden (2019) , Firmansyah & Yunidar (2020), and Irawan & Ulinnuha (2022), all of which demonstrate a positive and significant relationship between intangible assets and transfer pricing aggressiveness. Due to the absence of a definitive reference market, intangible assets are often challenging to evaluate objectively. Furthermore, companies may transfer ownership of these assets to entities in low-tax jurisdictions, thereby minimizing their overall tax liabilities.

For tax authorities, the implications of the results of this study emphasize the need for stricter regulations in the valuation of intangible assets. More objective standards in determining the value of these assets can reduce the opportunity for companies to exploit legal

loopholes. In addition, more intensive supervision of multinational companies that have significant intangible assets is also needed to ensure tax compliance. Tax authorities also need to develop valuation guidelines that can be applied consistently across jurisdictions to minimize manipulation of transaction values.

From the company's perspective, it is important to develop a transparent and responsible tax governance policy. In addition to reducing legal risks, policies that comply with tax provisions can also strengthen the company's reputation in the eyes of stakeholders, such as investors, governments, and customers. Companies are also advised to evaluate their transfer pricing strategies, especially those involving intangible assets, to align with evolving tax provisions.

CONCLUSION

Based on the problem statement, the findings from the previous chapter, and the discussion supported by relevant theories regarding the impact of Company Size, Profitability, and Intangible Assets on Transfer Pricing Aggressiveness in energy sector companies listed on the Indonesia and Singapore Stock Exchanges, the following conclusions have been drawn.

The findings indicate that company size significantly influences transfer pricing aggressiveness in a negative manner. As firms grow larger, their tendency to engage in aggressive transfer pricing practices declines, while smaller firms exhibit a higher level of transfer pricing aggressiveness. This suggests that regulatory scrutiny and compliance pressures may discourage larger firms from adopting aggressive tax strategies, whereas smaller firms might rely on such practices to optimize their financial performance.

Profitability, on the other hand, does not have a significant impact on transfer pricing aggressiveness. Although a positive correlation between profitability and transfer pricing aggressiveness was observed, it lacks statistical significance, implying that firms' transfer pricing decisions are not primarily driven by profitability levels. This finding suggests that other factors, such as regulatory oversight, corporate governance, and industry-specific considerations, may play a more dominant role in shaping transfer pricing strategies.

Intangible assets demonstrate a notable positive impact on transfer pricing aggressiveness. Companies with higher intangible assets tend to engage in more aggressive transfer pricing practices, as these assets provide flexibility in structuring intra-group transactions. The ability to shift profits through intellectual property, patents, or brand value enables firms to optimize tax liabilities by reallocating income across different tax jurisdictions. Conversely, firms with fewer intangible assets are less likely to engage in aggressive transfer pricing due to limited opportunities for profit shifting.

Overall, the study highlights the complex interplay between company size, profitability, and intangible assets in shaping transfer pricing behavior within the energy sector. These findings provide valuable insights for regulators and policymakers in designing effective tax regulations to address transfer pricing concerns, particularly among firms with significant intangible assets. Understanding these dynamics can contribute to the development of policies that balance tax compliance enforcement with corporate financial flexibility, ensuring a fair and transparent tax system.

Suggestions

Based on the analysis of the effects of Company Size, Profitability, and Intangible Assets on Transfer Pricing Aggressiveness in energy sector companies listed on the Indonesia and Singapore Stock Exchanges, the following recommendations can be proposed.

Companies with larger sizes are often under strict supervision by tax authorities due to the complexity of their operations. Maintaining a transparent tax policy is essential for preserving their reputation among key stakeholders, including investors, the government, and

the public. Ensuring compliance with tax regulations while maintaining operational efficiency helps these companies mitigate risks associated with aggressive tax strategies.

The level of company profitability also plays a crucial role in shaping perceptions of tax strategy. Highly profitable companies are often expected to contribute proportionally in tax payments, making it necessary to strike a balance between tax efficiency and regulatory compliance. Failure to maintain this balance could lead to reputational risks and increased scrutiny from tax authorities.

Intangible assets are frequently a major component in transfer pricing transactions. If not properly managed, an aggressive transfer pricing strategy involving these assets can lead to legal risks and strained relations with tax authorities. Therefore, companies should periodically evaluate their transfer pricing strategies to ensure compliance with evolving tax regulations while maintaining business sustainability.

In conducting business activities, companies are expected not only to focus on financial profits but also to comply with applicable tax regulations. Implementing sound tax policies provides a competitive advantage, ensuring long-term business sustainability and strengthening relationships with stakeholders. A responsible approach to taxation helps companies navigate regulatory environments more effectively while maintaining ethical business practices.

For tax authorities, policies related to transfer pricing supervision should recognize that profitability alone is not a definitive indicator of aggressive transfer pricing practices. It is essential to consider differences in characteristics between large and small companies and develop assessment guidelines that can be applied consistently. A more comprehensive regulatory framework will help minimize transaction value manipulation and ensure a fair taxation system.

To contribute to the advancement of accounting and taxation research, future studies on transfer pricing aggressiveness should not be limited to company size, profitability, and intangible assets. Incorporating additional variables, such as tax incentives, institutional ownership, multinationality, and corporate governance mechanisms, could provide a more holistic understanding of factors influencing transfer pricing behavior. Expanding the scope of research with these variables would enhance the objectivity and quality of future studies.

Subsequent research should also consider increasing the sample size, extending the study period, and exploring other industry sectors, such as finance, healthcare, property, and real estate. A broader industry scope would provide more comprehensive insights into transfer pricing practices across different economic sectors. This approach would enable the development of more refined analysis methods, leading to more valid and generalizable findings.

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