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Determinants of Transfer Pricing from Non-Cyclical's and Industrial's Perspectives

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Abstract: The aims examine the effect of bonus mechanism, effective tax rate, and debt covenant on transfer pricing in consumer non cyclicals and industrial sector companies on the Indonesia Stock Exchange in 2020-2022. The sample in this study used purposive sampling method and obtained 16 companies listed in 2020-2022 period. The analysis method used in quantitative method with multiple linear regression analysis and using SPSS 26 software. This study uses secondary data in the form of financial report obtained from www.idx.co.id. The result of multiple linear regression is that the variable of bonus mechanism and effective tax rate has no significant effect on transfer pricing, while debt covenant has positive and significant effect on transfer pricing. The variable of bonus mechanism and effective tax rate have not been proven to give significant influence. For this reason, it is expected that future research can provide result and use more appropriate proxies for each independent variable in this study.
Keywords: bonus mechanism; effective tax rate; debt covenant; transfer pricing

Abstrak: Penelitian ini bertujuan untuk meneliti pengaruh dari mekanisme bonus, tarif pajak efektif, dan *debt covenant* terhadap *transfer pricing* pada perusahaan sektor *consumer non cyclicals* dan *industrial* yang terdaftar di Bursa Efek Indonesia tahun 2020-2022. Sampel dalam penelitian ini menggunakan metode *purposive sampling* dan diperoleh 16 perusahaan sampel yang terdaftar pada periode 2020-2022. Metode analisis yang digunakan adalah metode kuantitatif dengan analisis regresi linear berganda dan menggunakan *software* SPSS 26. Penelitian ini menggunakan data sekunder berupa laporan keuangan yang diperoleh dari www.idx.co.id. Hasil regresi linear berganda yang dilakukan adalah pada variabel mekanisme bonus dan tarif pajak efektif tidak berpengaruh signifikan terhadap *transfer pricing*, sedangkan *debt covenant* memiliki pengaruh positif terhadap *transfer pricing*. Variabel mekanisme bonus dan tarif pajak efektif belum terbukti memberikan pengaruh yang signfikan. Untuk itu diharapkan pada penelitian selanjutnya dapat memberikan hasil dan menggunakan proksi yang lebih tepat untuk setiap variabel independen dalam penelitian ini.
Kata Kunci: mekanisme bonus; tarif pajak efektif; *debt covenant*; *transfer pricing*

INTRODUCTION

Economic growth in the era of globalization is increasingly global and affecting technology, communication, and transportation. This development supports the advancement of the global economy, allowing companies to operate not only domestically but also internationally. To strengthen global business, companies establish subsidiaries or branch offices abroad to expand their market share in exports and imports. A multinational company is a company that operates across countries and is related to special relationships due to the same share capital participation and management control as its subsidiaries, agents, and others (Hendrianto, 2022). Therefore, multinational companies will open up cross-border trade routes, even across continents, related to the movement of goods, services, and capital between countries through the World Trade Organization (WTO).

Due to the transactions that will occur in multinational companies, it will certainly trigger issues due to differences in policies and tax regulations in each country. With these differences in policies and tax regulations, it triggers transfer pricing activities. Initially, multinational companies use transfer pricing in management accounting as a pricing strategy for internal exchange of goods or services between divisions to evaluate the performance of each division (Herlina & Murniati, 2023). Transfer pricing conducted by multinational companies in determining transfer prices for products or services between other divisions within the same company is called Intra-Company. The determination of transfer pricing on products or services with a company that has a special relationship is called Inter-Company. A special relationship according to Law Number 36 of 2008 article 18 states that taxpayers have a minimum direct or indirect shareholding of at least 25% in other taxpayers; or a relationship between taxpayers who have the lowest shareholding of 25% in two or more taxpayers.

Then business actors use transfer pricing to save on taxes paid to the country, thus explaining that transfer pricing is a policy in determining transfer prices related to transactions between business entities that have special relationships regarding the transfer of intangible assets, tangible goods, services, and loans or other financing transactions carried out by the company (Khasanah & Suryarini, 2020). Transfer pricing activities will certainly affect the target of state tax revenue because multinational companies shift their taxes to countries with lower tax rates.

According to an article by CNBC Indonesia (Wareza, 2019), PT. Adaro Energy Tbk. the largest coal mining company in Indonesia, has caught the government's attention due to a report by Global Witness indicating a transfer pricing scheme through its subsidiary in Singapore, Coaltrade Services International Pte. Ltd. In 2004 and 2005, Coaltrade bought coal from Adaro at a low price and resold it at a higher market price. Adaro recorded profits in Singapore, which has a lower tax rate (22%) compared to Indonesia (30%). The Directorate General of Taxes concluded that Adaro made transfer pricing adjustments and had to recalculate the selling price of coal to its subsidiary and pay the underpaid taxes. In the "Prospectus Report Adaro 2008," Adaro received a Tax Advisory Letter and paid an additional tax of US$ 33.2 million to resolve this issue. Coaltrade Services International Pte. Ltd also acts as a coal sales agent for coal mined in Indonesia to other Adaro subsidiaries and third parties, allowing Coaltrade Services International Pte. Ltd to earn a commission of US$4 million, reaching US$55 million between 2009 and 2017. Due to the network expansion activities carried out by Adaro if conducted in Indonesia and taxed in Indonesia, Indonesia can collect US$125 million from the company's income.

Additionally, it is pertinent to acknowledge the recent tax dispute between Google and the UK tax authorities surrounding its Transfer Pricing practices. The UK tax authorities assert that Google has been employing intricate Transfer Pricing mechanisms to divert profits from the UK to low-tax jurisdictions. This scheme allegedly involves Google transferring ownership of its intellectual property to Bermuda, a low-tax haven, and subsequently relicensing it to its UK subsidiary. This enables Google to circumvent paying taxes on a substantial portion of its UK profits. Currently, the case remains unresolved, and a definitive ruling is yet to be issued. Google has refuted the accusations and maintains adherence to all applicable tax regulations (Reuters, 2023).

Tax burden becomes the main reason for companies to engage in transfer pricing, a practice utilized by companies with special relationships with foreign-based companies to set transfer prices from high tax rates to lower tax rates. Therefore, the government pays attention to transfer pricing activities with the principles of fairness and arm's length transactions. The one explained in the Director General of Taxation Regulation Number PER-32/PJ/2011 article 1 paragraph 5 also explains the Principle of Fairness and Arm's Length Principle.

In an effort to increase profits, companies need to motivate management by providing compensation that is considered as an appreciation for their sacrifices. The implementation of bonus programs also needs to consider the increase in net profit so that management can maximize the bonus received. This is related to positive accounting theory and the Bonus Plan Hypothesis, which influence management decisions in considering accounting methods that benefit the company (Khasanah & Suryarini, 2020). The company's management strives to increase profits using transfer pricing, indicating that the bonus mechanism can also influence transfer pricing practices within the company. Research by (Istiqomah

& Fanani, 2020) and (Surianto et al., 2023) explains that the bonus mechanism has an impact on transfer pricing. Implementing a profit-based bonus in the company provides management with the opportunity to engage in transfer pricing to increase company profits, which in turn enhances the bonuses awarded to company management. However, differing research by (Murtanto & Bonita, 2021) and (Sujana et al., 2022) shows that the bonus mechanism does not influence transfer pricing decisions.

Transfer pricing practices are also influenced by the effective tax rate, which measures the tax burden borne by the company. Therefore, companies aim to keep their tax burden as minimal as possible. Companies exploit loopholes in tax planning to save on taxes owed to the state. This is related to agency theory, which creates a conflict of interest between the principal (tax authorities) and the agent (company), leading to agency issues. In transfer pricing, companies try to save taxes by shifting profits to subsidiaries in countries with lower tax rates. This practice is used by multinational companies to reduce their tax burden (Murtanto & Bonita, 2021). Research findings by (Wijaya & Amalia, 2020) and (Saraswati, 2021) state that the effective tax rate has a positive impact on transfer pricing. However, differing results from (Ernawati & Rahman, 2022) and (Rizkya & Isnalita, 2020) indicate that the effective tax rate does not affect the company's transfer pricing decisions.

Another factor influencing transfer pricing is the debt covenant, which is an agreement that protects lenders from management actions that may not align with creditor interests. Creditors ensure appropriate dividend distribution and debt levels that do not exceed equity. Borrowers strive to meet these constraints by engaging in transfer pricing to satisfy loan activities. Companies use transfer pricing to increase profits, thereby appearing financially sound to creditors. This relates to positive accounting theory within the debt covenant hypothesis, where companies with high debt ratios use accounting procedures to convert future profits into current profits and engage in transfer pricing to avoid credit regulations (Sari et al., 2022). Research by (Aryati & H, 2021) and (Azzuhriyyah & Kurnia, 2023) indicates that debt covenants influence transfer pricing decisions. However, contrasting results from (Albani & Gunawan, 2023) and (Sujana et al., 2022) suggest that debt covenants do not significantly influence transfer pricing.

As evident from the preceding discussion, transfer pricing remains a sensitive, intricate, and complex issue. Numerous large corporations have been entangled in tax evasion schemes involving transfer pricing. This research aims to identify the factors influencing transfer pricing decisions among market participants in non-cyclical industries. The findings can serve as valuable input for stakeholders involved in these industries.

LITERATURE REVIEW

Agency Theory

The agency theory presented by (Jensen & Meckling, 1976) describes the relationship between the owner of a company as a principle and the management of the company as an agent assigned to the task as well as the authority by the principle to involve in decision making. The agent who receives directions, authority, and responsibility for the tasks assigned by the principal to be able to make the decisions required in the company's operations (Ernawati & Rahman, 2022). As the management of the company or the agent has a direct contribution in the operation of the company so as to obtain comprehensive performance information, but different from the shareholder or principal party who needs internal information that is not directly involved in the operational process of the corporation (Josephine, 2018; Baiti & Suryani, 2020).

In general, the two sides need each other in order to serve each other's interests. Nevertheless, it often happens that a company is in a situation where the interests of both sides are given priority to each other, so that there is a problem with the agency (Cahyani & Oktaviani, 2023). This agency problem is because there is information asymmetry, information as a form of information imbalance between the principle and the agency. As a principle who needs information on the financial performance of the agent of course relies on the agent to obtain relevant information in accordance with the actual conditions of the company in order to be able to prosper itself by increasing the interest of investors who want to implant its modalities so that the company owner gains a profit. Unlike the reality, the agent as the party that has more information than the company's owner is sometimes use it to gain more compensation to prosper himself so that it causes information asymmetry (Josephine, 2018; Novira et al., 2020).

Positive Accounting Theory

The theory of positive accounting, presented by (Watts & Zimmerman, 1989) describes the accounting policies used in a company that correspond to the conditions and needs of the company. The main objective of this theory, is to explain and predict accounting practices to be chosen under certain circumstances. Forecasting the accounting policies applied in the company can cause problems for the company and stakeholders with the results of the financial statements (Azhar & Setiawan, 2021).

Watts and Zimmerman explained that there are three hypotheses in positive accounting theory which explain the relationships between each other as follows (Bwarleling, 2010; Khasanah & Suryarini, 2020):

1. Bonus Plan Hypothesis
   The bonus plan hypothesis explains that the company that takes a bonus policy so that it can enable the management of the company to choose accounting procedures that can increase the net profit of the running period so that with the expectation of the management will get a higher bonus.
2. Debt Covenant Hypothesis
   Companies with a high debt ratio will prefer accounting procedures that can result in the reporting of profits for future periods to current periods in order to obtain higher holding income. By choosing accounting methods that can move the recognition of profit from a future period to the current period, thereby reducing the ratio of debt to smaller.
3. Political Cost Hypothesis
   Increasing political costs will lead management to choose accounting procedures that can defer profits from the current period to future periods. Increased political costs have a greater tendency for companies to transfer profits than companies with smaller political costs.

Transfer Pricing

Transfer pricing is a policy in determining the transfer price relating to transactions between business entities that have a special relationship with regard to the transfer of intangible assets, tangible goods, services, and loans or other financing operations carried out by the company (Khasanah & Suryarini, 2020). A special relationship is one of the reasons that companies can practice transfer pricing in order to save the taxes they pay. According to Law Number 36 Year 2008 Article 18 paragraph (4) states that a special relationship is deemed to exist when the taxprayer has a capital participation either directly or indirectly of at least 25% in other taxprayers; or a relationship between the taxprayers having a minimum participation of 25% in two taxprayers individuals or more.

The strategy used by these companies can save the tax burden paid to the state because by transferring profits from the parent company to the subsidiary, it reduces the profit of the parent firm and affects the taxes paid (Novira et al., 2020). So from that, this leads to a deficit in the price, cost, and other rewards that occur in the realization of one business transaction. The Arm's length principle is an international tax pillar in the importance of the allocation of profits, the principle of liability and regularity of the enterprise requires that the value of the transaction with a related party must be equal to the amount of transactions with an unrelated party so that there is no difference between the two. In Regulation of the Director General of Taxes Number PER-32/PJ/2011, Article 1, Paragraph 5 also explains the arm's length principle stating that the price or profit of transaction between parties having a privileged relationship must be the same or comparable to the conditions of the deal between the parties without a special relationship being comparable. Transfer pricing is measured by related party transaction assets and liabilities compared to total equity (Sari et al., 2022).

$$RPTAL = \frac{RPT\ Asset + RPT\ Liabilities}{Total\ Equity}\ x\ 100$$

Bonus Mechanism

A bonus mechanism is a method of awarding bonuses for performance achievements in increasing the profits given by the company's owners to the management of the company (Darmawati & Muslichah, 2022). The existence of a bonus mechanism as compensation received by management is expected to increase the motivation of management in achieving the company's performance goals. The bonus mechanism refers to the incentives given to directors and managers as a reward for their good performance (Herlina & Murniati, 2023). The improvement in corporate performance is defining, seen from the corporate profits attached to the financial statements used as one of the benchmarks of the company in measuring the bonus mechanism to give reward to the company's directors or managers.

As a company director or manager, you must want to earn a high remuneration in order to reflect the image of a good employee in the eyes of a company owner so that they strive to increase the growth of the company's net profits. In order to maximize the profits of the company, the company's directors and managers will have the motivation to carry out transfer pricing activities (Adhika & Wulandari, 2023). However, the behavior of transfer pricing practices carried out by the company's directors and managers should be more attentive to the company owners because when the opportunistic nature of the company management is more self-reliant will definitely affect the company image, then the business owners view must be more cautious to the transfer price decisions made by company management. Bonus mechanism is measured by ITRENDLB (Herlina & Murniati, 2023).

$$ITRENDLB = \frac{Net\ Income\ (t)}{Net\ Income\ (t-1)}\ x\ 100$$

Effective Tax Rate

Taxes are obligatory contributions to the country imposed on individuals or companies of a compulsory nature and do not receive compensation directly on the basis of applicable law and are used for the prosperity of the country (Rahma & Wahjudi, 2021). Companies expect to make maximum profits in order to increase the company's value so that they can compete with other companies and gain performance for a company so that it can attract investors based on profits and other financial aspects. However, companies also want to pay as little tax as possible. The process minimizes corporate tax payments by leveraging lower state tax rates through the redirection of profits received from higher state tax companies, so that profits in low-tax countries become higher and can pay lower taxes than they should (Adhika & Wulandari, 2023).

It's a transfer pricing practice carried out by multinationals to minimize their tax burden, which shifts their profits to countries with lower tax rates. The Directorate General of Taxation issued regulations relating to inspection of arm's length principle. The recalculation of income from such transactions is carried out using several methods that have been established by the regulations of the Directorate General of Taxation. The Regulation Peraturan Menteri Keuangan Republik Indonesia Nomor 22/ PMK.03/2020 on Advance Pricing Agreement article 1 paragraph 19 companies that carry out affiliate transactions with subsidiaries are obliged to attach transfer price determination documents (Depari et al., 2020). To measure the income tax expense borne by the company, the formula used is (Yanti & Pratiwi, 2021).

$$ETR = \frac{Total\ Tax\ Expense}{Pretax\ Income}$$

Debt Covenant

A debt covenant is an agreement to protect borrowers from actions by lenders or corporate management, by regulating the borrower's financial behaviour activities that may undermine the loan and ensure that the lender has sound finances in order to repay the loan (Albani & Gunawan, 2023). The agreement contains a number of policies that will be restricted by the management in relation to contradictions with the creditor, namely excessive dividends, additional loans, or the rate of debt that exceeds equity (Deden et al., 2023).

As the ratio of debt held by the company increases, the closer the company is to a credit agreement or regulatory limitation so that the company tries to improve its profit by choosing the appropriate accounting methods (Azzuhriyyah & Kurnia, 2023). According to the explanation of the debt covenant hypothesis explains that when the company's debt rate increases then the management of the company has the opportunity to determine the appropriate methods of accounting to be able to obtain profit through transfer pricing practice. To analyze the level of the company's debt ratio, this study uses the leverage ratio, which measures the extent to which a company finances its business activities with debt (Yanti & Pratiwi, 2021). The ratio used to indicate the debt covenant is the debt equity ratio (DER).

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

The Effect of Bonus Mechanism to Transfer Pricing

The bonus mechanism is a tool used by companies to measure the amount of incentives given to management based on good performance from year to year, which is grounded in the increase in company profits. Therefore, the board of directors, as company management, strives to use appropriate accounting practices to generate profit increases during the reporting period (Herlina & Murniati, 2023). This is related to positive accounting theory within the bonus plan hypothesis, as management will choose accounting methods that increase the current period's accounting profits, thereby enabling them to receive higher bonuses (Khasanah & Suryarini, 2020).

Transfer pricing practices can support companies in increasing their net profit because setting transfer prices with related parties or those with special relationships will benefit the company in terms of tax payments. Consequently, the company's net profit after tax will be higher, leading to greater rewards. Therefore, the stronger the management's desire to obtain high bonuses, the greater their inclination to engage in transfer pricing practices to boost the company's profits (Istiqomah & Fanani, 2020).

Research by (Herlina & Murniati, 2023) and (Surianto et al., 2023) explains that the bonus mechanism influences transfer pricing. Implementing a profit based bonus system in a company provides management with the opportunity to engage in transfer pricing to increase company profits, which in turn raises the bonuses awarded to company management. Company management manipulates profits to optimize the bonus income they receive, as the profit based bonus system motivates management to maximize net profits using transfer pricing practices and selecting accounting policies that boost profits. This research is also supported by (Riska & Anwar, 2021) and (Rahma & Wahjudi, 2021) who state that the bonus mechanism affects transfer pricing.

H1: Bonus mechanism has a significant influence on transfer pricing decisions

The Effect of Effective Tax Rate to Transfer Pricing

The effective tax rate can be defined as the amount of tax burden to be paid by the taxpayer in an amount that should not hinder the receipt of state taxes (Abbas & Eksandy, 2020), companies with high corporate profits must want to pay the minimum tax as possible so that the profits generated after taxes are not too heavy. However, a company located in a country with a high tax rate will have a high tax liability, which means the company will try to save on its tax burden by shifting its profits through a subsidiary located in a country with a low tax rate. However, a company located in a country with a high tax rate will have a high tax liability, which means the company will try to save on its tax burden by shifting its profits through a subsidiary located in a country with a low tax rate.

The company's strategy to shift its profits through transfer pricing is aimed at minimizing the tax burden it must pay. The greater the tax burden borne by the company, the higher the motivation for the company to engage in transfer pricing practices to save on its taxes (Murtanto & Bonita, 2021). In an effort to reduce the outstanding tax burden at the company, which is related to the agency theory, consisting of two parties: the agent as management and the principal as the company owner.

The difference in interests between the principal and the agent leads to informational asymmetry, resulting in a mismatch between the two parties. As the agent or management, they aim to obtain high compensation from the company. However, this differs from the interests of the principal or company owner, who want to minimize tax burdens. Additionally, both parties strive to meet their respective interests with management viewed as the taxpayer and the principal as the fiscus. The taxpayer or business entity wants to minimize tax burdens as much as possible to achieve greater profits, thereby attracting investor attention to invest in the company. On the other hand, the fiscus wants tax payments to be in accordance with the regulations and laws, and to influence tax receipt to increase national income (Nurjannah et al., 2022). Based on the research findings by (Nurjannah et al., 2022), (Murtanto & Bonita, 2021), and (Abbas & Eksandy, 2020) it is stated that tax has a positive and significant impact on transfer pricing.

H2: Effective tax rate has a significant influence on transfer pricing decisions

The Effect of Debt Covenant to Transfer Pricing

Debt covenants or loan agreements are agreements aimed at protecting the lender from actions taken by company management that could affect the interests of the lender or creditor (Aryati & H, 2021). Companies with higher debt levels compared to equity tend to shift reported profits from future periods to the current period. Transfer pricing is one method used by companies to shift profits, aiming to increase company profits and there by demonstrate good performance to creditors and avoid credit regulations (Oktaviyanti et al., 2021).

Profit adjustments made by companies align with positive accounting theory in the debt covenant hypothesis, which states that the higher a company's debt level, the more likely managers are to choose accounting methods that maximize profit (Azzuhriyyah & Kurnia, 2023). When a company faces strict credit restrictions and the potential costs of breaching debt covenants, it uses transfer pricing practices to improve its financial performance. This involves efforts to increase revenue and manage expenses when conducting transfer pricing transactions with related parties (Deden et al., 2023).

As creditors, they naturally want to ensure that their borrowers can repay the loans given to them. Therefore, creditors prefer a low debt ratio because a low debt ratio means the company relies more on internal funds from shareholders rather than external funds. This increases the protection for creditors that the borrower will repay the loan on time. Based on the research findings by (Sari et al., 2022), (Yanti & Pratiwi, 2021), and (Hartika & Rahman, 2020) it is stated that debt covenants influence transfer pricing decisions. These findings align with positive accounting theory mentioned in the debt covenant hypothesis, which asserts that the higher a company's debt level, the greater the financial risk or likelihood of breaching credit agreements and incurring costs. Therefore, to minimize such occurrences, company management seeks ways to choose accounting methods that can enhance profits. Consequently, companies engage in transfer pricing to increase profits and avoid lender regulations. These findings are consistent with those of (Azzuhriyyah & Kurnia, 2023) and (Solikhah et al., 2021), who also state that debt covenants have an impact on transfer pricing.

H3: Debt covenant has a significant influence on transfer pricing decisions

RESEARCH METHODOLOGY

The type of research used in this study is quantitative research. This study employs the documentation method for data collection. The population in this study consists of companies operating in the non-cyclicals and industrial sectors that are listed on the Indonesia Stock Exchange (IDX) from 2020 to 2022. The population includes 190 companies, consisting of 125 consumer non-cyclicals sector companies and 65 industrial sector companies. After applying the purposive sampling technique for sample selection, 48 samples from 16 companies were obtained. The criteria for sampling in this study are:

Table 1. Sample Selection Criteria

No.	Criteria	Total
	Non-cyclicals and industrial companies listed on the Indonesia Stock Exchange	190
1.	Companies that did not publish financial statements consecutively from 2020-2022.	(58)
2.	Companies that incurred losses from 2019-2022.	(64)
3.	Companies that did not present financial statements in Indonesian Rupiah.	(3)
4.	Companies that did not include the necessary information on the relevant research variables.	(6)
5.	Companies that did not have related party receivables and payables from 2020-2022.	(21)
6.	Companies that did not have foreign parent and subsidiary companies, foreign shareholders holding more than 20%.	(22)
Number of sample companies		16
Number of research analysis units (3 years x 16 companies)		48
Outlier data were eliminated from the study		(1)
The final number of research units 2020-2022		47

Source: Secondary data processed in 2024

RESULTS AND DISCUSSION

Result

Descriptive statistical analysis shows that the average value of the transfer pricing variable is 0.1069, which indicates that companies are likely engaging in related party transactions involving receivables and payables to enhance their business interests through related relationships. The standard deviation of 0.1197 is higher than the average, suggesting that transfer pricing data is good for use. The average value of the bonus mechanism is 1.4425 with a standard deviation of 1.0922, indicating a considerable variation in the bonus mechanism data, as reflected in the variable's maximum and minimum values. The average effective tax rate is 0.2612, which suggests that, on average, companies fulfill their tax obligations based on total pre-tax profit. The standard deviation of 0.0926, being lower than the average value, indicates low variation in tax expense data, yet it aligns closely with the average value, leading to greater accuracy.

Table 2. Descriptive Statistic Result

Variable	N	Minimum	Maximum	Mean	Std Deviation
TP	48	0.0023	0.4446	0.106955	0.1197277
ITRENDLB	48	0.2368	5.6581	1.442513	1.0922074
ETR	48	0.1458	0.6377	0.261295	0.0926025
DER	48	0.1686	4.4131	1.240885	1.0438314

Source: Secondary data processed in 2024

The normality test in determining whether the data is normally distributed ensures that the resulting regression model has accuracy. In this study, the One Sample Kolmogorov-Smirnov Test with Monte Carlo statistical analysis was used, yielding a significant value of 0.333, which is greater than 0.05, indicating that the data passed the normality test. The results of the multicolinearity test show that the bonus mechanism variable (X1), effective tax rate variable (X2), and debt covenant variable (X3) have Tolerance values greater than 0.10 and VIF values less than 10, indicating that this study does not exhibit multicolinearity symptoms.

Table 3. Multicolinearity Result

Variable	Collinearity Statistics	
	Tolerance	VIF
ITRENDLB	0.607	1.649
ETR	0.567	1.764
DER	0.914	1.094
Dependent Variable: TP		

Source: Secondary data processed in 2024

The results of the heteroscedasticity test used Glejser test indicate that the bonus mechanism variable (X1) has a significance value of 0.162, the effective tax rate variable (X2) has a significance value of 0.484, and the debt covenant variable has a significance value of 0.626. These significance values for the independent variables are all greater than 0.05, leading to the conclusion that this study does not exhibit heteroscedasticity.

Table 4. Heteroscedasticy Result

Variable	Absolute Residual
ITRENDLB	0.162
ETR	0.484
DER	0.626
Dependent Variable: ABS_RES	

Source: Secondary data processed in 2024

The result of the autocorrelation test, considering the value of the Runs Test shows that the autocorrelation test has an Asymp. Sig. (2-tailed) value of 0.239. This value is greater than 0.05, so in this study there is no evidence of autocorrelation in the regression model.

Table 5. Runs Test Result

	Unstandardized Residual
Asymp. Sig. (2-tailed)	0.239
a. Median	

Source: Secondary data processed in 2024

The value of Adjusted R Square is 0.752, indicating that the variation in the dependent variable, transfer pricing, can be explained by the independent variables, mechanism of bonus, effective tax rate, and debt covenant, to the extent of 75.2%. The remaining 24.8% (100% - 75.2%) can be explained by other variables outside the scope of this research.

Table 6. Model Summary

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	0.876	0.768	0.752	0.0548559
Predictors: (Constant), DER, ITRENDLB, ETR				

Source: Secondary data processed in 2024

The F-value = 47.399 with the significance value is 0.000. Since this significant value is less than 0.05 it can be concluded that the model formed in regression, with mechanism of bonus, effective tax rate, and debt covenant as independent variables is able to predict the dependent variable transfer pricing.

Table 7. ANOVA

Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	0.428	3	0.143	47.399	0.000
	Residual	0.129	43	0.003		
	Total	0.557	46			
Predictors: (Constant), DER, ITRENDLB, ETR						
Dependent Variable: TP						

Source: Secondary data processed in 2024

Table 8. Hypothesis Result

No.	**Hypothesis**	**B**	**Significant Value**	**Conclusion**
1.	H1: Bonus mechanism has a effect on transfer pricing	-0.009	0.336	Rejected
2.	H2: Effective tax rate has a effect on transfer pricing	-0,080	0.580	Rejected
3.	H3: Debt covenant has a effect on transfer pricing	0.102	0.000	Accepted

Source: Secondary data processed in 2024

Discussion

Based on the hypothesis testing conducted by the author using the t-test, the research results show that the variable of the bonus mechanism has a significance value of 0.336 and a coefficient of -0.009. Therefore, it can be concluded that the variable of the bonus mechanism has a significance value greater than α 0.05 and a negative coefficient of 0.009. Consequently, the result obtained is that the bonus mechanism does not have an effect on transfer pricing. The research results do not align with the positive accounting theory's bonus plan hypothesis, where management tries to use accounting practices to increase profits in the reporting period to obtain a higher bonus. However, management does not always choose transfer pricing to increase company profits to obtain a high bonus. This is because transfer pricing done by management to obtain high profits, which will only benefit one party, namely management, and may harm the company if it takes decisions on transfer pricing that are not in line with tax regulations, which will impact the company's good reputation in the public eye.

Therefore, companies with good governance and supervision will prevent management from engaging in transfer pricing solely to increase bonuses. Additionally, with the presence of an audit committee, they will certainly pay attention to ethical codes and detect any fraud in presenting the company's financial condition to produce relevant information for decision-making. As a result, management with good performance will receive a good professional reputation and a suitable reward from the company's owners. The research results align with those of (Murtanto & Bonita, 2021), (Khasanah & Suryarini, 2020), (Nurjannah et al., 2022), and (Suryarini et al., 2021), which show that the bonus mechanism does not affect transfer pricing. The research results explain that an increase in net profit from one year to another does not always originate from transfer pricing activities because companies have strategies to achieve bonuses. Management can do better innovations for the company to obtain bonuses from the company's owners. Therefore, an increase or decrease in profits at each period is not always a reason for management to receive bonuses from the company, but rather the company looks at management's performance in managing the company, so management will strive to improve their performance to obtain bonuses.

Based on the hypothesis testing conducted by the author, the research results show that the variable of the effective tax rate has a significance value of 0.580 and a coefficient of -0.080. Therefore, it can be concluded that the variable of the effective tax rate has a significance value greater than α 0.05 and a negative coefficient of 0.080. Consequently, the result obtained is that the effective tax rate does not have an effect on transfer pricing. The regulations made by the DJP ensure that affiliated companies that engage in related transactions comply with the Principle of Fairness and Business Practices, as outlined in the Director General of Taxes Regulation Number PER-32/PJ/2011 on the application of fairness and business practices in transactions between taxpayers and parties with special relationships. However, as the economy develops, tax authorities are more closely monitoring transfer pricing activities related to minimizing tax payments, which affects the country's tax revenue. Therefore, companies feel more closely monitored by stricter tax regulations. Companies that engage in transfer pricing are expected to provide additional documents or information in accordance with the Minister of Finance Regulation Number 213/PMK.03/2016 on the types of documents and/or additional information that must be kept by taxpayers who engage in transactions with parties having special relationships and the management of these documents.

Tight supervision by tax authorities and the government makes companies more cautious in saving taxes, and they will seek alternative methods for managing their tax planning to minimize the tax burden they bear while still adhering to every scope of applicable tax regulations. The possibility of companies finding it increasingly difficult to save taxes through transfer pricing practices means that they will reconsider their intention to engage in transfer pricing activities. This research result aligns with those of (Baroroh et al., 2021), (Sujana et al., 2022), (Rizkya & Isnalita, 2020), and (Yanti & Pratiwi, 2021) stating that the effective tax rate does not have an effect on transfer pricing. Therefore, the amount of tax paid by a company does not influence the company's decision to engage in transfer pricing practices. Multinational companies continue to pay their tax obligations in accordance with tax regulations, even when expanding their business to foreign countries, which have lower tax rates. As a result, this research is consistent with the agency theory, where tax authorities as principals want companies as agents to pay taxes in accordance with applicable tax regulations.

The t-test result for the debt covenant variable shows a significance value of 0.000 and a coefficient of 0.102. Therefore, it can be concluded that the debt covenant variable has a significance value less than α 0.05 and a positive coefficient of 0.102. Consequently, the result obtained is that the debt covenant variable has a positive effect on transfer pricing. The company is trying to increase profits by practicing transfer pricing to relax credit limits and reduce the cost of violating debt agreements, as well as to obtain a good financial condition assessment from creditors. This aligns with the positive accounting theory's debt covenant hypothesis, which states that as the company's debt level increases, the likelihood of managers choosing accounting methods that maximize profits also increases.

The research results align with those of (Sari et al., 2022), (Yanti & Pratiwi, 2021), (Solikhah et al., 2021), and (Hartika & Rahman, 2020), which state that debt covenant has an effect on transfer pricing. Companies have two sources of funding to run their operational activities, namely internal capital and external loans. Companies that obtain external funding in the form of debt will refer to debt covenants. Debt covenants aim to protect creditors or lenders from actions taken by the borrower or company that could affect the lender's interests. When a company borrows from a creditor, the creditor will attempt to monitor the company's finances to ensure that the company has a stable financial condition and is expected to be able to repay the loan.

CONCLUSION

Based on the research conducted, it was found that the variables of bonus mechanism and effective tax rate do not have an effect on transfer pricing in consumer non-cyclicals and industrial companies listed on the Indonesia Stock Exchange from 2020 to 2022. This is because a high bonus mechanism is not solely caused by transfer pricing activities, but also influenced by various factors such as the company's productivity targets and good governance, which will protect the company from fraudulent actions. Therefore, with good performance as an effort to increase the company's net profit and obtain a high bonus, and the tax burden paid by the company does not make the company intend to engage in transfer pricing because of the strict tax regulations made by tax officials or the government. However, debt covenant has a positive and significant effect on transfer pricing because when a company has a high debt level, it will try to increase its profits through transfer pricing practices to obtain profits and a good performance that can be evaluated by creditors with a good financial condition and the ability to repay its loans.

Based on the above conclusions, this study is expected to contribute to the field of accounting related to transfer pricing. For future studies, it is hoped that researchers will use other testing variables that can affect transfer pricing such as company size, intangible assets, tunneling incentives, profitability, exchange rates, and other variables related to transfer pricing. This study still has limitations that may lead to inaccurate results, so it is hoped that future researchers will improve them. With the limitations present in this study, such as using the related party transaction asset formula plus related party transaction liabilities divided by total equity, which has a limited journal, making it difficult to apply to numerical data.

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