Tax Minization as a Moderator on the Effect of Tunnelling Incentive and Bonus Mechanism on Transfer Pricing Provisions

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ABSTRACT

This study is a proof-of-concept of important analytical and experimental functions and / or characteristics. Transfer pricing is a company action that can increase potential tax loss for state revenue. The purpose of this study was to analyze the effect of tunneling incentive, bonus mechanism on transfer pricing. In addition, this study also examines tax minimization as a moderating variable for the effect of tunneling incentive, the bonus mechanism on transfer pricing. The samples used in this research are manufacturing companies listed on the Indonesia Stock Exchange for the period 2016-2019. This study uses multiple regression analysis and moderate regression analysis with statistical product and service solution version 23. The benefit of this research is to improve the literature related to transfer pricing. The result of this research is that tunneling incentive has a significant effect on the provision of transfer pricing, while the bonus mechanism has no significant effect on the provision of transfer pricing. Tax minimization cannot moderate the effect of tunneling incentives and bonus mechanics on transfer pricing provisions.

Keywords: bonus mechanism, tax minimization transfer pricing, tunneling incentive.

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I. INTRODUCTION

Since the World Trade Organization was formed to replace GATT, the flow of trade between countries has increased. Various obstacles that interfere with the smooth running of international trade transactions, investment between countries has been reduced and eliminated. This has resulted in the creation of globalization and borders between one country and another are almost non-existent.

This globalization also supports developments in other fields such as technology, transportation, communication, and information, which have a huge impact on business people. This situation or phenomenon makes companies that carry out international trade transactions, which mostly involve multinational companies in one group (intra-group transactions), need to have tips or ways to explore potential revenue from these activities, on the other hand they face increasingly complex conditions because not only implies capital goods, services and immovable property but also the complexity of analyzing for the sake of taxation issues. Multinational companies will be faced with problems regarding differences in tax rates that apply in each country, the main problems faced with regard to foreign investment, one of which is transfer pricing [11].

According Regarding the statement that transfer pricing in general is a company policy in determining the price of a transaction between parties who have a special relationship [10]. In the research with the title Can thin capitalization and transfer pricing activities reduce the tax burden? which

results in transfer prices having a significant effect on tax avoidance [25]. In the research with the title analysis of taxes payment, audit quality and firm size to the transfer pricing policy in manufacturing firms in Indonesia stock exchange which results in taxes having a significant effect on transfer pricing [9].

Management in its decision to carry out transfer pricing can be influenced by share ownership. Ownership structure in Indonesia is concentrated on a few owners, resulting in agency conflicts between majority shareholders and minority shareholders. Share ownership in Indonesia tends to be concentrated causing the emergence of controlling and minority shareholders [24].

This is based on Law Number 36 of 2008 concerning Income Tax Article 18 paragraph (4), namely: regarding the special relationship between Corporate Taxpayers that can occur because the ownership or control of share capital of an entity by another entity is 25% (twenty five percent). or more, or between several entities which 25% or more of the shares are owned by an entity.

An example of a transfer pricing case that recently occurred is from PT Toyota Motor Manufacturing Indonesia. The Directorate General of Taxes considers that Toyota is conducting transfer pricing in order to avoid taxes. They use the mode of making sales with transfer prices outside the fairness and customary principles of business to their affiliated companies located in Singapore. Apart from Toyota, the transfer pricing case was also carried out by PT Adaro Energy Tbk. According to Stuart McWilliam,

Climate Change Campaign Manager for Global Witness quoted by CNBC Indonesia (2019), Adaro transferred large sums of money through tax havens. So as to reduce the tax bill of nearly US hampir 14,000,000 each year. Adaro uses one of its subsidiaries in Singapore, namely Coaltrade Service International, by transferring some of the profits from its coal business to a network of overseas companies to reduce tax payments [1].

The transfer pricing phenomenon itself is a form of tax avoidance. According the term transfer pricing is connoted with something that is not good (often called abuse of transfer pricing), which is a transfer of income from a company in a country with a higher tax rate to another company in a group in a country with a tariff lower taxes thereby reducing the group's total tax burden [16].

Conglomerate companies are owned by majority shareholders who also have shares in other related companies, this causes tunneling activities to benefit the majority shareholders [19].

Stated that tunneling can be one of the tax avoidance incentives. Companies can save taxes by diverting profits from companies in countries with high tax rates to countries with low tax rates [20]. If companies have demonstrated tunneling practices, they will sacrifice the rights of minority shareholders with transfer pricing, this will be strengthened by the motivation of tax minimization (tax minimization).

Research on the effect of incentive tunneling on transfer pricing with tax minimization as a moderating variable has been done before but with different results. The results of the study show that tunneling incentives have a positive and insignificant effect on transfer pricing decisions [18]. Meanwhile, tax minimization significantly moderates the tunneling effect of the incentive to transfer prices. Meanwhile, the research results show that profitability, bonus mechanisms, tunneling incentives and debt covenants have no effect on transfer pricing [1]. Tax minimization is not able to moderate profitability, bonus mechanisms, tunneling incentives and debt conviction on transfer pricing.

Furthermore, another factor that can influence transfer pricing decisions is the bonus mechanism. The bonus compensation system has an impact on management performance. By using the bonus mechanism in agency theory, it explains that management ownership is below 5%, there is a desire from the manager to carry out earnings management in order to get a large bonus. With 25% management ownership, the management has a large enough ownership with controlling rights of the company, so the information asymmetry is reduced. If management manages earnings in an opportunistic manner, then this earnings information can lead to wrong investment decisions for investors This bonus compensation system can allow actors, especially managers in companies to engineer the company's financial statements in order to obtain a mechanism. maximum bonus [12].

Research on the effect of the bonus mechanism on management decisions in transfer pricing was carried out which stated that the bonus mechanism affects management's decision to carry out transfer pricing [10]. But it is different from the opinion which denies that there is an

influence between the bonus mechanism and transfer pricing practice [4].

Based on the background and previous research which gave different results, the researcher wants to do research again on transfer pricing which is influenced by tunneling incentives and the bonus mechanism which is moderated by tax minimization. Will it have a positive or negative effect.

II. LITERATURE AND HYPOTHESIS DEVELOPMENT

A. Agency Theory

According to Anthony and Govindarajan, agency theory is a delegation of duties and authorization of decision making given from an agency or a person who acts as a principal (shareholder) to the recipient of the delegation, in this case the agent (CEO or Chief Executive Officer) (Siagian 2011: 10).

Agency theory is used by the authors to understand the concepts of tax minimization and tunneling incentives. In which the transfer of authority from the principal to the agent will cause problems because of the asymmetry of information between the principal as a shareholder and the agent as the manager of the company (Jensen & Meckling, 1976). Information asymmetry is the implication of conflict between groups or agency conflicts, which are conflicts that arise between owners and company managers where there is a tendency for managers to prioritize individual goals rather than company goals [12].

In connection with this research, agency theory explains the emergence of conflicts between controlling and non-controlling shareholders, causing opportunities to exploit the rights of non-controlling shareholders through tunneling and providing incentives to agents. Such transactions can be made through asset sales, transfer pricing contracts, excessive executive compensation, lending, and others. In addition, management as an agent is given the authority to manage the company's assets so that it has an incentive to carry out transfer pricing with the aim of reducing taxes that must be paid.

B. Transfer Pricing

Transfer pricing is often referred to as intracompany pricing, interdivisional pricing, or internal pricing. Transfer pricing can be divided into two definitions which are neutral and pejorative in nature. Neutral understanding assumes that transfer pricing is purely a business strategy and tactic without a motive to reduce the tax burden.

Meanwhile, the definition of pejorative transfer pricing as explained has the connotation of something bad (often called abuse of transfer pricing), which is a transfer of income from a company in a country with a higher tax rate [16]. to other companies within a group in a country with a lower tax rate thereby reducing the total tax burden for that group of companies.

Research results prove that apart from being used as a resource allocation, transfer pricing is also used as a mechanism to minimize and avoid international taxes [2]. Transfer pricing is used by companies to maximize profits and minimize taxes, because taxes are considered a burden that will reduce profits.

C. Tunnelling Incentive

Tunneling is the transfer of assets and profits out of the company for the benefit of the majority shareholder [12]. Examples of tunneling are not paying dividends, selling the assets or securities of a company they control to another company they own at a price below the market rate, and selecting unqualified family members to occupy important positions in the company. Tunneling can also be in the form of transfers to the parent company through related party transactions or dividend distribution. Related party transactions are more commonly used for this purpose than dividend payments because companies listed on the Exchange have to distribute dividends to the parent company and other minority shareholders. Minority shareholders of listed companies are often disadvantaged when the transfer price benefits the parent company or controlling shareholder [12].

D. Bonus Mechanism

According tantiem / bonus is an appreciation given by company owners to managers if the company's profit target is met [4]. The mechanism for giving this bonus will have an impact on management in manipulating profits. To maximize bonuses, managers tend to maximize net income

Given that the bonus mechanism is based on the amount of profit, which is the most popular way of rewarding directors / managers, it is logical that directors whose remuneration is based on the level of profit will manipulate this profit to maximize bonus and remuneration. So, it can be concluded that the bonus mechanism is one of the calculation strategies or motives in accounting whose purpose is to reward the directors or management by looking at the company's overall profit. Because as a result of the practice of transfer pricing, it is possible that there will be losses in one of the divisions or subunits [12].

That bonus compensation is seen based on the varied teams in various divisions within one organization. As a company team, you must be willing to help each other. So, the board of directors' bonus is not based on subunit profit but based on the goodness and profit of the company as a whole.

Meanwhile, according to the bonus mechanism is additional compensation or rewards given to employees for the success of achieving the goals targeted by the company [13]. The profit-based bonus mechanism is the method most often used by companies to reward directors or managers. So, because based on the level of profit, directors or managers can manipulate this profit to maximize bonus receipts.

E. Tax Minimization

Tax minimization is a company effort to minimize the tax burden. In general, tax savings adheres to the least and latest principle, which is to pay in the least possible amount and at the last time which is still permitted by tax laws and regulations. Efforts to minimize the tax burden (tax minimization) can be done in various ways, both those that still meet tax criteria (lawful) and those that violate tax regulations (unlawful) [20].

F. Framework

Fig. 1. FrameWork.

Hypothesis:

- H1 : There are Significant differences in Tunneling Incentive in the Transfer Pricing.
- H2 : There are Significant differences in Bonus Mechanism in the Transfer Pricing.
- H3 : There are Tax Minimization moderating in tunneling incentive in the Transfer Pricing.
- H4 : There are Tax Minimization moderating in Bonus Mechanism in the Transfer Pricing.

III. METHODOLOGY

A. Types of Research

The design used in this research is causal research. Causal research aims to determine the effect or relationship between two or more variables [17]. The causal research design in this study aims to determine the effect of tunneling incentive and bonus mechanism on transfer pricing with tax minimization as moderation. Tunneling incentive and bonus mechanism are independent variables on transfer pricing as the dependent variable and tax minimization as a moderating variable.

B. Operational Definition of Research Variables

TABLE I: OPERATIONAL VARIABLES

No	Variable	Indicator	Scale
1	Transfer Pricing (Y)	1 = there are transactions with special parties 0 = no transactions with special parties	Nominal
2	Tunneling Incentive (X ₁)	$TNC = \frac{\text{Jumlah Kepemilikan Saham Terbesar}}{\text{Jumlah Saham Yang Beredar}}$	Ratio
3	Mekanisme Bonus (X ₃)	$ITRENDLB = \frac{\text{Laba Bersih Tahun } t}{\text{Laba Bersih Tahun } t-1}$	Ratio
4	Tax minimization (Z)	$ETR \equiv \frac{\text{Beban Pajak Penghasilan}}{\text{Laba Sebelum Pajak}}$	Ratio

C. Population and Research Sample

The population in this study are multinational companies in the manufacturing sector which are listed on the Indonesia Stock Exchange in 2016-2019. The sample selection in this study using purposive sampling method. that is, the sample is selected based on the suitability of the characteristics with the criteria (consideration) of the specified sample in order to obtain a representative sample. The sample of this research is 15 companies multiplied by

the number of years of observation, so that the sample size is 60 data.

D. Data Analysis Methods Descriptive statistics

Descriptive statistics are used to provide an overview or description of data seen from the mean, standard deviation, variant, maximum, minimum, sum, range, kurtosis, and skewness [8]. The purpose of the statistical test itself is to see the quality of the research data indicated by the numbers or values contained in the mean and standard deviation. If the mean is greater than the standard deviation or deviation, the data quality is said to be better.

Logistic Regression Analysis

Logistic regression analysis is an analytical tool used to measure the influence of the independent variable on the dependent variable, in this case the dependent variable is in the form of a dummy variable (between 0 and 1). Logistic regression analysis is used to measure the influence of the independent variable on the dependent variable. This analysis does not require a classic assumption test because in logistic regression analysis a fit model analysis is produced that illustrates whether the data from this study is good for use in research. In this case, the logistic regression does not need to assume data normality on the independent variable [8].

TABLE IV: RESEARCH HYPOTHESIS TESTING

Variables in the Equation								
	B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I. for EXP(B)	
							Lower	Upper
X1	-.5,133	2,012	6,51	1	,011	,006	,000	,304
X2	,250	,292	,732	1	,392	1,284	,724	2,274
Z	1,457	3,141	,215	1	,643	4,293	,009	2026,490
Step 1 ^a	X1.Z	20,763	13,26	2,451	1	,117	104019240 3,430	202505623155 085200000,00 0
	X2.Z	-9,019	5,926	2,317	1	,128	,000	,000
	Constant	3,253	1,06	9,412	1	,002	25,862	13,393

a. Variable(s) entered on step 1: X1, X2, Z, X1.Z, X2.Z.

See the results above for the Tunelling Incentive variable, the significance value (0.011) < 0.05 means that the variable has a significant effect on transfer pricing, while the bonus mechanism variable has a significant value (0.392) > 0.05, which means that the variable has an insignificant effect on transfer pricing. Tax Minimization cannot moderate the effect of tunneling incentives on transfer pricing provisions, and Tax Minimization cannot moderate the effect of the bonus mechanism on transfer pricing provisions.

B. The Formed Logistic Regression Model

The analysis used in this research is logistic regression by looking at the effect of Tunneling Incentive, Bonus Mechanism on Transfer Pricing with Tax Minimization as moderation. The regression model in this study is as follows:

$$TP = \alpha + \beta_1 TIN + \beta_2 BM + \beta_3 (TIN \times TMINIM) + \beta_4 (BM \times TMINIM) + \varepsilon$$

where

IV. RESULT AND DISCUSSION

A. Results

TABLE II: DETERMINATION COEFFICIENT TEST

Model Summary			
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	61,929 ^a	,148	,212

a. Estimation terminated at iteration number 7 because parameter estimates changed by less than ,001.

From the results above, it can be seen that Cox & Snell R Square is 0.148, which shows that the ability of the independent variable to explain the dependent variable is 0.148 or 14.8% and there are 100% - 14.8% = 85.2% other factors outside the explaining model. dependent variable.

TABLE III: REGRESSION MODEL FEASIBILITY TEST

Hosmer and Lemeshow Test			
Step	Chi-square	df	Sig.
1	9,686	8	,288

The Chi-Square value from the results above is 9.686, while the Chi-Square table value is 77.93. Because the value of Chi Square Hosmer and Lemeshow count (9.686) < Chi-Square table 77.93 or a significance value of 0.288 > 0.05 so it accepts Ho, which indicates that the model is acceptable and hypothesis testing can be done because there is no significant difference between the models. with the observation value.

TP = Transfer Pricing'

TIN = Tunneling Incentive'

BM = Mechanism Bonus'

TMINIM = Tax Minimization'

α = Constant'

β_1 = Tunneling incentive regression coefficient'

β_2 = Bonus mechanism regression coefficient'

TIN $\times$ TMINIM = Interaction between Tunneling incentives and Tax Minimization'

BM $\times$ TMINIM = Interaction between the Bonus mechanism and Tax Minimization'

ε = Error.

Based on the values above, the equation model that is formed is as follows:

$$TP = \alpha + \beta_1 TIN + \beta_2 BM + \beta_3 (TIN \times TMINIM) + \beta_4 (BM \times TMINIM) + \varepsilon$$

$$TP = 3,253 - 5,133TIN + 0,250BM + 20,763 (TIN \times TMINIM) - 9,019 (BM \times TMINIM) + \varepsilon$$

C. Discussion

1. Effect of Tunneling Incentive on Transfer Pricing

From the analysis above, it can be concluded that $\text{Sig} < 0.05$ is seen, which means that there is a significant influence between Tunneling Incentive and Transfer Pricing. The results differ from research in The Effect of Tunneling Incentive to Transfer Pricing Decision with Tax Minimization as a Moderating Variable, showing that tunneling incentive has a positive and insignificant effect on transfer pricing decisions [18].

2. Effect of Bonus Mechanism on Transfer Pricing

From the analysis above, it can be concluded that $\text{Sig} > 0.05$ is seen, which means that there is no significant effect between Bonus Mechanism and Transfer Pricing. The results are the same as research which examines manufacturing companies in the industrial goods sector, resulting in that tunneling incentives, bonus mechanisms, and company size have an effect on transfer pricing, while leverage has no effect on transfer pricing [7].

3. Tax Minimization moderates the effect of tunneling incentives on transfer pricing provisions

From the analysis above, it can be concluded that $\text{Sig} > 0.05$ is seen, which means that Tax Minimization cannot moderate the influence of Tunneling Incentive with Transfer Pricing Regulations. The results are the same as research, conducting research on manufacturing companies regarding Transfer Pricing which is influenced by the Tunneling incentive and Debt Covenant variables where Tax Minimization is the moderating variable [21]. The results of the study indicate that tax minimization does not moderate the effect of tunneling incentives on transfer pricing provisions.

4. Tax Minimization moderates the effect of Bonus Mechanism on transfer pricing provisions

From the analysis above, it can be concluded that $\text{Sig} > 0.05$ is seen, which means that Tax Minimization cannot moderate the effect of the Bonus Mechanism and the Transfer Pricing Stipulation. The results are the same as research which examines manufacturing companies to determine the factors that influence transfer pricing [1]. The results show that tax minimization is not able to moderate profitability, bonus mechanisms, tunneling incentives and debt convenient on transfer pricing.

V. CONCLUSION AND SUGGESTION

A. Conclusion

From the results of this study, the following conclusions can be drawn:

- 1) From the results of this study, the following conclusions can be drawn:
- 2) Tunneling Incentive has a significant effect on Transfer Pricing Provisions with a negative regression coefficient in other words it can increase Transfer Pricing Provisions. Simultaneously, Tunneling Incentive can determine transfer pricing provisions
- 3) Bonus Mechanism has no significant effect on Transfer Pricing Provisions with a positive regression coefficient in other words, it can increase Transfer Pricing Stipulations.

Simultaneously, the Bonus Mechanism cannot determine transfer pricing provisions.

4) Tax Minization cannot moderate the effect of tunneling incentive on transfer pricing provision with a positive regression coefficient in other words, it can increase transfer pricing provision. Simultaneously, Tax Minization cannot moderate the effect of tunneling incentives on transfer pricing provisions

5) Tax Minization cannot moderate the effect of the bonus mechanism on the transfer pricing provision and the negative regression coefficient in other words cannot increase the transfer pricing provision. Simultaneously, Tax Minization cannot moderate the effect of the bonus mechanism on the provision of transfer pricing

B. Suggestion

Some suggestions that can be put forward in the results of this study are due to the imperfections of the research conducted by the author, so the authors provide suggestions that are expected to be able to add knowledge from this research, namely as follows:

1. Further research is needed to be able to find out more things to influence transfer pricing provisions apart from taxminization, tunneling incentives, and bonus mechanisms.
2. The research time should be made long, in order to provide a better picture. Because the results are likely to be different when using different periods.

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