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The Influence of Tax Avoidance, Profitability, and Tunneling Incentive on Transfer Pricing Policy (Case Study of Non-Cyclical Companies in the Food and Beverage and Non-Durable Household Products Subsector Listed on the Indonesia Stock Exchange 2020-2023)

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ABSTRACT

Purpose: This research aims to analyze the effects of tax avoidance, profitability, and tunneling incentives on transfer pricing policies in non-cyclical companies in the food and beverage subsector as well as non-durable household products listed on the Indonesia Stock Exchange for the period of 2020–2023.

Methodology: The research uses a quantitative approach with secondary data. The population consists of 95 companies, and through purposive sampling, 8 companies were obtained with a total of 32 financial statements over four years of observation. The analysis techniques include descriptive statistics, classical assumption tests, multiple linear regression, and hypothesis testing.

Findings: The research results show that partially, tax avoidance does not have a significant effect on transfer pricing policy, while profitability and tunneling incentives have a significant effect. Simultaneously, these three variables have been proven to have a significant effect on transfer pricing policy.

Conclusion: Transfer pricing policies in companies are more influenced by financial performance and the motivations of controlling shareholders than by direct tax avoidance practices. This emphasizes that internal company factors, particularly profitability and tunneling incentives, are the main determinants in transfer pricing decision-making.

Implication: The results of this research contribute to regulators in tightening supervision of transfer pricing practices that could reduce state revenue, as well as to companies in enhancing tax compliance and maintaining transparency in financial reporting. In addition, these findings are also beneficial for investors as a consideration in assessing corporate governance and the risks of special relationship practices.

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1. INTRODUCTION

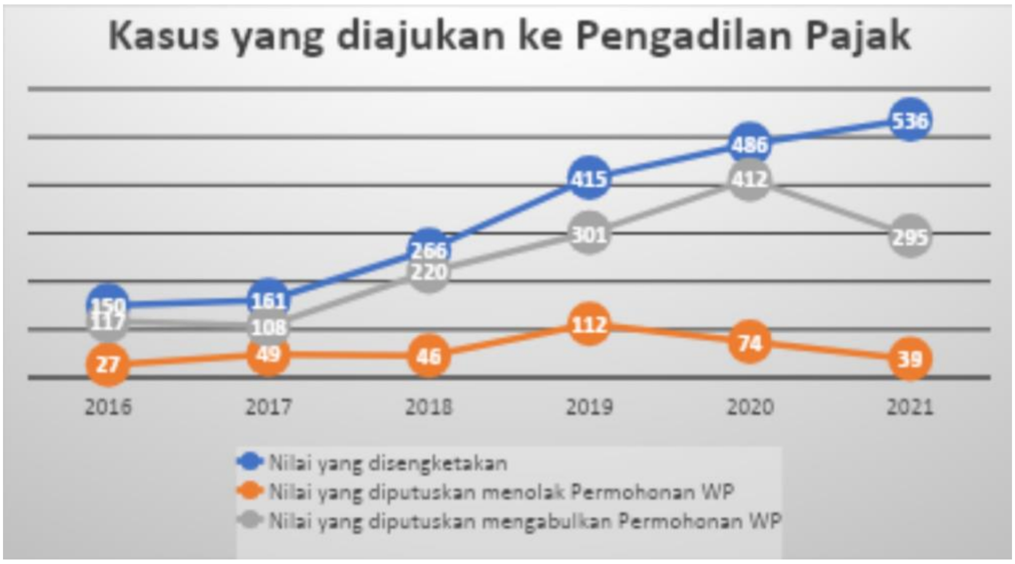
Globalization and the development of information technology have erased boundaries between countries, facilitating cross-border transactions. This condition provides opportunities for business expansion for multinational companies, but also presents new challenges, particularly related to transfer pricing practices. Transfer pricing is essentially a mechanism for setting prices between related parties, but in practice, it is often exploited as a means of tax avoidance. In Indonesia, cases such as PT Toba Pulp Lestari and PT Unilever Indonesia demonstrate how transfer pricing practices can significantly reduce state revenue. This makes transfer pricing an important issue in corporate governance as well as tax oversight.

The main issue that arises is the factors that drive companies to engage in transfer pricing. Three factors that are often identified are tax avoidance, profitability, and tunneling incentive. The question is, does tax avoidance become the primary motivation for transfer pricing practices? Or rather, are profitability and the interests of controlling shareholders more dominant? The research questions posed are:

1. Does tax avoidance affect transfer pricing policy?
2. Does profitability affect transfer pricing policy?
3. Does tunneling incentive affect transfer pricing policy?
4. Do these three variables simultaneously affect transfer pricing in companies in the food, beverage, and non-durable household products subsector listed on the IDX from 2020 to 2023?

The purpose of this research is to empirically test the effects of tax avoidance, profitability, and tunneling incentives on transfer pricing policies, both partially and simultaneously. The focus on the non-cyclical subsector is chosen due to the stability of its industry characteristics and its connection to foreign investment, which makes it prone to special relationship practices. The urgency of this research becomes even more evident in light of the increasing number of disputed transfer pricing cases in the tax court in recent years (Figure 1).

Figure 1. Transfer Pricing Case in the Tax Court



Source: BPKP Report on Transfer Pricing Not a Cilincing Pirate (2024). Processed by the researcher.

This research is relevant both theoretically and practically. Academically, this study fills the gap in previous research results that show different findings related to the effects of tax avoidance, profitability, and tunneling incentives on transfer pricing. Practically, this research contributes to regulators to tighten the supervision of transfer pricing, as well as for company management and investors in understanding the factors that influence these policies. Thus, this research is expected to strengthen the literature on accounting and taxation in Indonesia, particularly in the context of corporate governance and international business practices.

2. LITERATURE REVIEW

Transfer Pricing

Transfer pricing is a company's activity in setting transfer prices for transactions that can take the form of products, services, intangible assets, or financial transactions conducted with related parties (Herawaty & Anne, 2019). In practice, this mechanism is often viewed as an efficiency strategy, but it also has the potential to be misused to reduce tax burdens.

Tax Avoidance and Transfer Pricing

Tax avoidance utilizes regulatory loopholes to legally minimize tax burdens. Previous research by Putri & Syofyan (2023) shows that tax avoidance has a significant positive effect on transfer pricing decisions. This means that the lower the company's compliance with taxation, the greater the potential for the company to engage in transfer pricing. However, this finding is inconsistent with the results of the study by Sa'diah & Afriyenti (2023), which states that tax avoidance does not affect transfer pricing. This difference in findings underscores the urgency for further research.

Profitability and Transfer Pricing

Profitability describes the effectiveness of management in controlling assets to generate profits. An increase in profitability is followed by a rise in tax liabilities, so companies with high profits tend to have incentives to engage in transfer pricing. Conversely, when profitability is low, the opportunities to shift profits through transfer pricing increase (Apriani, Putri, & Umiyati, 2020). Therefore, profitability is viewed as an important variable that influences transfer pricing policies.

Tunneling Incentive and Transfer Pricing

Tunneling incentive refers to the tendency of controlling shareholders to divert the company's assets or profits for personal gain, which can ultimately harm minority shareholders. Riaty (2021) found that tunneling incentive has a significant impact on transfer pricing policies, as controlling shareholders have the motivation to reduce tax burdens and increase personal profits. However, Hasna (2020) reported different results, stating that tunneling incentive does not have an impact on transfer pricing actions.

Research Hypothesis

Berdasarkan kerangka teori dan hasil penelitian terdahulu, maka hipotesis penelitian ini dirumuskan sebagai berikut:
H1: Tax avoidance berpengaruh signifikan terhadap kebijakan transfer pricing.
H2: Profitabilitas berpengaruh signifikan terhadap kebijakan transfer pricing.
H3: Tunneling incentive berpengaruh signifikan terhadap kebijakan transfer pricing.
H4: Tax avoidance, profitabilitas, dan tunneling incentive secara simultan berpengaruh signifikan terhadap kebijakan transfer pricing.

3. METHODS

This study uses a quantitative approach with a case study method on non-cyclical companies in the food and beverage and non-durable household products subsector listed on the Indonesia Stock Exchange (IDX) during the period 2020–2023. The research objects include independent variables such as tax avoidance, profitability, and tunneling incentive, as well as the dependent variable which is transfer pricing policy.

The research population consists of 95 non-cyclical companies. The sampling technique was carried out using purposive sampling, based on the criteria: (1) companies that have been consistently listed on the IDX during the period 2020–2023, (2) having published complete annual financial reports during the research period, and (3) having measurable research variable data. Based on these criteria, eight companies were obtained with a total of 32 financial reports as the analysis units, as shown in Table 1.

Table 1. Results of Purposive Sampling of Research Sample Companies

No.	Stock Code	Company Name
1.	INDF	PT. Indofood Sukses Makmur Tbk.
2.	JPFA	PT. Japfa Comfeed Indonesia Tbk.
3.	MLBI	PT. Multi Bintang Indonesia Tbk.
4.	SIMP	PT. Salim Ivomas Pratama Tbk.
5.	SKBM	PT. Sekar Bumi Tbk.
6.	SKLT	PT. Sekar Laut Tbk.
7.	UCID	PT. Uni-Charm Indonesia Tbk.
8.	UNVR	PT. Unilever Indonesia Tbk.

Source: Indonesia Stock Exchange Website. Processed by the researcher.

The research data is of a secondary nature, obtained from the annual financial reports of companies published on the official website of the Indonesia Stock Exchange and related company sites. The tax avoidance variable is measured using the effective tax rate ratio, profitability is proxied by return on assets (ROA), and tunneling incentive is proxied by the percentage of foreign controlling share ownership. The transfer pricing variable is determined through the disclosure of related party transactions in the financial statements.

Data analysis was conducted through descriptive statistical tests to describe the characteristics of the variables, followed by classical assumption tests to ensure the validity of the regression model. Next, multiple linear regression analysis was used to test the partial and simultaneous effects of tax avoidance, profitability, and tunneling incentives on transfer pricing. Hypothesis testing was carried out at a significance level of 5%.

4. RESULTS AND DISCUSSION

A. Descriptive Analysis and Classical Assumption Testing

Descriptive analysis shows variations in tax avoidance levels, profitability, and tunneling incentives among eight companies in the food, beverage, and non-durable household products subsector listed on the Indonesia Stock Exchange during the 2020–2023 period. Classical assumption tests (normality, multicollinearity, heteroscedasticity, and autocorrelation) indicate that the regression model used is suitable for further analysis.

B. Multiple Linear Regression Analysis

Multiple linear regression analysis is used to test the effect of tax avoidance (X1), profitability (X2), and tunneling incentive (X3) on transfer pricing (Y). The regression results are shown in the following table:

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-,443	,273		-1,622	,116
	SQRT_X1	-,087	,388	-,044	-,225	,823
	SQRT_X2	-1,096	,375	-,788	-2,923	,007
	SQRT_X3	1,384	,373	,829	3,706	,001

a. Dependent Variable: SQRT_Y

Source: Data processed by researchers using SPSS 25

Based on the table, the regression equation is as follows:
$Y = -0,443 - 0,087X1 - 1,096X2 + 1,384X3 + e$

The interpretation of the coefficients is as follows:
1. The constant of -0.443 indicates the value of transfer pricing when all independent variables are zero.
2. The coefficient of tax avoidance (-0.087) means that an increase of 1 unit in tax avoidance decreases transfer pricing by 0.087 units, assuming other variables are constant.
3. The coefficient of profitability (-1.096) means that an increase of 1 unit in profitability decreases transfer pricing by 1.096 units.
4. The coefficient of tunneling incentive (1.384) means that an increase of 1 unit in tunneling incentive increases transfer pricing by 1.384 units.

C. Partial Test Results (t Test)

1. Tax avoidance (X1) has a significance value of 0.823 > 0.05, so it does not have a significant effect on transfer pricing.
2. Profitability (X2) has a significance value of 0.007 < 0.05, so it has a significant negative effect on transfer pricing.
3. Tunneling incentive (X3) has a significance value of 0.001 < 0.05, so it has a significant positive effect on transfer pricing.

D. Simultaneous Test Results (F Test)

The results of the simultaneous test show that the calculated F value = 5.668 is greater than the table F value = 2.947 with a significance of 0.004 < 0.05. This means that tax avoidance, profitability, and tunneling incentives collectively have a significant effect on transfer pricing. The coefficient of determination (R^2) of 31.2% indicates that the three independent variables can explain the variation in transfer pricing by 31.2%, while the remaining 68.8% is influenced by other variables not studied.

E. Discussion

Research findings show that tax avoidance does not have a significant effect on transfer pricing. This indicates that a high tax burden does not always encourage companies to engage in transfer pricing. According to agency theory, public companies tend to be cautious because financial reports are monitored by investors and tax authorities, so tax avoidance can be pursued through other strategies such as tax planning. This result is consistent with Arief (2024) and Setyorini & Nurhayati (2022), but differs from Putri & Syofyan (2023) and Zuliana et al. (2024).

Profitability has been proven to have a significant negative effect on transfer pricing. The lower the company's profit, the higher the likelihood of engaging in transfer pricing, one of which is through the recording of larger debts to reduce tax burdens (Santos, 2016 in Ilmi, 2020). This finding supports the findings of Lestari et al. (2020) and Sudarmanto et al. (2024), although it differs from Adelia & Santioso (2021).

Meanwhile, tunneling incentives have a significant positive effect on transfer pricing. The greater the ownership of block shares, the greater the tendency for the company to practice transfer pricing for the benefit of majority shareholders. This is consistent with Anggah & Yuliati (2024) and Arief & Diansari (2022), but differs from Sudarmanto et al. (2024).

Simultaneously, the three independent variables have been proven to influence transfer pricing, although their contribution is only 31.2%. This indicates the existence of other factors, such as company size, management compensation mechanisms, and foreign ownership, which can be important determinants in transfer pricing practices.

5. CONCLUSION

This study aims to analyze the effects of tax avoidance, profitability, and tunneling incentives on transfer pricing in companies in the food, beverage, and non-durable household products subsector listed on the Indonesia Stock Exchange from 2020 to 2023. The research results show that tax avoidance has no significant effect on transfer pricing, profitability has a significant negative effect, while tunneling incentives have a significant positive effect. Simultaneously, the three independent variables are found to influence transfer pricing with a contribution of 31.2%. These findings address the research problem formulation and strengthen agency theory and signaling theory in explaining transfer pricing practices.

Practically, the findings of this research imply that companies with low profits and strong controlling shareholder ownership are more likely to engage in transfer pricing, thus requiring regulators' attention in supervising related party transactions. However, this study has limitations because it only investigates three independent variables in a specific subsector, hence the results cannot be generalized broadly. Future research is recommended to add other variables, such as company size, foreign ownership, or management compensation mechanisms, as well as to expand the research objects to different industry sectors.

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