Bonus Mechanisme and Tunneling Incentive on Transfer Pricing : The Moderating Effect Tax Avoidance

Sintia Alfiani[1], Suripto[2]

Bachelor of Accounting Study Program, Faculty of Economics and Business, Pamulang University

sintiaalfiani641@gmail.com[1], dosen00756@unpam.ac.id[2]

Article Info	Abstract
	This study aims to test and analyze the effect of bonus mechanisms and tunneling incentives on transfer pricing practices with the disclosure of tax avoidance as moderation. This research uses a sample of IDX Growth 30 companies in 2017-2022. This research method is saturated sampling, and 30 companies were obtained as research samples with observations for 6 (six) years, so that the total observation data is as many as 180 companies. The analysis methods used are descriptive statistical analysis and panel data regression analysis. The results of this study show that the bonus mechanism negatively affects transfer pricing practices, tunneling incentives do not affect transfer pricing practices while the bonus mechanism and tunneling incentives simultaneously affect transfer pricing practices. Tax avoidance is able to moderate bonus mechanisms and tunneling incentives against transfer pricing practices.

INTRODUCTION

Transfer Pricing is usually done by increasing the purchase price and lowering the selling price between companies in one group and sending the profits obtained to the group domiciled in a country that applies a low tax rate. So the higher the tax rate of a country, the more likely the company will apply Transfer Pricing Refgia (2017).

Economic globalization has had an impact on the increasing number of international transactions or cross border transactions, one of the taxation problems arising from this transaction is the problem of transfer pricing. A condition that can contain transfer pricing practices is multi-corporations or group

companies where one of the entities is in Indonesia and the other entity is outside Indonesia's taxation jurisdiction such as abroad Ginting et al., (2022).

Transfer Pricing can result in the transfer of income or the basis for imposing taxes and costs from one taxpayer to another, which can be engineered to reduce the overall amount of tax owed on the taxpayer who has a special relationship (Pohan, 2019). Transfer pricing is defined as a price set by a multinational company with the aim of distributing income from one company to another in different countries within a multinational company with the aim of reducing taxable profits in countries with high tax rates and shifting profits to other countries with low or even zero tax rates, especially if those countries There are no anti-tax avoidance regulations, so multinational companies can easily price goods, services, or intangible assets for tax avoidance purposes.

The bonus mechanism is a strategy or calculation model in accounting with the aim of maximizing compensation received by directors or management by increasing overall company profits. However, due to transfer pricing activities, this closes the possibility of losses in each division. Therefore, management uses transfer pricing as a mechanism for transferring profits between businesses to increase management bonuses.

Tunneling incentive is the activity of transferring assets or sharing profits or granting privileges directly given to majority shareholders without regard to the rights of minority shareholders. Examples of tunneling activities are setting unreasonable prices, not distributing dividends, and choosing family members to occupy important positions in the company even though they do not meet the qualifications.

Tax Avoidance is all forms of activities that have an effect on taxpayers, both activities allowed by taxes and special activities to reduce taxes. The reason for the company to do tax avoidance is to reduce the tax burden that will later be paid by the company. For companies, taxes are considered a burden that must be borne by the company. The amount of tax costs can reduce profits or profits obtained by companies (Suripto, 2021).

Transfer pricing is part of tax avoidance or an effort to make tax savings. Management to get bonuses from company owners will try to increase company profits as much as possible by utilizing one way that includes tax avoidance, namely by transfer pricing practices. Tunneling Incentive to special parties is

carried out for the main purpose, which is to reduce profits, so that indications can be found for transfer pricing which usually does not use fair prices.

LITERATURE REVIEW

Agency Theory

Teori keagenan (Agency Theory) memiliki asumsi bahwa tiap-tiap individu semata-mata termotivasi oleh kepentingan dirinya sendiri sehingga menimbulkan konflik kepentingan antara principal dan agen (Suripto, 2021). Agency relationships arise when one or more principals mandate agents to run the company and delegate decision-making authority. Agency relationships arise when one or more principals mandate agents to run the company and delegate decision-making authority. Agency theory that began to develop refers to the fulfillment of the main goal of financial management, namely maximizing shareholder wealth.

Bonus Mechanism

Bonus is one of the additional compensation or rewards given to employees for the successful achievement of goals targeted by the company. Profit-based bonus feeding is the most frequently used way for companies to reward directors or managers, the higher the profit achieved by the company, the higher the appreciation given by the owner to the directors (Rahmawati & Mulyani, 2020). If the company's profit is high, the bonus obtained is also high, so they are encouraged to do transfer pricing.

This opinion is reinforced by research conducted by Rosmawati & Ginting (2022) which states that the bonus mechanism has a significant positive effect on transfer pricing practices.

Tunneling Incentive

According to Rahmawati (2018), tunneling incentive is an asset transfer activity in the company's outgoing profits, the company's controlling shareholder. Tunneling can be a transfer to a parent company made through a related party transaction, more commonly used for wealth transfer purposes than dividend payments, as listed companies must distribute dividends to the parent company and other minority shareholders. A unique condition where share ownership in public companies in Indonesia tends to be concentrated so that there is a tendency for majority shareholders to tunnel. The size of the majority shareholding further

encourages them to carry out transfer pricing practices. The results of research conducted by Jannah (2020) and Mineri & Paramitha (2021) stated that tunneling incentives affect transfer pricing practices.

Transfer Pricing

Transfer Pricing is the main strategy applied by multinational companies with subsidiaries in various industries and countries to hide tax-generating profit-shifting tactics (Amidu et al., 2019). Tax avoidance can be carried out by manipulating the technique of determining the cost of transferring and relocating products to countries with low income tax rates, from there is the origin of the design of transfer pricing practices which are a tangible manifestation to offset the problems that will arise later.

Tax Avoidance

Tax avoidance is an effort to avoid taxes legally that does not violate tax regulations carried out by taxpayers by trying to reduce the amount of tax by looking for loopholes (Barli, 2018). Methods and techniques used in tax avoidance tend to take advantage of weaknesses in the laws contained in tax laws and regulations. Tax avoidance tends to obscure or even mask the actual amount of income to tax authorities. Companies need a financial science who knows and understands tax regulations thoroughly so that they can find loopholes to avoid the imposition of high taxes.

Hypothesis Development

According to Sugiyono (2019), the hypothesis is a valid answer is temporary to the formulation of the research problem, because the answers are given new based on the relevant theory so the truth must be tested empirically. The hypotheses developed in this study are :

H1 : It is suspected that bonus mechanisms have a positive effect on transfer pricing practices

H2 : It is suspected that tunneling incentives affect transfer pricing practices

H3 : It is suspected that the bonus mechanism and tunneling incentive have a significant effect on transfer pricing practices

H4: It is suspected that tax avoidance is able to moderate the effect of bonus mechanisms on transfer pricing practices

H5: It is suspected that tax avoidance is able to moderate the effect of tunneling incentives on transfer pricing practices.

RESEARCH METHODS

Types of Research

This study uses a quantitative approach, which is a study that analyzes specific data, with the aim of testing hypotheses that have been determined and then interpreting the results of the analysis to obtain a conclusion (Pasaribu and Irawati, 2022). The method used in this study is a quantitative associative research method, which is to find out the relationship between two or more variables.

Activities in research begin with data collection, conducting quantitative data analysis using eviews 12 and concluding research results. The research uses secondary data in the form of financial statements, sustainability reports and annual reports of companies incorporated in IDX Growth 30 2017-2022.

RESULTS AND DISCUSSION

Descriptive Statistical Tes

Table 1. Analisis Statistik Deskriptif

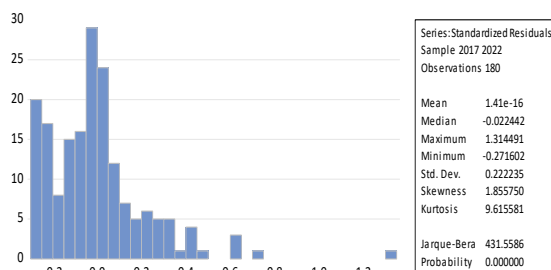| Variabel Penelitian	Mean	Maximum	Minimun	Std. Dev.
RPT Y	-0.792492	0.201095	-3.803.323	0.605012
ITRENDLB X1	0.281662	6.597.999	-1.374.472	1.174.723
TNC X2	-0.419642	0.815558	-2.377.428	0.335243
ETR Z	0.318387	0.999996	0.003620	0.261525

Sumber : Output Olah Data Eviews 12, 2023

The table above shows the results of descriptive statistical tests from a total of 30 companies that are members of the IDX Growth 30 for 2017-2022.

Classic Assumption Test

Normality test

Table 2. Normality Test before Transformation

Series: Standardized Residuals	
Sample 2017 2022	
Observations 180	
Mean	1.41e-16
Median	-0.022442
Maximum	1.314491
Minimum	-0.271602
Std. Dev.	0.222235
Skewness	1.855750
Kurtosis	9.615581
Jarque-Bera	431.5586
Probability	0.000000

Sumber : Data Diolah 2023

Table 3. Normality Test before Transformation

	Series: Standardized Residuals
	Sample 2017 2022
	Observations 173
Mean	-0.000354
Median	0.142253
Maximum	1.631320
Minimum	-2.863142
Std. Dev.	0.568309
Skewness	-1.416531
Kurtosis	7.313731
Jarque-Bera	191.9905
Probability	0.000000
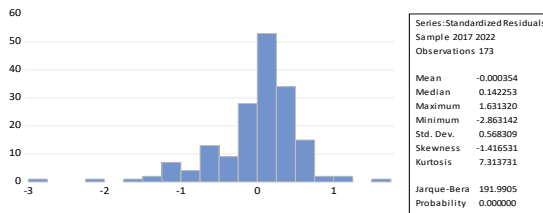
Sumber : Data Diolah 2023

The results of the Normality Test in table 4 of steel in transformation obtained a Probability value of 0.000000 < 0.05, so this data is declared abnormally distributed. Because the data is not normally distributed, even though it has been transformed into data, according to Gujarati (2012), panel data allows more complex learning about the behavior in the model so that panel data testing does not require classical assumption tests. With the advantages of panel data regression, the implication is that classical assumption testing is not necessary in the panel data model.

Multicollinearity Test

Table 4. Multicollinearity Test

	LOG_X1	LOG_X2
LOG_X1	1.000000	0.154855
LOG_X2	0.154855	1.000000

PanelWhile the Multicollinearity Test in table 4 states that the data does not occur multicollinearity because there are no independent variables that have a value of more than 0.9.

Heteroscedasticity Test

Table 5. Heteroscedasticity Test

Heteroskedasticity Test: White			
Null hypothesis: Homoskedasticity			
F-statistic	0.665923	Prob. F(5,169)	0.6498
Obs*R-squared	3.381211	Prob. Chi-Square(5)	0.6414
Scaled explained SS	8.187530	Prob. Chi-Square(5)	0.1462

Sumber : Output Olah Data Eviews 12, 2023

The Heteroscedastistasis test in table 5 can be seen from the value of Prob. Chi Square Obs *R-squared of 0.6414 > α = 0.05, thus it can be concluded that

the panel data regression model does not occur heteroscedasticity.

Autocorrelation Test

Table 6. Autocorrelation Test

R-squared	0.021328	Mean dependent var	2.37E-17
Adjusted R-squared	-0.001973	S.D. dependent var	0.568267
S.E. of regression	0.568828	Akaike info criterion	1.737997
Sum squared resid	54.35890	Schwarz criterion	1.829133
Log likelihood	-145.3368	Hannan-Quinn criter.	1.774971
F-statistic	0.915317	Durbin-Watson stat	2.018892
Prob(F-statistic)	0.456411		

Sumber : Output Olah Data Eviews 12, 2023

The Autocorrelation Test looks at table 7, so the Durbin Watson value of 2.018892 can be concluded that this research data does not autocorrelate because the D-W value is located between dU and 4-dU or $1.7786 < 2.018892 < 2.2214$.

F Test (Simultaneous Test

Table 7. F Test Results

R-squared	0.117780
Adjusted R-squared	0.107401
S.E. of regression	0.571600
Sum squared resid	55.54356
Log likelihood	-147.2016
F-statistic	11.34789
Prob(F-statistic)	0.000024

Sumber : Data Diolah 2023

From the results of these calculations, it can be known that the value of Prob (F-statistic) $0.000024 < 0.05$ so it can be concluded that the independent variables in this study consisting of bonus mechanisms and tunneling incentives together affect transfer pricing.

T test (partial test)

Table 8. Test Results t

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.806388	0.072328	-11.14898	0.0000
LOG_X1	-0.165623	0.037556	-4.410056	0.0000
LOG_X2	-0.144282	0.131599	-1.096372	0.2745

Sumber : Output Olah data Eviews 12, 2023

From the results of the table, it can be shown that:

a. Effect of Bonus Mecansime on Transfer Pricing Practices The variable bonus

mechanism has a t-count of -4.410056 smaller than the t-table of 1.653 (-4.410056 < 1.653) and a significance value of 0.0000 < 0.05. So it can be concluded that the bonus mechanism has a negative effect on transfer pricing practices.

b. The Effect of Tunneling Incentive on Transfer Pricing Practices

The variable tunneling incentive has a t-count of -1.096372 smaller than the t-table of 1.653 (-1096372 < 1.653) and a significance value of 0.2745 > 0.05. So it can be concluded that tunneling incentives have no effect on transfer pricing practices.

Moderated Regression Analysis Test

Table 9. Moderation Regression Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.798024	0.078157	-10.21054	0.0000
LOG_X1	0.240438	0.145660	1.650675	0.1007
LOG_X2	-0.480178	0.172598	-2.782050	0.0060
X1_M	-0.375859	0.152866	-2.458754	0.0150
X2_M	1.260981	0.540056	2.334907	0.0207
Effects Specification				
			S.D.	Rho
Cross-section random			0.159617	0.0810
Idiosyncratic random			0.537696	0.9190
Weighted Statistics				
Root MSE	0.526966	R-squared		0.178689
Mean dependent var	-0.643759	Adjusted R-squared		0.159134
S.D. dependent var	0.582607	S.E. of regression		0.534751
Sum squared resid	48.04101	F-statistic		9.137778
Durbin-Watson stat	1.396903	Prob(F-statistic)		0.000001
Unweighted Statistics				
R-squared	0.173901	Mean dependent var		-0.792492
Sum squared resid	52.01028	Durbin-Watson stat		1.290295

Sumber : Output Olah data 12, 2023

Based on the MRA test results in table 4.14 above, it can be concluded that:

a. The probability value of X1 (bonus mechanism) with tax avoidance of 0.0150 which means it is smaller than $\alpha = 0.05$ with a t-Statistic value of -2.458754. This means that tax avoidance is able to moderate the relationship between bonus mechanisms and transfer pricing practices.

b. The probability value of X2 (tunneling incentive) with tax avoidance of 0.0207 which means it is smaller than $\alpha = 0.05$ with a t-Statistic value of 2.334907. This means that tax avoidance is able to moderate the relationship between tunneling incentives and transfer pricing practices.

CONCLUSION AND SUGGESTIONS

Conclusion

The results of this study show that the bonus mechanism negatively affects transfer pricing practices. This indicates that if the company's profit is

high, the bonus obtained is also high, thus encouraging the practice of transfer pricing.

The results of this study show that tunneling incentives have no effect on transfer pricing practices. This indicates that for every increase in tunneling incentives, transfer pricing will decrease.

The results of this study show that the bonus mechanism and tunneling incentive together or simultaneously affect the practice of transfer pricing. This indicates that if the company's profit continues, the bonus obtained is also high and the size of majority share ownership will encourage transfer pricing activities.

The results of this study show that tax avoidance is able to moderate the effect of bonus mechanisms on transfer pricing practices. This indicates that the greater the bonus given by capital owners to the directors, the greater the directors take accounting policies to carry out transfer pricing practices and the more transfer pricing practices are carried out, the greater the company is indicated to be avoiding taxes (tax avoidance) which should be his obligations.

The results of this study show that tunneling incentives are able to moderate the effect of tunneling incentives on transfer pricing practices. This indicates that the greater the share ownership by tunneling or foreigning, the more likely the company is to move its assets to other countries that are lower in taxes by practicing transfer pricing.

Suggestions

Based on the results of the analysis and some conclusions and limitations in this study, the researcher provides some suggestions as follows:

1. The next researcher is to be able to use samples in companies located in other countries with a larger number of samples and discuss other factors that are estimated to be often related to transfer pricing decisions such as profit shifting and earning after tax maximization.

2. For the government to further tighten tunneling incentive activities in companies by issuing regulations regulating financial disclosure. This activity can harm the country if the company continues to shift profits with transfer pricing.

3. For fiscal authorities to clarify the contents and regulations on transfer pricing, as well as provide direction or socialization to taxpayers regarding transfer pricing.

4. For tax collectors (fiscus) it is expected to increase supervision of multinational companies so that the implementation of transfer pricing practices runs according to applicable regulations.

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