TRANSFER PRICING PRACTICES: A STUDY ON MANUFACTURING COMPANIES IN INDONESIA

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Abstract

This research aims to test whether there is an influence between taxation, bonusmechanism, profitability, tunneling incentive on transfer pricing. The data used in this research is secondary data. This type of research is quantitative. In this study, secondary data were obtained from the Indonesia Stock Exchange website through the site http://www.idx.co.id in the form of financial reports of manufacturing companies that have gone public and have been audited from 2018 to 2020. The population in this study are manufacturing companies listed on the IDX (Indonesia Stock Exchange) from 2018 to 2020. While the number of sample companies listed was 59 companies with an observation time span of three years, so that the sample used in this study amounted to 147 companies. The research criteria used the purposive sampling method. This research uses the technique of multiple linear regression analysis. The results of this research show that based on the results of the analysis conducted in this study, it can be concluded that taxes, bonus mechanisms and tunneling incentives affect transfer pricing. Meanwhile, profitability has no effect on transfer pricing.

Keywords: Bonus Mechanism, Tax, Profitability, Tunneling Incentive, Transfer pricing

Introduction

Transfer pricing is a form of taxable income that is transferred from a multinational industry to an industry with a lower tax rate but always in the same multinational industry group. This *transfer pricing is* done as the industry's effort to minimize the tax burden of the multinational team. Transfer pricing is regulated in Law Number. 36 of 2008 article 18 paragraph(4) on income tax which reports that: must tax affiliated entities can be established because of the ability or equity participation of something must tax other entities by 25% or more, or part must tax entities by 25% or more that the shares are understood by an entity.

The transfer pricing case occurred in an Indonesian manufacturing company in 2017 at PT Tiga Pilar Sejahtera Food Tbk. PT Tiga Pilar's profit management allegedly transferred a sum of money to a party with a special relationship with a total of Rp 1.78 trillion with various mechanisms from the company group to partiesaffiliated with the old management. The schemes include using loan disbursements from several banks, using time deposit disbursements, transferring money in bank accounts, and financing the expenses of affiliated parties by The Tiga Pilar Group. According to Ernst & Young (EY), this condition violated

the Decree of the Chairman of the Capital Market and Financial Institutions Supervisory Agency (now changed to the Financial Services Authority / OJK). No. KEP-412/BL/2009 regarding Affiliated Transactions and Conflict of Interest of Certain Transactions (source: www.bisnis.com)

According to (Saragih et al., 2021) there are various factors that can influence the company's decision to take transfer pricing actions. The first factor is tax, where tax is one of the sources of state funds that makes the largest contribution to developing the country. The relationship between tax and transfer pricing is where the high tax payment company, makes the company will do tax avoidance. Therefore, multinational companies tend to shift their tax obligations from countries with high tax rates to countries with lower tax rates.

Research conducted by (Amarta et al., 2020) states, that taxes have a positive and significant effect on indications of transfer pricing. Meanwhile, research conducted by (Ginting et al., 2020) simultaneously has no effect significant on the practice of transfer pricing practices. In addition tothe above factors, the bonus mechanism also affects the occurrence of transfer pricing. The bonus mechanism is an additional gift or reward given to employees for successfully achieving the company's desired goals. Profit-based bonus mechanisms are the most commonly used method toreward directors or managers.

According to (Herawaty & Anne, 2019) the relationship between the bonus mechanism and *transfer pricing* is by giving bonuses to employees who are used to improve the performance of a company so that the profits generated each year are higher. Managers will find it easier to manipulate profit data to maximize profits. The higher the overall company profit achieved, the higher the appreciation given by the owner to the directors. Therefore, transfer pricing is chosen by the directors to maximize the company's profit.

Another factor is profitability. Profitability is the company's ability to manage assets to generate a profit. Because the lower the profitability of a company, the higher the possibility that the company will take transfer pricing actions (Cledy and Amin, 2020). The last factor that can influence the company's decision in performing transfer pricing actions, namely tunneling incentive. Where tunneling incentive is a behavior of majority shareholders who transfer assets and profits to the company for their own interests, but minority shareholders bear the costs they incur (Putri, 2019).

The relationship between tunneling incentive and transfer pricing is that with the

transfer of assets or profits to the company carried out by controlling shareholders, dividend payments are not made so that minority shareholders are less profitable. This aims to emphasize expenses that will reduce the company's profits. Based on the description of the phenomenon, the researcher analyzes that the occurrence of overstatement can increase the company's profitability and increasebonuses to directors or managers of the company. Transfer pricing can be done by using time deposits, loan disbursements, fund transfers in bank accounts, and financing of affiliated party expenses by The Tiga Pilar Sejahtera Food (TPSF) group.

Transfer pricing practices can be influenced by several factors. The first factor is tax, where tax is one of the sources of state funds that provide the largest contribution in developing the country. The relationship between tax and transfer pricing can be seen from the high tax burden that triggers companies to do tax avoidance. Therefore, the company seeks high tax obligations in one country to be transferred to a country with a lower tax burden.

In addition to the factors above, bonus mechanism also affects the occurrence of transfer pricing. The bonus mechanism is defined as an additional reward received by employees for achieving performance results according to company expectations to achieve the desired profit. Awards to directors or managers usually use the profit-based bonus mechanism method (Diyah, 2020).

The relationship between transfer pricing and bonus mechanism is reflected in the provision of bonuses to employees who strive to improve the performance of a company so that the profit generated each year increases. The higher the company's profit achievement, the greater the appreciation given by shareholders to the directors.Therefore, transfer pricing becomes an alternative effort chosen by the directors to increase profits.

The relationship between tunneling incentive and transfer pricing can be seen with the transfer of assets or profits to the company carried out by controlling shareholders, triggering dividend payments not to be given so that it has an effect on the disadvantages of minority shareholders... This aims to reduce expenses which will result in reduced company profits (Mineri & Paramitha, 2021).

This refers to research (Rachmat, 2019) with the title Tax, BonusMechanism and Transfer pricing in manufacturing companies listed on the IndonesiaStock Exchange in 2013-

2017. The difference between this research to Rachmat's research, is that this research develops independent variables by adding profitability and tunneling incentive variables. Seeing the transfer pricing case carried out by TPS Food by transferring funds to affiliated parties triggered the manager's company profitability to increase. While the tunneling incentive can be seen from the case that the minority shares of the six distributor companies are not profitable.

TPSF claimed to be completely unaware of the practice of inflating receivables against companies in TPSF's financial statements. Another difference, research (Rachmat, 2019) uses Indonesian manufacturing companies for the 2011-2015 period while this study uses manufacturing companies listed on the Indonesia Stock Exchange for the 2018-2020 period. This study aims to determine the factors that influence the factors that influence transfer pricing in manufacturing companies listed on the Indonesia Stock Exchange such as taxes, bonus mechanisms, profitability, *tunneling incentives, and other* factors.

Researchers used tax variables, bonus mechanism, profitability and *tunnelling incentive* as independent variables, and *transfer pricing* as dependent variable. Thus, in this study, researchers focused on manufacturing companies listed on the Indonesia Stock Exchange. The study will discuss about **"*Transfer pricing* Practices: Study on Manufacturing Companies in Indonesia".**

Literature Review

Agency Theory

Jensen and Meckling (1976) describe agency as : "Agency relationship as a contract under which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent".

Agency Theory is an agreed relationship between principal and agent. The agency connection is described when one or more individuals hire other individuals to receive services from these individuals and then assign tasks in decision making tothese workers. In an organization, company owners who act as principals alwayswant to know information on activities carried out by agents as company management, including the management of funds invested in the company. Through the financial statements displayed by company management, the principal can find out the information needed, including an assessment of the agent's performance in a certain period. Manager as agents have the responsibility to

maximize the profits of the principal. On the other hand, managers also have an interest in maximizing their welfare. However, in practice, managers tend to make efforts so that the accountability reportspresented look good so that their performance can be assessed as good by theprincipal (Jannah, 2021).

Transfer pricing

Transfer pricing is a company policy in determining the transfer price of a transaction whether it is goods, services, intangible assets, or financial transactions carried out by the company (Saragih et al., 2021). Transfer pricing is a scheme to transfer corporate taxpayer income from an entity in a multinational company groupto another entity in a country with a lower tax rate within the same multinational company group. The scheme is carried out as an effort to minimize the tax burden of the multinational company group. One of the reasons for transfer pricing practices is the tax burden that must be paid. Large tax payments trigger tax avoidance bycompanies, namely by practicing *transfer pricing*.

Transfer pricing behavior can be pursued by increasing the purchase price or minimizing the selling price between affiliated companies and transferring the profitsearned to a group of companies domiciled in a country that applies a smaller tax burden rate. *Transfer pricing* is often done by companies as an effort to minimize the amount of tax that must be issued.

Tax and *Transfer pricing*

Taxes are the largest source of funds received by the state which greatly contributes to developing the country. Many tax provisions have been made each year through the issuance of new tax laws and regulations, improvement of laws, which serve to increase compliance and awareness of taxpayers and explore other taxsources.

The relationship between agency theory and taxes is that taxes have a correlation to transfer pricing. Where agency theory describes the information provided is not symmetrical triggers to perform various levels of fraud where companies can manipulate financial statement data relating to the company. This is done so that the taxes paid will be lower and even able to be transferred to affiliated companies located in countries that have smaller rates. One of the efforts practiced by companies to minimize profits is transfer pricing. The company should use the fair price principle to reduce tax liabilities, but the company mostly uses transfer pricing. Research produced by (Amarta et al., 2020) proves

that taxes affect the indication of transfer pricing.

H1 : Tax affects transfer pricing practices

Bonus Mechanism and Transfer pricing

Bonus mechanism is an award or compensation received by employees forsuccess in achieving targeted company goals (Refgia, 2017). Awards to directors or managers usually use the profit-based bonus mechanism method. The bonus received by employees is determined by the company leadership, usually adjusted to theposition, for example, the bonus received by managers or directors of the company. Managers or directors receive bonuses in the form of allowances, commissions, sales incentives and others (Mineri and Paramitha, 2021).

For maximizing the company's profit, management will do transfer pricing. When the profit earned by the company is large, the bonus received by the directors or company management will also increase. This statement is supported by Refgia (2017) which states that directors' compensation is reviewed from the performance of divisions or teams in one company. When the overall company profit generated is high, the image of the directors in the eyes of investors is also getting better. Rachmat (2019) explains that the bonus mechanism through the net profit trend index affects *transfer pricing.*

H2 : Bonus mechanism affects transfer pricing practices

Profitability and Transfer pricing

Roslita (2020) explains that profitability is a form of financial performance in regards to the company's ability to generate profits in a certain time at a certain level of sales, assets and share capital. The greater the profitability generated by the company, the scheme of transfer pricing practices will be reduced, but if the profitability of the company is small, the scheme of transfer pricing practices will also increase. Therefore, there is an influence between profitability and transfer pricing.

Transfer pricing practices are usually attempted by companies with a scheme to adjust transfer prices for transactions between affiliated companies. This price adjustment is sought to be able to adjust the profit generated in order to minimize the tax rate paid by the company (Mineri and Paramitha, 2021). This statement is supported by research conducted by (Cahyadi and Noviari, 2018) which proves that profitability affects transfer pricing.

H3 : Profitability affects transfer pricing practices

Tunneling Incentive and Transfer pricing

Tunneling incentive is a practice carried out by majority shareholders in an effort to move profits and assets to the company for their own benefit. (Putri, 2019). The flow of assets and profits is pursued with various alternatives, one of which is done through transfer pricing practices. This scheme is used as an effort to increase the profits of majority shareholders.

Tunneling incentives can be carried out with a scheme of selling company products to companies affiliated with managers using prices lower than market prices, maintaining positions or job positions even though they are no longer optimalin carrying out business operations to companies that have relationships withaffiliated parties (Mineri and Paramitha, 2021). This statement is supported by (Refgia, 2017) proving that tunneling incentive effect on *transfer pricing*.

H4 : Tunneling incentive affects transfer pricing practices.

Research Framework

Based on the literature review and the explanation of the hypothesis above, theresearch framework can be described as follows:

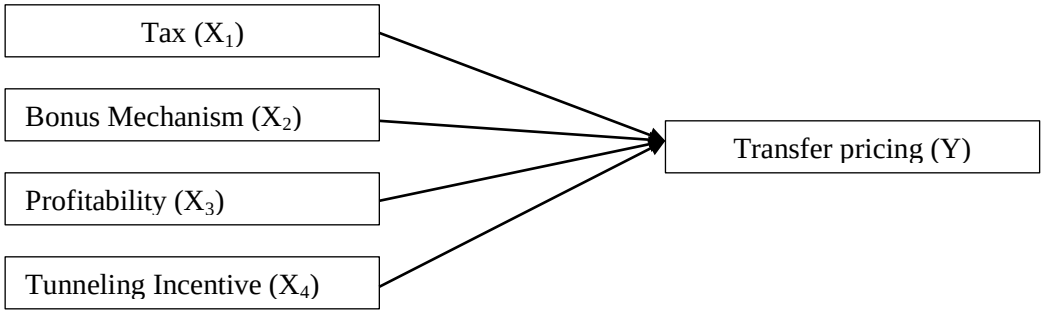

Figure 1 Research Model

Research Methods Data Type and Source

The types and sources of data used in this study are secondary data or documentary data. In this study, secondary data was obtained from the Indonesia Stock Exchange website through the site http://www.idx.co.id in the form of financial reports of manufacturing companies that have gone public and have been audited from 2018 to 2020. The secondary data used in this study is quantitative data in the form of annual financial

statements or annual reports *of* each manufacturing company listed on the Indonesia Stock Exchange.

Population and Sample

Population is a generalization area consisting of objects or subjects that have certain qualities and characteristics set by researchers to study and then draw conclusions. The population in this study are manufacturing companies listed on the IDX (Indonesia Stock Exchange) from 2018 to 2020. The years 2018-2020 were chosen because they are the latest and closest years to the time of preparation of this study and the financial report data is available and the existing data is still relevant to be studied so that it is expected to describe the actual conditions.

The sample selection method for this research is *purposive sampling* method. Samples are selected based on special considerations, which means that a sample has criteria and characteristics that are in accordance with the sample selection objectives. The following are the criteria and requirements for the sample to be selected:

1) Manufacturing companies listed on the Indonesia Stock Exchange in 2018-2020.
2) Manufacturing companies that conducted *Initial Public Offering* (IPO) or listed on the Indonesia Stock Exchange before 2018
3) Manufacturing companies that did not experience financial statement losses during 2018-2020.
4) Data at Overall available at complete in publication during 2018-2020.

Based on these criteria, 59 companies were selected as samples, so that the total research sample during 2018-2020 was 177 observations based on financial reports published through the Indonesia Stock Exchange (IDX). The type of data obtained from financial reports is secondary data. The analysis used is multiple linear regression analysis with the help of SPSS Version 23 software.

Tax Independent Variable

Tax is a compulsory contribution to be a source of State revenue that contributes to the development of the country. It has many provisions each year through the issuance of new laws and regulations and the improvement of laws in the field of taxation aims to sensitize or improve taxpayer compliance and explore other tax sources (Amarta et al., 2020). Tax can be

proxied by using the *Effective Tax Rate* (ETR). ETR is reviewed with the proxy comparison of total income tax expense to profit before tax (Agustina, 2019). ETR is formulated as follows:

$$\boldsymbol{ETR = \frac{\text{Income Tax Expense}}{\text{Earning Before Income Tax}}}$$

Bonus Mechanism

The bonus mechanism is an award or additional compensation for assessing employee performance that has met or has achieved company goals in meeting the set profit target (Refgia, 2017). The bonus mechanism in awarding directors or managers as company management often uses the profit achievement method. So, because it focuses on the level of profit, managers or directors can try to manipulate these profits with the aim of maximizing bonus receipts. The net profit trend index (ITRENDLB) proxy can be a measuring tool in determining the Bonus Mechanism. The measurement uses a ratio scale (Agustina, 2019) with the following formula:

$$\text{ITRENDLB} = \frac{\text{Nett Income (T)}}{\text{Nett Income (T} - 1)}$$

Profitability

Profitability is a reference used in companies to assess the company's ability to generate profits or profits. Profitability in research is reviewed using the natural logarithm of pre-tax income received by the company on the income statement (Ilmi and Prastiwi, 2019). The proxy used in this profitability is the ROA formula which is used as follows:

$$\text{ROA} = \frac{\text{Nett Income}}{\text{NettTotal Asset}}$$

Tunneling Incentive

Tunneling incentive is a practice carried out by majority shareholders in aneffort to move profits and assets to the company for their own interests, as a result, with this practice the costs will also be borne and felt by minority shareholders (Putri, 2019). *Tunneling incentive is* reviewed with an indicator of shareholders by foreign parties with an amount of 20% or more percentage of share ownership (Wijaya and Amalia, 2020). The calculation of *tunneling incentive* is obtained by the following formula:

$$\text{TUN} = \frac{\text{Largest Shareholding}}{\text{Outstanding Shares}}$$

Results and Discussion

Descriptive Statistical Analysis

Descriptive statistical analysis presents data described from the maximum, minimum, mean and standard deviation values which are the results of the research variables. The following is presented descriptive statistical information from this research variable:

Table 2. Statistical Descriptive Test

ResultsDescriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
TF	147	.00	.94	.0971	.18943
ETR	147	-.25	2.80	.2724	.25714
ITRENDLB	147	-8.60	26.05	1.4158	2.87761
ROA	147	-.23	1.60	.0827	.15166
TUN	147	.15	.97	.5711	.21298
Valid N (listwise)	147				

Source: data processed

Normality Test Results

Table 3 below presents information about the results of the normality test whichdisplays a *Kolmogorov-Smirnov* value of 0.877 and produces a significant value of0 .426. Based on this test, it can be seen that the value of significance is greater than 0.05, so it is concluded that the data is normally distributed.

Table 3. Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		147
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.02696837
Most Extreme Differences	Absolute	.072
	Positive	.072
	Negative	-.059
Kolmogorov-Smirnov Z		.877
Asymp. Sig. (2-tailed)		.426

a. Test distribution is Normal.
b. Calculated from data.

Source: data processed

Multicollinearity Test Results

Table 4 below displays the results of the multicollinearity test, based on these results, it is obtained information that in the study there is no multicollinearity between independent variables because the VIF value is less than 0.10.

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	ETR	.993	1.007
	ITRENDLB	.995	1.005
	ROA	.973	1.027
	TUN	.979	1.022

a. Dependent Variable: CETR

Source: Data processed

Autocorrelation Test Results

Table 5 shows that there is no autocorrelation reflected in the resulting *Durbin- Watson* weight of 1.548 which is between -2 and +2 so that the model can be said to be good.

Table 5 Autocorrelation Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.574[a]	.330	.311	.02735	1.548

a. Predictors: (Constant), TUN, ETR, ITRENDLB, ROA

b. Dependent Variable: TF

Source: data processed

Heteroscedasticity Test Results

Table 6 shows the significant level for ETR is 0.823, ITRENDLB is 0 .737, ROA is 0 . 752 and TUN is 0.052. This shows that there is no heteroscedasticity because the value of the four variables is greater than the 5 % level.

Table 6. Heteroscedasticity Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.018	.004		4.487	.000
	ETR	-.002	.007	-.019	-.225	.823
	ITRENDLB	.000	.001	-.028	-.337	.737
	ROA	-.002	.008	-.027	-.317	.752
	TUN	.011	.006	.164	1.958	.052

a. Dependent Variable: Abs_Res

Source: data processed

Multiple Linear Regression Analysis

Table 7 provides information on multiple linear regression in this study. From thetable, the equation is obtained:

$$\mathbf{Y = 0.087+0.032\ X_1\ -0.005\ X_2\ -0.004\ X_3\ -0.065\ X\ +e_4}$$

Based on the above equation, the weight of the constant coefficient is 0.087 and the weight for the regression coefficient for each independent variable: Tax (X_1) 0.032; Bonus mechanism (X_2) -0.005; Profitability (X_3) -0.004 and Tunneling incentive (X_4) -0.065. To determine the effect of each independent variable on the dependent variable, a t test is performed to show the probability value. If the probability value is less than 0.05, the independent variable has an effect on the dependent variable or the hypothesis is accepted, otherwise if the probability level is greater than 0.05 then hypothesis rejected or variable independent variable no effect onthe dependent variable.

Table 7 Multiple Linear Regression Calculation Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	.087	.008	
	ETR	.032	.014	.156
	ITRENDLB	-.005	.001	-.324
	ROA	-.004	.015	-.021
	TUN	-.065	.011	-.425

a. Dependent Variable: TF

Source: data processed

Determination Coefficient Test Results

The coefficient of determination test is used to determine the ability of all independent variables to influence the dependent variable. Table 8 presents the *Adjusted R Square* number of 0.311. It means that 31.1% of tax variable, bonus mechanism, profitability and *tunneling incentive* can influence *transfer pricing* and 68.1% of *transfer pricing* can be influenced by other variables.

Table 8 Test Results of the Coefficient of Determination (R^2)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.574[a]	.330	.311	.02735

a. Predictors: (Constant), TUN, ETR, ITRENDLB, ROA

b. Dependent Variable: TF

Source: data processed

Tax Effect on Transfer pricing

The discovery of agency theory raises contact with *transfer pricing* practices. The exposure of *agency* theory describes the information provided is not symmetricaltriggers to perform various levels of fraud where the company can manipulate financial statement data relating to the company. This is done so that the taxes paid will be lower and even able to be

transferred to affiliated companies located in countries that have smaller rates. One of the efforts practiced by companies tominimize profits is *transfer pricing*.

In this study, the average value of corporate tax for 3 years from 2018-2020, theaverage value is 2.724%. This amount indicates that the tax value of the company is quite low. Companies whose tax value is quite low are indicated to be doing tax planning. One of the efforts to carry out tax planning is by practicing *transfer pricing*. This *transfer pricing* practice is often done by companies to minimize the tax burden that must be paid. This is confirmed by the results of research by Amarta, et al. (2020) proving that taxes affect the indication of *transfer pricing.*

Effect of Bonus Mechanism on Transfer pricing

The correlation between *agency* theory and the bonus mechanism can be described when exercising their authority, the directors tend to show good performance to the company owner in managing the company. Directors not only receive bonuses from company owners as compensation for the achievement of generating targeted profits for divisions or subunits, but also is given to directors or company management who are willing to work together to advance and benefit the company as a whole.

In this study, the average value of the bonus mechanism of the sample companies for 3 years from 2018-2020, the average weight is 1.4158, which means that the higher the profit received by the company, the higher the bonus received by the management concerned. The proportion of compensation is seen from the performance of various units or divisions within a company. When the profit generated by the company increases, the image of the directors in the eyes of the company owner is also getting better. This is reinforced by the research of Refgia (2017) and Rachmat (2019) which explains that the bonus mechanism reviewed by the net profit trend index affects the company in *transfer pricing.*

Effect of Profitability on Transfer pricing

Profitability variable has no influence on the company's decision in conducting *transfer pricing* practices. The absence of profitability influence on *transfer pricing* practices can be caused by the fact that companies that practice *transfer pricing are* more likely to show losses in the presentation of their income statement rather than book low profitability values in their income statement.

SE-50/PJ/2013 explains that one of the signs of a taxpayer that has a large *transfer pricing* risk is the lower weight of the taxpayer's profitability compared to similar companies. Therefore, DGT should not only focus on the profitability value, but also need to pay attention to whether the company booked a loss.in the financial statements or not. In addition, DGT needs to consider companies that produce high profitability and not only conduct *transfer pricing* checks on companiesthat have low profitability such as Belgium and Canada (Rahmadhan and Kustiani, 2017). This study produces an average value of company profitability for 3 yearsfrom 2018-2020, the average value is 8.27%. This shows that the company has a low proportion of profitability. However, in this study, the amount of

profitability generated by the company does not affect the company's decision to take *transfer pricing* actions.

The results of this study are in line with research conducted by Ramadhan, Muhammad Rheza and Kustiani, (2017) Ilmi and Prastiwi (2020) which show that profitability has no significant effect on *transfer pricing*. This research is not in line with research conducted by Cahyadi and Noviari (2018) which states that profitability proxied by ROA affects the company's decision to conduct *transfer pricing.*

The Effect of Tunneling Incentive on Transfer pricing

The emergence of tunneling incentive is due to the *agency problem* between majority shareholders and minority shareholders. This condition is triggered by the existence of different interests by each party. Share ownership that is centered on one of the interests will provide the power to control the business activities of thecompany under its control (Refgia, 2017).

Based on the results obtained in this study that the average company *tunneling incentive* for 3 years from 2018-2020, the average value with a weight of 57.11%. The percentage shows that the company has a large proportion of *tunneling incentive*, meaning that the more shares owned by investors, the higher the possibility of *transfer pricing*. The results of this study show the same results as research conducted by Refgia (2017) proving that *tunneling incentive* affects the company's decision to do*transfer pricing.*

Conclusion

Based on the tests that have been carried out, the researcher can conclude that the value of t count of 2.263 while the t table is1.97681 with a significance of 0.025 which is smaller than = α 0.05 so it is concluded that tax partially has a significant effect on transfer pricing. Furthermore, the value is -4.703 while the t value is -4.703. table of 1.97681 with a significance of 0.000 is smaller than = α 0.05 so it is concluded that the bonus mechanism partially has a significant effect on *transfer pricing.* Then the value of the t value is -0.295 while the t table is 1.97681 with a significance of 0.769 is greater than = 0.05 so it is concluded that the effect of transfer pricing is significant.

Profitability partially has no significant effect on transfer pricing. Finally, the t value is -6.113 while the t table is 1.97681 with a significance of 0.000 which is smaller than = 0.05.Therefore, it is concluded that *tunneling incentive* partially has a significant effect on *transfer pricing.* Thus, tax, bonus mechanism and *tunneling incentive* affect transfer pricing. Meanwhile, profitability cannot influence the decision to practice transfer pricing. The test results are expected to contribute in providing insight to readers and future researchers.

There is limitations of research in this study where research was only conducted on companies sector manufacturing sector companies which cannot be generalized all companies listed on the Indonesia Stock Exchange. It is hoped that future researchers will expand the research sample. Then the research only uses 4 independent variables, namely Taxes, Bonus Mechanism, Profitability and Tunneling Incentive. So that further research can consider variables other variables that affect transfer pricing from both the financial and non-financial aspects such as inflation, economic growth, governance and so on.

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