

## EFFECT OF TUNNELING INCENTIVES REGARDING TRANSFER PRICING

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### Abstract

*Globalization is increasingly growing rapidly and driving the world economy so it has quite a big impact on business actors. Not a few national companies in Indonesia are in the process of developing their business into a research company, this has the aim of being able to test how much influence taxes and tunneling incentives have on transfer pricing decisions at Indonesian Stock Exchange companies or often known as BEI companies in 2017- 2020. In the research process, the research used purposive sampling method and found 10 sample companies and researchers used time series or panel data regression analysis using the selected model, namely the REM model which is more reliable and suitable than using the FEM and CEM models. The process of testing the hypothesis uses a linear regression model which uses eviews 9. The results of the study indicate that taxes have a fairly positive and significant effect on transfer pricing  $0.0060 < 0.05$  and tunneling incentives have a positive but not significant effect.  $0.0905 > 0.05$  on transfer pricing. The amount (R<sup>2</sup>) of taxes and tunneling incentives is 48.52% while the remaining 51.48% is influenced by other variables. 05 on transfer pricing. The amount (R<sup>2</sup>) of taxes and tunneling incentives is 48.52% while the remaining 51.48% is influenced by other variables. 05 on transfer pricing. The amount (R<sup>2</sup>) of taxes and tunneling incentives is 48.52% while the remaining 51.48% is influenced by other variables.*

**Keywords:** Tax; Transfer Pricing; Tunneling Incentives.

## INTRODUCTION

The development of globalization is marked by advances in technology and communication, as well as the development of the business world in companies in Indonesia. A national company that expands its business to become an international company with operations in many countries. In contrast to national companies whose management is only in one country and the costs incurred are easy to quantify, managing international companies will be more difficult because they cover many countries. As a result, companies divide the manufacturing process into several parts. Multinational companies tend to divide their production processes into several production departments. This is a challenge in itself for companies that have subsidiaries in several countries, one of which will have an impact on the level of difficulty in determining selling prices and explaining the burdens that have been published when monitoring and evaluating corporate work. So companies also apply transfer pricing in determining prices. The company's policy in determining transfer prices for transactions such as determining prices of commodities, services, intangible assets, or financial transactions is known as transfer pricing (Panjalusman et al. 2018). *Transfer pricing* It has been a topic of conversation for quite some time with estimates of having a certain purpose in the global economy (Nguyen et al. 2020).

Deputy Minister of Finance Mardiasmo (2017) said that in theory companies are allowed to apply transfer pricing, but companies often do not adhere to the transfer pricing standards set when doing so. In fact, many of your companies International uses transfer pricing to substantially reduce the amount of tax collected through tax reductions. Companies reduce taxes by exporting profits to other countries so that they can reduce profits after tax, which of course is detrimental to the country. The government considers that multinational companies sometimes shift tax responsibilities, so that taxes are determined according to the conditions of a country. Determination of transfer pricing is estimated to result in a reduction in a country's prospective tax revenue and causing tax revenue losses in some countries.

*Transfer pricing* carried out to reduce the level of income of a company by using Tunneling Incentives which is the reason why transfer pricing is applied to companies. Tunneling incentives are used by controlling shareholders with the aim of obtaining personal gain, such as diverting resources from the company for their own benefit. (Hidayat et al. 2019). Tunneling incentives arise due to conflicting interests between stakeholders, its legal majority and minority. Tunneling incentive practices implemented by subsidiaries through stock sales to the main entity with *harnot below harno pmarket*, will have a direct impact on company

profits, resulting in lower profits than normalnya. Entity anIf you buy stock from the main entity at a price above the market price, then the raw material cost increasesresulting in a reduction in profits that should be (Ayu et al. 2017). Therefore, tunneling incentives have an impact on transfer pricing behavior, where companies with limited ownership and control tend to behave only for their own benefit (Ayu et al. 2017).

## LITERATURE REVIEW

*Agency theory* or it can also be called agency theory, originally explained by Smulowitz et al. (2019) which explains the agent-principal relationship or the relationship between two parties, namely management or directors, where the directors act as decision makers in running the company. The principal functions as the owner or shareholder who analyzes the existence of company information. Agency theory explains conflict when management and shareholders have different interests. The existence of knowledge asymmetry between managers and shareholders causes conflict, managers prioritize personal interests over business goals (Smulowitz et al. 2019).

Business companies usually reduce taxes in order to avoid having to pay high taxes. Tax obligations are the cause of entities using transfer pricing. A fairly high tax level causes companies to engage in tax avoidance, such as transfer pricing. The transfer pricing action of a peCompanies with subsidiaries in several countries sometimes use transfer pricing in order to reduce the tax burden that is too high in a country. The purpose of transfer pricing is to send financial data between company departments or divisions when they use each other's goods and services (Simamora, 2001:273). Additionally, transfer pricing is sometimes used to evaluate departmental performance and motivate sales and purchasing managers to make decisions consistent with their company's general goals. Meanwhile, for multinational companies, transfer pricing is used to minimize taxes imposed throughout the world. The factors causing transfer pricing problems (Zain, 2007:331) are:

- Development towards decentralization, division and use of the profit center concept.
- The use of transfer pricing in international business and investment.
- Supervision of transfer pricing by tax and customs authorities in several countries.
- The need for disclosure of segment information and transactions between units within a company group.

Research conducted by Tania et al. (2019); Princess (2019), And Ayu et al. (2017) proves that taxes have an influence on transfer pricing actions, because the large tax costs paid to the government will affect entities that prioritize focusing on operating profits, namely being more motivated to use various methods to reduce the large tax costs that must be paid by implementing Tunneling Incentives.

*Tunneling Incentives* aims to transfer temporary assets to members and other companies in order to reduce costs, so that in the end it can have an impact on reducing the level of income of a company. This is another motive for companies to carry out transfer pricing. Mispiyanti (2015), Tania et al. (2019); Ayu et al. (2017), And Yulianti et al. (2019) stated that tunneling incentives have an important impact on all existing provisions on transfer pricing which explain how shares of foreign-owned companies will be sold to related parties due to unfair prices in the interests of shareholders.

## RESEARCH METHODOLOGY

This research refers to quantitative methodology. The data collection method uses the *stut* technique in libraries and documentation. Technique documentation is collecting information obtained from financial reports on the Indonesian Stock Exchange website. *Q*The technique of literature study is collection data by reviewing data from journals and other relevant sources. Research methodology Sample requests for this research that's *purposive sampling*, the sample companies obtained were 10 multinational companies for the 2017-2020 period with a total of 40 observation data. Test data is processed with Eviews 9 software, using analysis of descriptive statistical tests (qualitative) and panel data regression analysis (quantitative) which has several stages, namely selection and determination of the panel data regression model, testing assumption classic and hypothesis testing (Riswan & Dunan, 2019; Gujarati, 2015).

### Research variable

*Dependent variable* is varicapable which is influenced or which allows the emergence of independent variables (Sugiyono, 2017). *Q**transfer pricing* as a dependent variable can be calculated by proxy for related party receivables (related party transactions / RPT).

(Pidebt Party Berelasi)
(Total Pidebt)

(RPT) =

*Independent variable*, variable that can influence or cause the emergence of the dependent variable (Sugiyono,2017).This variable includes Taxes and Tunneling Incentives.

Tax is calculated using the Current ETR (current effective tax rate) ratio. To calculate the ratio:

(Burden Ki Taxni)
(Profit Before Tax)

$$(CurrentETR) =$$

*Tunneling Incentives* measured using TNC (Tunneling Incentive). To calculate this ratio:

(K amounteownerright Share Qerlarge)
(Amount Share in circulation)

$$(TNC) =$$

## RESULT AND DISCUSSION

Table 1. Analysis of Statistic Descriptive

	<i>Transfer Pricing</i>	Taxes	<i>Tunneling Incentives</i>
Mean	0.264609	0.352574	0.519753
Median	0.230950	0.199883	0.583837
Maximum	0.714033	4.198544	0.720000
Minimum	0.000000	0.000000	0.186792
Std. Dev.	0.210956	0.652459	0.194194

Source: Processed data, 2022.

The data above shows that the dependent variable, namely Transfer Pricing, has a minimum score 0.000000 on the KINO entity (PT. Kino Indonesia Tbk) for the 2017 period and the maximum score 0.714033 the KINO company in 2018 has a mean 0.264609. With standard devi values breast milk of 0.210956. The transfer pricing standard deviation figure is lower than the mean value, indicating that the transfer pricing data is homogeneous.

The independent variable, namely Tax (X1), has a minimum value of 0.000000 at the company PT. Sampoerna Agro Tbk. (SGRO) in 2018 and the maximum value is 4,198544 at the company PT. Malindo Feedmill Tbk. (MAIN) in 2017 with mean 0.352574, with Income Tax is in accordance with Law No. 36 of 2008 Paragraph 2 (b) Article 17, the determination is 20%. Standard deviation value is as big as 0.052459, the fact that the standard deviation figure is higher than the mean indicates that the tax data is heterogeneous.

The independent variable, namely Tunneling Incentive (X2), has a minimum value of 0.186792 in the company PT Multistrada Arah Sarana Tbk or often known as MASA and the maximum value is 0.720000 at the SIMP company (PT Salim Ivomas Pratama Tbk), with a mean 0.519753. Level deviasi sebigo 0.194194. The fact that the mean value tends to be higher than the standard deviation indicates that the data is tunneling incentives is homogeneous.

### Classic Assumption Test

#### Normality test

Figure 1. (Uji Normalbag)

Source: Processed data, 2022.

Based on the normality test, Jarque-Bera (JB) is used in this research to test residual normality, the value in the Jarque-Bera statistic is 2.084396. Meanwhile, the probability value is  $0.352679 > 0.05$ , higher than 0.05, it is assumed that normality is achieved.

#### Multicollinearity Test

Table 2. Test Multicollinearity

	Tax	Tunneling Incentives
Tax	1,000000	0.175538
Tunneling Incentives	0.175538	1,000000

Source: Processed data, 2022.

The multicollinearity test states that there are no signs of multicollinearity in the independent variables, because the relationship between the independent variables is less than 0.85.

#### Heteroscedasticity Test

Table 3. Hetero Testdasticity (Glejser Test)

Variables	Prob.			
C	0.0026			
X1	0.0060			
X2	0.0905			

Source: Processed data, 2022.

Results From the Glejser test it is known that all Prob> 0.05 are assumed to not appear as heteroske indicatorsdasticity.

### *Uji Autocorrelation*

**Table 4. Autocorrelation Test**

F-statistic	4.723765	Durbin-Watson stat	2.292148	2
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Data source processed, 2022.

Table 3. using a degree of 5%, using 40 observation data and 2 independent variables, the Durbin-Watson table is obtained with a value of dL = (1.3908 and dU = 1.6000). With the total calculated dW of 2.292148 being greater than the value of dL = (1.3908), it is assumed that there are no symptoms of autocorrelation.

### Estimation and TestMod options Regresi Dsaid Panel

The three options that panel data regression has been (REM) Random Effect Model (CEM) Common Effect Model and (FEM) Fixed Effect Regression Model determined by the researcher's statement and fulfillment of statistical data needs. However, to determine the panel data analysis technique, 3 methods are needed first, namely testing *Chow*, test *lagrange multiplieras* well as test hausman.

**Table 5. (Test *Chow*, Hausman and LM)**

	Statistics	df	Prob.
Cross-section F	5.179237	(9.28)	0.0004
Cross-section random sections random	0.537384	2	0.7644

Breusch-Pagan		(0.0001)	(0.3792)	(0.0001)
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Source: Processed data, 2022.

It is known that the probability cross section F number in the Chow test is  $0.0004 < 0.05$ , indicating that the regression chosen is a valid (Fixed Effect Model). Meanwhile, the random cross section probability figure in the Hausman test, namely  $0.7644 > 0.05$ , is assumed to be a random effect model. And the LM test shows the Breusch-Pagan number  $0.05 > 0.0001 < 0.05$ . concluded that the random effect model is the recommended model for use.

Classical assumption testing was not carried out on this data. It is known that the random effect model (REM) is the result of selecting the most appropriate estimation method for panel data regression equations (Damodar N., 2012). However, this research intends to continue calculating the classical assumption test to be more thorough.

## Test Hipotesis

### *T test*

Table 6. Test Results Q

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	0.516634	0.159678	3.235463	0.0026
X1	0.125904	0.018570	6.779967	0.0060
X2	0.152465	0.039061	3.903253	0.0905

Source: Processed data, 2022.

The t-value obtained is 1.68709. It is known that the influence of Tax (X1) with a probability value of  $0.0060 < 0.05$ , large t-count  $6.779967 > 1.68709$ , it can be concluded that partial tax can have an important influence on transfer pricing. *Tunneling Incentives* (X2) which has a probability number of  $0.0905 > 0.05$ , with a t-count of  $3.903253 < 1.68709$ , means tunneling incentive, but according to segmental there is also a precise impact, although not substantial, on transfer pricing.

### *Uji F (Simultaneous)*

Table 7. Test F

F-statistic	4.723765	Durbin-Watson stat	2.292148
Prob(F-	0.002411		



statistic)				
Source: Data processed, 2022.				

It is known that  $F_{table} = 2.24$  and the  $F_{count}$  value is 4.723765. Because  $F_{count} > F_{table}$ , namely  $4.723765 > 2.24$ . So, with a significance level of 0.002411, in the results of the F test it can be determined that taxes on tunneling incentives have a (joint) impact on transfer pricing.

### ***Uji Koefisien Determination (R<sup>2</sup>)***

**Table 8. Test Koefisien Determination (R<sup>2</sup>)**

R-squared	0.485235
Adjusted R-squared	0.335788

Source: Processed data, 2022.

The Adjusted R-Square (R<sup>2</sup>) figure is 0.485235, showing the proportion of the dependent variable to the independent variable is 48.52%, or the independent variable used in the model can be meexplains 48.52% of the dependent variable. Other variables outside the regression model influence the remaining 51.48%.

## **Discussion**

### **The Effect of Taxes on Transfer Pricing**

Taxation has a positive impact on transfer pricing, which means it has an important influence on taxation. These results conclude that transfer pricing is a tax saving strategy that is used oby entity. The sample companies use tax planning efforts to reduce their tax burden as efficiently as possible under current tax laws. The results of this research are in line with research conducted by Tania and Kurniawan (2019); Princess (2019); Saraswati & Sujana (2017); Yulianti & Rachmawati (2019).

### ***The Effect of Tunneling Incentives on Transfer Pricing***

*Tunneling incentives* has a positive influence on transfer pricing. The higher the practice of tunneling incentives, the more companies will carry out transfer pricing with parties who have special relationships. Researchers found that the sample companies used an ownership structure with control concentrated at one point,

giving rise to the potential for majority shareholders to be further involved in company management. In this way, the controlling shareholder can take contractual policies with parties who have a special relationship for the benefit of the controlling shareholder. The results of this research are in line with research conducted by Mispiyanti, (2015); Marfuah & Azizah (2014); Princess (2019); Tania et al. (2019); Ayu et al. (2017) and, Yulianti et al. (2019) concluded that tunneling incentives have a positive effect on transfer pricing. However, there is a difference, namely that at a significant level it is assumed that tunneling incentives are not significant to transfer pricing.

### **Conclusion**

This research provides evidence that the Tax variable has a significant positive impact on Transfer Pricing. Scompany strategy to save taxesis large, then the company carries out more Transfer Pricing actions which aim to strive fortax planning to reduce the tax burden so that it becomes efficient for the company's sustainability. Temporary *Tunneling Incentives* has a good but not substantial influence on Transfer Pricing because the more shares held by shareholders, the more likely it is that the implementation of Transfer Pricing will be carried out by shareholders.

### **Managerial Implications**

Several considerations that must be taken into account by related parties based on the discussion of research results, include:

- For Companies  
It is hoped that the research results will be used by business people to provide knowledge about issues that influence transfer prices, and become material for consideration when making decisions in the future to achieve the best results.
- For Investors  
Investors are expected to be able to analyze more broadly the elements that influence transfer prices, allowing them to be more selective in choosing companies that can manage transfer pricing decisions and provide them with the most efficient returns possible.
- For the Directorate General of Taxes  
It is hoped that there will be more focus and implementation of new, stricter regulations in cracking down on fraud such as transfer pricing abuse which has the potential to harm state revenues.

### **Suggestion**

- It is recommended for future researchers to expand the research variables, such as foreign ownership, audit quality, Exchange Rate, Bonus Plan, and Debt Covenant, to ensure more accurate conclusions.
- In future research, it would be better to use companies from more specific sectors, for example the mining and agricultural industries, which could be used as researchers in the future to allow further generalization of this research.

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