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The Influence of Profitability, Taxes, and Foreign Ownership on Transfer Pricing (An Empirical Study on Manufacturing Companies Listed on the Indonesia Stock Exchange from 2015-2021)

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Abstract

The main point of this study is that transfer pricing, which is used by multinational companies to settle prices and transactions between divisions, allows businesses to reduce internal prices for commodities, services, and unwanted or excessive assets. The purpose of transfer pricing is to manage transfer prices between businesses with the specific goal of increasing the total tax liability within the company. The study population consisted of 143 manufacturing companies listed on the Indonesia Stock Exchange (BEI) between 2015 and 2021. For the quantitative research type, 15 companies were selected using purposive sampling as the research sample. The information used was secondary data, namely the companies' financial records obtained from www.idx.co.id. Descriptive statistics, classical assumption tests, multiple regression analysis, outliers, F-statistics tests, and F-statistics tests were the data analysis techniques used. Transfer Price, the dependent variable of the study, was represented by RTP (Related Party Transaction). Profitability, Taxes, and Foreign Ownership were the independent variables used. Multiple regression analysis using SPSS 20 was the analytical approach employed in this research. According to the findings of this study, Profitability, Taxes, and Foreign Ownership do not simultaneously impact Transfer Pricing. The findings in this research explain that foreign ownership and taxes do not influence transfer pricing, nor do profits or taxes have any relationship with transfer pricing.

Keywords: *Transfer Pricing, Profitability, Taxes, Foreign Ownership.*

1. Introduction

Coffee The current economic conditions, shaped by globalization that allows economies to grow without considering national boundaries, have significantly contributed to blurring business practices and the identities of business owners. This gives business owners from around the world the incentive to expand their operations in various countries that may offer greater potential rewards for projects involving sales, raw material purchases, provision of goods and services, and other ongoing business operations between divisions of a single ownership-based organization (Anisah, 2017). Transfer pricing is a policy direction within companies that enables organizations to easily adjust the internal prices for traded goods, services, and intangible assets so that they are not too high or too low. It is used to determine transaction prices between members of multinational company divisions.

Moreover, transfer pricing was developed to modernize internal corporate communication mechanisms and serve as a remedy for global economic changes.

Companies must be able to adapt to these elements due to differences in economic systems and regulations between countries, as well as shifting global market dynamics. The most common tactic used by multinational corporations is the use of transfer pricing for goods, services, and technology shared among controlled businesses. Managing transfer prices between businesses with the same hub, or transfer pricing, is the single most effective tactic used by businesses to reduce their own payroll costs. In the context of transfer pricing, a special relationship is a relationship established between two or more taxpayers and results in lower income tax liabilities between taxpayers than would otherwise occur. Corporations will be more motivated to use transfer pricing to reduce the amount of tax owed as the more tax they have to pay. Raising the purchase price and lowering the sale price within a group of companies to shift profits to businesses operating in other countries is a practice known as tax evasion. Profitability impacts a business's decision to use transfer pricing. The organization's ability to generate profits within a given timeframe at specific levels of income, assets, and market share value is the single most important metric for evaluating organizational performance (Anisa, 2018). According to Dianty's research (2017), unlike businesses with more competitive pre-tax prices, businesses with more expensive pre-tax prices will consistently apply transfer pricing.

Another reason that motivates multinational companies to use transfer pricing is the practice of foreign peddling. According to official government regulations, default prices per company are disclosed by individuals and related to a healthy financial situation. Like many other businesses in Asia, Indonesia has a poor organizational structure. Businesses with strong internal control are increasingly responsible for how their businesses are run concerning their access to information, monitoring, and decision-making (Tiwa et al, 2017). Some businesses or entities that operate slowly or not at all are classified as "controlling shareholders" because their internal metrics are 20% higher than average (IAI, 2015, No. 15). Consequently, the amount of control over top corporate executives has increased relative to the number of foreign forces. The phenomenon surrounding transfer pricing has indeed become one of the ways multinational corporations use transfer pricing to reduce taxes paid by manipulating the prices of goods or services traded to related parties of the company, abusing corporate tax planning. Research by Clausing (2010) in the United States revealed that the use of tax minimization strategies by multinational companies impacts the frequency of intercompany trade. There is evidence suggesting that, despite low tax rates, the United States has a less favorable intercompany trade balance. If multinational companies manipulate transfer pricing to move their income to applicable countries, these results are expected.

2. Literature Review

Theory of the Effect of Profitability on Transfer Pricing

The research findings contradict Deanti's 2017 theory, which states that organizations with higher pre-tax income will mitigate risks proportionally greater than organizations with lower pre-tax income. This study's findings are consistent with Anisyah (2018), Sari (2018), and Mubarok (2018), which suggest that Profitability is negatively influenced by Transfer Pricing. In this study, Profitability will be proxied using the Return on Assets (ROA) measurement with the formula:

ROA = (Net Income After Tax) / (Total Assets) x 100%

Theory of the Effect of Taxes on Transfer Pricing

This study refutes Yuniasih's (2010) findings, which state that transfer pricing is positively influenced by the tax burden. The difference in the samples used in this analysis and Yuniasih's (2010) research may have caused the different results. Both studies use data from manufacturers, although Yuniasih (2010) uses data from the 2008–2010 period, and this study uses data from the 2015–2017 period, covering various methods of calculating corporate income tax. Taxes in this study will be proxied using the Effective Tax Rate.

ETR = (Tax Expense) / (Income Before Tax)

Theory of the Effect of Foreign Ownership on Transfer Pricing

Previous research findings by Sukma (2018) and Tiwa et al. (2017), which did not find an impact of foreign ownership on transfer pricing, support this study's findings. However, this study's findings are not consistent with Narulita (2017), who found that transfer pricing is influenced by foreign ownership. Foreign ownership in this study will be proxied using Foreign Ownership:

Foreign Ownership = (Total Foreign Share Ownership) / (Total Outstanding Shares) x 100%

Conceptual Framework

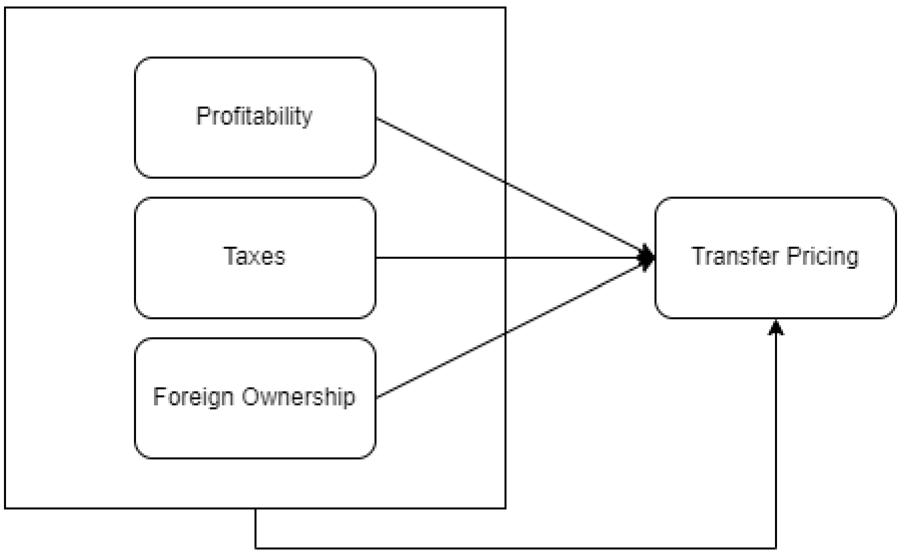

Figure 1 Conceptual Framework

Research Hypotheses

H1: Profitability has an impact on transfer pricing choices.
H2: Taxes have an impact on transfer pricing choices.
H3: Foreign Ownership has an impact on transfer pricing choices.
H4: Profitability, Taxes, and Foreign Ownership have an impact on transfer pricing choices.

3. Methodology

Population

The population in this study consists of all manufacturing companies listed on the IDX (Indonesia Stock Exchange) during the period of 2015-2021.

Sample

Purposive sampling is used in collecting sample data for the current research study. To use purposeful sampling, samples that represent accepted standards must be carefully selected. The purpose of setting criteria is to prevent errors when choosing research samples. Purposive sampling is used for this sampling process in this research. To use purposeful sampling, samples that represent accepted standards must be carefully selected. The main purpose of criteria is to alleviate your anxiety when selecting a sample representative of the evidence. Sample Criteria:

- Between 2015 and 2021, the number of manufacturing companies listed on the IDX 143
- Businesses without banking connections will conduct business in Rupiah from 2015 to 2021. (24)
- Manufacturing businesses that will lose business between 2015 and 2021. (22)
- Manufacturing companies require researchers because they lack all data for 2015-2021. (3)
- Manufacturing companies with a foreign ownership period of 2015-2021, where foreign ownership is less than 25%. (79)

Total Research Sample 69, Total Observations 15 x 7 Years 105

Data Collection Techniques

Instead of continuously collecting data, observation is used to gather it in this research analysis. It is possible to make observations using second-by-second data by finding the physical objects needed for analysis. The information used in this case is collected from public sources and consists of financial information for manufacturers listed on the IDX during the period of 2015-2021. www.idx.co.

Data Analysis Techniques

The researcher conducts data analysis using a quantitative method. The SPSS software application is the tool used to process this method. The information collected for this research is cleaned and subjected to several statistical tests, including the following:

Descriptive Test

Descriptive statistics convey information about the mean or minimum, standard deviation, variance, maximum, minimum, total, Red curtosis, and Keynesian or skewed data distribution (Ghozali: 2019)

Classical Assumption Test

The regression testing procedure should be preceded by this test to understand whether the data used already meets the requirements of the regression model. Points included in the classical assumption function.

Normality Test

This test uses the Kolmogorov-Smirnov test to determine if the regression model contains confounding variables or residuals:

- The sig value, sign level, or probability value is < 0.05, indicating that the distribution falls into the non-normal category.
- The distribution is said to be normal if the sign value, probability, or sig is greater than > 0.05.

Multicollinearity Test

This test will determine if the regression model finds correlation between the independent variables.

Heteroskedasticity Test

If the probability sign value > 5%, the regression model is declared free of heteroskedasticity. If the probability sign value < 5%, the Glejser test can be used to determine if the regression model contains heteroskedasticity.

Autocorrelation Test

The autocorrelation test for the smooth regression model seeks correlation between the confounding errors in the given period and the confounding effects in the T-1 period.

4. Result and Discussion

Descriptive Statistic

The research sample includes the financial reports of 15 companies from all manufacturing companies listed on the Indonesia Stock Exchange (BEI) during the period of 2015-2021.

Table 1. Descriptive Statistic

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Profitability	69	.00	.20	.0763	.04323
Taxes	69	.13	.39	.2329	.04658
Foreign Ownership	69	.00	.59	.3879	.11965
Transfer Pricing	69	-10.96	-.02	-2.1389	2.55718

The following are some of the implications, the lowest, maximum, mean, and standard deviation values of all research variables are shown in Table 1, including, the first independent variable (X1), Profitability, has a total sample size of 69 data points, with a min value of .00 and a max value of .20, a mean of .0763, and a standard deviation of .04323. Tax is the second variable (X2), with a total sample size of 69 data points, ranging from -.13 to .39. The average value (mean) is .2329 and the standard deviation is .04658. Foreign Ownership is the third variable (X3) and contains a total of 69 data points in its sample, with an average value of .3879 and a range of .00 to .59, and a standard deviation of .11965.

Classical Assumption Test Results

This research has fulfilled the requirements, with data tests including Normality Test, Heteroskedasticity Test, and Multicollinearity Test.

Normality Test

Utilizing histogram charts, normal probability plots (P-P-Plots), and the Kolmogorov-Smirnov test, the normality test using a regression approach reveals whether the data values are distributed normally or not.

Classic Assumption Test

Normality Test

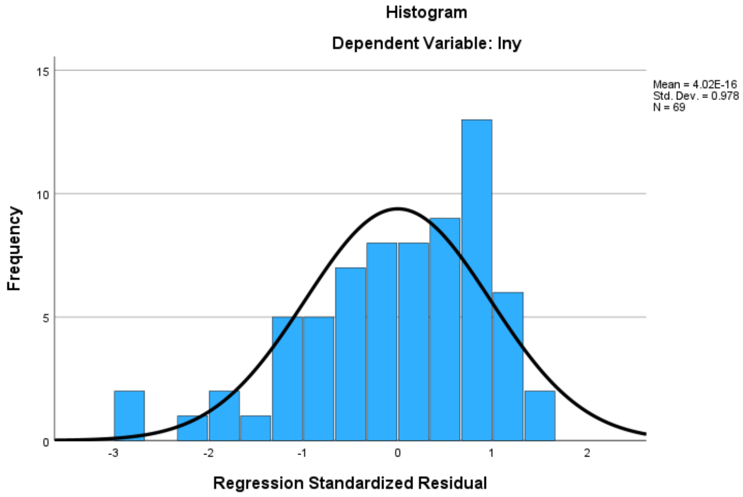

Figure 2. Normality Test Results with Histogram Graph

The Figure 2 above shows a bell-shaped curve, and there are no lines skewing to the left or right, indicating that the data is normally distributed.

Multicollinearity Test

Detecting refers to the action of identifying and preventing potential threats or risks. The presence of multicollinearity can be determined through the examination of the correlation matrix of independent variables, as well as the assessment of tolerance values and Variance Inflation Factor (VIF) values. VIF > 10 is suspected to have high multicollinearity, and VIF < 10 indicates no multicollinearity. Tolerance > 0.10 indicates no multicollinearity (Ghozali 2018).

Table 2. Multicollinearity

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Profitability	.962	1.039

Taxes	.818	1.222
Foreign Ownership	.845	1.183

a. Dependent Variable: Transfer Pricing

Profitability, Tax, and Foreign Ownership have tolerance scores above 0.10 and VIF < 10, leading to the conclusion that all variables do not show correlation (relationship), and all independent variables can provide predictions in the dependent variable.

Heteroskedasticity Test

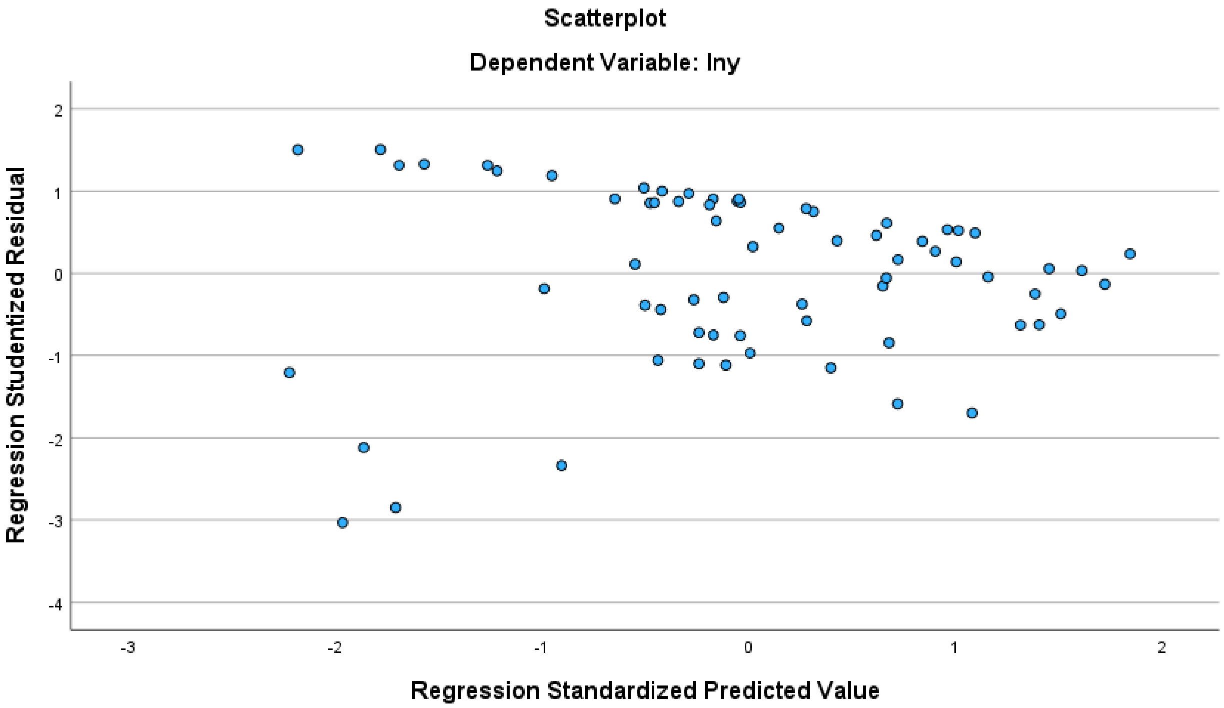

Figure 3. Scatterplot

In Figure 3, we can see scattered points that do not form a specific pattern and are well distributed both above and below the 0 angle on the Y-axis. Based on this figure, there is no heteroskedasticity, making the regression model suitable for use.

Results of Data Analysis in the Research

Multiple Linear Regression Equation Analysis

Table 3. Coefficients

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.351	2.458		.550	.584
	Profitability	-17.661	7.062	-.299	-2.501	.015
	Taxes	-3.124	7.110	-.057	-.439	.662

Foreign Ownership	-3.647	2.723	-.171	-1.339	.185

a. Dependent Variable: Transfer Pricing

This research uses multiple linear regression model to test the influence of Profitability, Taxes, and Foreign Ownership on Transfer Pricing. The following hypothesis is tested:

$$Y = 1.351 + 7.062PB + 7.110P + 2.723KA$$

Hypothesis testing, partial (t-test) is conducted to understand the t-value and t-table value for each variable. The t-table value at a 5% alpha level is 1.669 with degrees of freedom (df) = n - (k + 1) = 69 - (3 + 1) = 65. The t-test result for the Profitability variable yields a t-value of -2.501, which is less than the t-table value of 1.669 (-2.501 < 1.669), and a significance value of 0.015 > 0.05. This indicates that Profitability does not have an impact on transfer pricing. The t-test result for the Tax variable yields a t-value of -0.439, which is less than the t-table value of 1.669 (-0.439 < 1.669), and a significance value of 0.662 > 0.05. This indicates that Tax does not have an influence on transfer pricing. The t-test result for the Foreign Ownership variable yields a t-value of -1.339, which is less than the t-table value of 1.669 (-1.339 < 1.669), and a significance value of 0.185 > 0.05. This indicates that Foreign Ownership does not have an impact on transfer pricing.

5. Conclusions

The main findings of this study, based on the results of data observation and research completed in previous chapter, are as follows: Profitability does not affect transfer pricing in manufacturing companies listed on the Indonesian Stock Exchange (BEI), and thus H1 is not accepted. Taxes do not have an impact on transfer pricing in manufacturing companies on the BEI, so H2 is not accepted. Additionally, foreign ownership does not have a partial effect on transfer pricing in manufacturing companies on the BEI, so H3 is not accepted. Lastly, concurrent profitability, taxes, and foreign ownership do not influence transfer pricing in manufacturing companies on the BEI, leading to the rejection of H4. As a recommendation based on these findings, this research cannot be continued because there are only 69 sample companies in this study out of a total population of 105 companies. Further research on transfer pricing is increasingly being used to refine these findings.

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