



The Determinants of Transfer Pricing in Energy Sector Companies Listed on the Indonesian Stock Exchange

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ABSTRACT

This study examines "Determinant Analysis of Transfer Pricing in Energy Sector Companies Listed on the Indonesia Stock Exchange in Energy Sector Companies". The formulation of the problem that will be studied in this research is: Does multinationality, tax haven and thin capitalization have a positive effect on transfer pricing. And the research objective is to test and find empirical evidence of the effect of multinationality, tax havens, thin capitalization can affect transfer pricing. The sample in this study is the energy sector companies, the data that fits the sample criteria is 38 data. The analytical method used in processing the data uses multiple linear analysis. The results showed that multinationality and thin capitalization had a positive effect on transfer pricing, and tax heaven had no positive effect on transfer pricing. The results of this study are multinationality and thin capitalization have a positive effect on transfer pricing. This result is in accordance with Afifah & Prastiwi (2019) which states that multinational companies have easier access to external funding than domestic companies because funding can be obtained from various sources from the country where the company's affiliation is established.

INTRODUCTION

One way that is currently being used by several companies to avoid taxes is by transfer pricing. According to Suandy (2008), transfer pricing can be divided into two, namely neutral and negative (pejorative). In a neutral sense, it will assume that transfer pricing is purely a business strategy and technique without any motive for reducing the tax burden. While the pejorative understanding assumes that transfer pricing is an effort to save the tax burden by shifting profits from the country of origin or countries with high tax rates to countries with low tax rates. Therefore this research will analyze and prove whether transfer pricing is really used by companies as a technique to save on tax burden.

The phenomenon that describes the occurrence of transfer pricing is carried out by PT Adaro Energy Tbk, which is a company located in Indonesia. PT Adaro is suspected of committing tax evasion, which can be seen from the report issued by Global Witness, entitled "Network of Foreign Companies Adaro" (Thomas, 2019). Adaro is suspected of selling coal to a subsidiary in Singapore, namely Coaltrade Service International, at a lower price. The profits obtained by Coaltrade Service International are channeled back to other countries, namely Mauritius where the country applies tax havens (tax heaven), (Witness, 2019). The transactions conducted by Adaro and its subsidiaries constitute transfer pricing, because Adaro sets a selling price that is lower than the actual selling price.

Based on the above phenomenon, multinational companies carry out tax aggressiveness because it is very easy for them to carry out transactions between members, such as sales of goods and services, licenses of rights and other intangible assets, as well as provision of loans and so on in affiliated countries. This is in line with the results of research from (Rezky & Fachrizal, 2018) that multinational companies have an effect on transfer pricing. In line with Agustina's research (2019), which concluded that multinational companies have an influence on transfer pricing decisions. However, the results of this study contradict the research of Waworuntu & Hadisaputra (2016) who found that multinationality has no effect on transfer pricing. This is because a foreign subsidiary formed by a company registered in Indonesia may act as an inactive company and its existence is not disclosed in detail in the parent's financial statements.

The advantage of multinational companies is that they have the opportunity to do tax avoidance, that is, these companies can choose which country they will operate in. When opening a branch in another country, the company will choose a country that can support business operations and can provide benefits, especially if the company is trying to avoid the tax burden of business activities. Therefore, one of the destination countries for companies if they want to expand their business activities by opening branches, then they (companies) will consider and determine which destination countries have tax facilities, namely tax havens. Tax haven countries are generally used by companies to avoid the tax burden by diverting taxable income to countries with low tax rates (Jaafar & Thornton, 2015).

Lingga (2000) states that many large Indonesian companies choose their headquarters in Singapore even though their source of income comes from Indonesia. This is because Singapore provides facilities in the form of tax incentives in the form of reduced tariffs of 10-15% for foreign investors who place their head office/business area in Singapore and employ local residents. In addition, the absence of a withholding tax for interest and dividend payments is also a reason for entrepreneurs in Indonesia to do business in Singapore. Rusyidi's research results (2013); Kudrle (2014); and Rusyidi & Djakman (2016), stated that multinational companies also use tax havens by not paying taxes on a transaction, and by conducting tax-free transactions and by determining transactions that have lower tax objects in the country (tax havens). However, this is not in line with the research results of Waworuntu & Hadisaputra (2016) which found that the use of tax haven countries has no significant effect on transfer pricing.

In addition to taking advantage of multinationality and tax haven countries, companies can fund operations and investments through debt between parent companies and subsidiaries, which is called thin capitalization. Companies can finance their subsidiaries using interest bearing debt, and obtain tax benefits in the form of interest expenses (Taylor & Richardson, 2013). If the company funds with share capital, then the cost of dividends paid cannot be recognized as a fiscal cost. Thus, the amount of debt in the company will increase accompanied by greater interest expenses resulting in a decrease in profits. Ernawati, et al., (2019) argues that the existence of funding transactions from parent to subsidiary companies can increase the occurrence of transfer pricing practices.

To minimize this, Indonesia has made regulations regarding thin capitalization. Thin capitalization is regulated in Article 18 paragraph (1) of the Income Tax Law, which states that the Thin Capitalization Rule states that the Minister of Finance has the authority to determine any ratio of debt to capital that can be justified for tax calculation purposes. The size of the comparison between the company's debt and capital is in accordance with the Minister of Finance Regulation No. 169/PMK. 010/2015 concerning Determination of the Amount of Comparison between company debt and capital for Income Tax Calculation Requirements is set at a maximum of four to one (4:1) (Setiawan & Sulistyono, 2016).

Viewed from the perspective of tax haven countries, the establishment of multinational companies in tax haven countries basically provides benefits for the tax haven countries. Tax haven countries can provide incentives in the form of tax breaks and confidentiality of information so that it will attract investors to establish companies with special purposes in tax haven countries. A company with a special purpose (Special Purpose Vehicle, SPV) is a company established to carry out special functions for the benefit of its founders. SPV itself can be used to disguise the identity of the owner through the concept of separating the owner from the corporate legal entity (OECD, 2001). Disguising identity is generally done by establishing dozens of SPVs and creating multiple ownership structures in various tax haven countries. With more and more companies

investing in tax haven countries, tax haven countries will also receive greater profits. This is in accordance with the contract theory, namely companies indirectly have contracts with tax haven countries.

The increasing number of multinational companies established in Indonesia is a challenge for the government, especially in terms of implementing corporate tax collection. The use of tax haven countries and the relaxed ratio of debt and capital provided by the Minister of Finance made researchers interested in conducting further research. Based on the background that has been explained and the inconsistency of the previous findings, the researcher wants to prove the effect of Tax Haven, multinationality, and Thin Capitalization on Transfer Pricing by using a sample of all Energy sector companies listed on the Indonesia Stock Exchange from 2019 to 2021..

THEORETICAL REVIEW

Contract Theory

Contract theory is a theory used by Kenneth Arrow in the 1960s and developed by Oliver Hart and Bengt Holmstrom in 2016. Contract theory does not only study legally binding contracts. Contract theory also studies formal and informal agreements and motivates groups of people who have different interests to take beneficial actions. So it can be concluded that contract theory gives each party the right incentive or motivation to work together effectively (Hart & Holmström, 2016).

The ideal contract is one that provides a clear and specific understanding of the responsibilities and requirements between the parties, and eliminates the risk of disputes that may occur in the future. However, this ideal contract does not always occur. In the context of tax aggressiveness research using the transfer pricing scheme this time, companies in determining which countries have tax havens cannot be separated from the company's obligations or compliance to comply with (legal) regulations, especially regarding tax imposition in the country where the company is located. This means that either explicitly or implicitly, companies will automatically fulfill contracts as taxpayers wherever they are.

However, based on this theory there are still some problems that can occur in a contract. The first problem is moral hazard, which can occur because an individual or institution does not act according to the contract (Rouse, 2016). Tax avoidance practices where on the one hand, the company has contracted with the government, namely in the form of the company's willingness to fulfill its obligations to pay taxes in accordance with regulations. However, on the other hand companies are actually trying to find legal alternatives in their efforts to avoid taxes by taking advantage of loopholes that have not been regulated by one of the countries so that companies have benefits for the efficiency of their tax burden. For example, companies carry out funding activities by using debt from partners and/or branch companies with the aim of obtaining incentives in the form of interest charges, which in fact are interest charges between the parent company and the branch. This is included in the moral hazard because companies carry out internal activities, namely only circulating funds between

them, meaning that the tax burden imposed is smaller compared to the size of multinational companies that carry out multinational transactions, this is what is called transfer pricing.

The second problem is adverse selection, in which managers have more information about the state of the company than other parties (Scott, 2006). In this case, company management certainly knows more about the condition of the company than the government. When viewed from the government's point of view, the government lacks information about which companies are paying taxes correctly and which companies are doing tax evasion. In this situation, the government is the party that is less profitable because the tax received from the company should be higher than what is paid.

Even though the government has checked the financial statements of a company to prove whether the company is doing tax evasion or not, of course the company will not answer honestly that the company is doing tax evasion. Tax evasion by companies will also be quite difficult to find out because companies take advantage of existing regulatory loopholes and do so legally. With the advantages owned by company management, it can make management more aggressive in tax evasion. For example, as previously discussed, the use of debt for capital is not illegal. Companies often use these benefits as a deduction from profits to obtain lower tax deductions.

Multinasionalitas

Multinationality in this study refers to the level of internationalization or geographic/international diversification. Diversification is a business development strategy by expanding business and geographical segments, diversification can be done by opening new business lines, expanding existing product lines, expanding product marketing areas, opening branch offices, carrying out mergers or acquisitions and other ways (Harto, 2005). In other words, the more companies have affiliates in various countries, the higher the level of corporate multinationality.

Companies that are geographically diversified are known as multinational companies. Multinational companies are companies that involve foreign investment and have value added activities in more than one country (Dunning, 1993). Suandy (2008) argues that a multinational company is a company that operates across borders between countries, which is bound by special relations, either due to equity capital participation, management control or the use of technology; can be in the form of subsidiaries, branch companies, agents, and so on, with various objectives, including maximizing profit after tax. In addition, multinational companies also establish many branches in countries that are in accordance with their production market share. Marketing strategy to increase company income by establishing branch companies to strengthen exports and imports in various countries (Pohan, 2016).

The booming growth of multinational companies not only has a positive impact but also creates new

problems, especially in terms of tax revenues. Multinational companies can carry out transactions between members of a group of companies that have

special relations both domestically and abroad. Transactions between these companies can be in the form of sales of goods and services, licenses, patents, guarantors of debt and so on. Transactions between companies are then called transfer pricing. In general, transfer pricing is a normal thing to do. However, if transactions between company members do not meet fair prices then transfer pricing becomes a negative thing. This is in line with the results of research conducted by Ramadhan & Kustiani (2017) and Agustina (2019) which show that multinationality has an effect on transfer pricing.

Tax Haven

A tax haven is a country that provides tax relief in the form of a low or zero tax rate and guarantees the confidentiality of the assets it keeps. Based on the OECD (2012), the characteristics of tax havens are that they do not impose taxes or charge lower fees, the lack of productive information exchange with foreign tax authorities, the lack of transparency in tax laws and the implementation of regulations, there are no substantial activity requirements for companies.

Tax haven countries generally offer several benefits, such as investment diversification opportunities, tax burden deferred strategies, strong asset protection, tax free investment returns, offshore appeals to flexibility and privacy, greater yields, reduced tax burden, avoiding currency restrictions, as well as business development opportunities. However, of course the use of tax haven countries also has negative impacts such as money laundering, abuse of shell companies, wrong funding, tax evasion, and threats to financial stability (Suryowati, 2016).

Tax haven countries open opportunities for companies located in countries with high tax rates to transfer their profits to countries with low tax rates (Desai & Dharmapala, 2006). The facilities provided by these tax havens can support tax aggressiveness by companies through transfer pricing practices (Grubert et al., 1991; Hines & Rice, 1994).

Thin Capitalization

Thin capitalization itself refers to a situation in which a company's decision to use debt rather than capital as a source of funding for its operations (Taylor & Richardson, 2013). In the context of multinational companies, thin capitalization is carried out by providing loans to subsidiaries or parties that have special relationships through interest-bearing debt. According to Law number 36 of 2008 concerning Income Tax, interest expense in taxation is permitted as a deduction from income.

Diverting profits through a lending scheme is a tax avoidance strategy. This takes advantage of the different tax rates between countries. Companies located in countries with high tax rates obtain loans from group members located in countries with low tax rates, so the companies will incur high interest expenses from these activities.

In Indonesia, regulations regarding thin capitalization are contained in Minister of Finance Regulation No. 169/PMK. 010/2015 concerning Determination of the Amount of Comparison between the company's debt and

capital for the purpose of calculating income tax is set at a maximum of four to one (4:1).

Transfer Pricing

Suandy (2008), transfer pricing can be divided into two, namely neutral and pejorative. The definition of neutral assumes that transfer pricing is purely a business strategy and tactic without any motive for reducing the tax burden. Meanwhile, the pejorative understanding assumes transfer pricing as an effort to save the tax burden by tactic, among others, shifting profits to countries with low tax rates.

Regulations regarding transfer pricing in Indonesia are generally regulated in Article 18 of Law Number 36 of 2008 concerning Income Tax (PPh Law). The regulation contains the following matters; definition of special relationship, authority to determine the ratio of debt and capital, and authority to make corrections in transactions that are not in accordance with arm's length.

Hypothesis Development

Effect of Multinationality on Tax Avoidance

Multinational companies are companies that involve foreign investment and have value added activities in more than one country (Dunning, 1993). Lingga (2000) states that in the environment of multinational companies, transactions occur between members such as sales of goods and services, licenses of rights and other intangible assets, provision of loans and others so that multinational companies are not spared from transfer pricing engineering. Because of this, companies can take tax aggressive actions. This is supported by the research results of Agustina (2019) and Anh, et al., (2018) which show that multinationality has an effect on transfer pricing. Therefore, the first hypothesis in this study is as follows:

H1: Multinationality has a positive effect on Transfer Pricing.

Effect of Tax Haven on Tax Avoidance

Businesses carried out by companies by establishing their businesses in countries that provide tax facilities are called utilization of tax haven countries. Slemlord & Wilson (2009) provide details that tax havens are jurisdictions that do not impose taxes or impose low tax rates, have statutory laws or administrative practices that prevent the effective exchange of information, and offer themselves as places that can be used by non-residents to do tax evasion. Tax haven countries provide low tax rates and other tax attributes to attract the attention of foreign investors (Dharmapala, 2008). Companies located in countries with high tax rates can divert their funds to tax haven countries to minimize their tax burden. shows significant results between tax haven and transfer pricing. This is supported by the results of research conducted by Taylor, et al., (2015) and Anh et al., (2018) which show that tax havens have an effect on transfer pricing. Therefore, the second hypothesis in this study is as follows:

H2: Tax Haven has a positive effect on Transfer Pricing

Effect of Thin Capitalization on Transfer Pricing

According to Khomsatun & Martini (2015), multinational companies finance their companies using debt rather than share capital. Thin capitalization is done by providing branch company loans instead of using additional capital, especially if the branch company is in an environment that applies high tax rates. With a large interest expense can reduce taxable income. Companies can practice transfer pricing by receiving loans from group companies located in countries with high tax rates. Ernawati, et al., (2019) argues that sources of funding from parent companies to subsidiaries will increase transfer pricing practices. Therefore, the third hypothesis in this study is as follows:

H3: Thin Capitalization has a positive effect on Transfer Pricing.

METHODOLOGY

Types of research

This study uses quantitative data with causal studies. Quantitative research is a scientific method in which data is in the form of numbers or numbers that can be processed and analyzed using mathematical or statistical calculations (Sekaran & Bougie, 2017).

Source of data used in this research is secondary data. Secondary data sources refer to information collected from existing sources (Sekaran & Bougie, 2017), namely data that has been audited by independent auditors and published. In this study, secondary data was obtained from the financial reports and annual reports of companies listed on the Indonesia Stock Exchange (www.idx.co.id).

Population and Sample

The population in this study are all Energy sector companies listed on the IDX in 2019-2021. The sample in this study are multinational companies in the Energy sector which are listed on the IDX in 2019-2021 with the following criteria: (1) Have a foreign ownership structure (2) Companies have complete data needed in research; and (3) Companies that publish complete financial reports from 2019-2021.

Operational Definition and Variable Measurement Transfer Pricing (Y) Transfer pricing measurements use transfer pricing proxies (Suntari & Mulyani, 2020). The higher the value generated indicates that the company tends to make receivables from related parties. The transfer pricing formulation is as follows:

$$TPrice = \frac{\text{Piutang usaha kepada pihak yang memiliki hubungan istimewa}}{\text{Total piutang}} \times 100$$

Independent Variable (X) Multinasionalitas (X1)

The measurement of multinational variables uses the MULNAT ratio, which is a comparison between the total foreign subsidiary companies and the total multinational companies (Rego, 2003). This ratio is used because it can provide an overview of the level of geographic diversification of a company

$$MULNAT = \frac{\text{total anak perusahaan asing}}{\text{total perusahaan multinasional}} \times 100\%$$

Thin Capitalization (X3)

Thin capitalization measurement in this study uses the Debt to Equity ratio (DER) (Ernawati, Candrawati, & Ratnawardhani, 2019). This ratio is used because it can provide an overview of the company's use of debt as funding. If a company has a high DER value, then the company has an indication of doing thin capitalization

$$DER = \frac{\text{the average of debt}}{\text{the average of equity}}$$

Description:

The average of debt : Average interest-bearing debt

The average of equity : Average capital In accordance with the Minister of Finance Regulation number 169/PMK.010/2015, if the DER value exceeds 4:1, the company indicates thin capitalization.

Data analysis method

The analytical method used in this research is multiple linear analysis. Path analysis testing was carried out using the SPSS (Statistical Package for Social Sciences) program.

The multiple regression equation can be formulated as follows:

$$TPrice = \alpha + \beta_1MULNAT + \beta_2TAXHAV + \beta_3THINCAP + \epsilon$$

Description:

TPrice : Transfer Pricing

MULNAT : Multinasionalitas

TAXHAV : Tax Haven

THINCAP : Thin Capitalization

A : Konstanta

B : Koefisien variabel

e : error/residual

Hypothesis Testing

According to Ghozali (2016: 97) the t statistical test basically shows how far the influence of one independent variable individually explains the variation of the dependent variable. The t test can be carried out by looking at the significant profitability value of t for each variable contained in the t output of the regression results using SPSS. If the significance value of profitability is <0.05 then an independent variable has a strong effect on the Independent Variable.

Determination Coefficient Test (R²)

The coefficient of determination (R²) essentially measures how far the model's ability to construct the dependent variables is. The value of the coefficient of determination is between zero and one. A small R² value means that the ability of the independent variables to explain the dependent variable is very limited. A value close to one means that the independent variables provide almost all the information needed to predict the dependent variation (Ghozali, 2011). The weakness of using the coefficient of determination is the bias towards the number of independent variables included in the model (Ghozali, 2011). Therefore, many researchers recommend using the Adjusted R² value when evaluating which is the best regression model.

Model Feasibility Test (Statistical Test F)

According to Ghozali (2011) the F test is used to test whether the regression model is feasible to use for research. If independent of the dependent variable as follows:

If the significance number $\alpha \leq 0.05$ the research model is feasible to use.

If the significant number $\alpha > 0.05$ the research model is not feasible to use.

Hypothesis Testing (t test)

According to Ghozali (2011) The t statistical test basically shows how far the influence of one independent variable individually explains the variation of the dependent variable. The steps to test the independent variables are as follows:

First, Second and Third Hypothesis Testing Hypothesis Formulation:

H₀: $\beta_1, \beta_2, \beta_3 \leq 0$, Mulnat, Taxhav, Thincap have no positive effect on transfer pricing
H_a: $\beta_1, \beta_2, \beta_3 > 0$, Lev, Mulnat, Taxhav, Thincap has a positive effect on transfer pricing
Test Criteria t

If $t_{hitung} \geq t_{tabel}$ then H₀ is rejected and H_a is accepted. If $t_{hitung} < t_{tabel}$ then H₀ is accepted and H_a is rejected. Significance Criteria

The significance level α used in this study was determined at 0.05 (5%) and a confidence level of 0.95 (95%). It is said to be significant if $\alpha \leq 0.05$ and not significant if $\alpha > 0.05$ (Ghozali, 2011).

Basis for Decision Making

If $t_{hitung} \geq t_{tabel}$, and significant value ≤ 0.05 then H₀ is rejected and H_a is accepted. If $t_{hitung} < t_{tabel}$, and significant value > 0.05 then H₀ is accepted and H_a is rejected.

RESULTS

The highest value of each variable in the study can be shown in the table with the maximum value, for the Transfer Pricing variable (TPrice) of 98.50, the Multinationality variable (MULNAT) of 8.7, the Tax Haven variable (THAV) of 0.357, and the Thin variable Capitalization (TCAPZ) of 24.84. The average value of each variable in the study can be shown in the table with the mean value, for the Transfer Pricing (TPrice) variable of 22.64, the Multinationality variable (MULNAT) of 8.73, the Tax Haven variable (THAV) of 0.133, and variable Thin Capitalization (TCAPZ) of 3.384. The magnitude of the deviation of each

variable in the study can be shown in the table with the standard deviation value, for the Transfer Pricing (TPrice) variable of 22.30, the Multinationality variable (MULNAT) of 11.01, the Tax Haven variable (THAV) of 0.118, and the Thin variable Capitalization (TCAPZ) of 4.08. The results of the descriptive statistical analysis of this study are presented in Table 2.

Table 2
Descriptive Statistical Analysis

N	Minimum	Maximum	Mean	Std. Deviation	
MULNAT	38	.00	46.00	8.7368	11.01518
THAV	38	.01429	.35714	.1334586	.11814322
TCAPZ	38	.09008	24.84892	2.3843447	4.08083436
TPrice	38	.17712	98.50814	22.6402253	22.30484771
Valid N (listwise)	38				

Normality Test

The results of the normality test from this study are presented in Table 3.

Table 3
Normality Test Results
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		38
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	20.72310994
Most Extreme Differences	Absolute	.141
	Positive	.141
	Negative	-.138
Test Statistic		.141
Asymp. Sig. (2-tailed)		.055 ^c

- a. Test distribution is Normal.
- b. Calculated from data.
- c. Lilliefors Significance Correction.

Table 3 above shows that the Asymp. Sig (2-tailed) is 0.055 Because the Asymp value. Sig (2-tailed) > 0.05, then the data is normally distributed.

Multicollinearity Test

The results of the multicollinearity test from this study are presented in Table 4.

Table 4 Multicollinearity Test Result

1 (Constant)	28.907	5.502		5.253	.000		
MULNAT	.378	.518	.187	.730	.471	.387	2.581
THAV	8.012	48.54	.042	.165	.870	.384	2.604
TCAPZ	1.691	.893	.309	1.894	.067	.952	1.051

Table 4 above shows that the multicollinearity test results for the variables Multinationality (MULNAT), Tax Haven (THAV), and Thin Capitalization (TCAPZ) have a tolerance value of 0.471, 0.870, 0.067 respectively, while the VIF value of each variable has a value of no more than 10. Therefore, the regression model is not infected with multicollinearity.

Heteroscedasticity Test

The results of the heteroscedasticity test from this study are presented in Table 5.

Table 5 Heteroscedasticity Test Results
Coefficientsa

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	3.781	.602		6.281	.000
MULNAT	.036	.064	.166	.565	.576
THAV	6.170	6.091	.300	1.013	.318
TCAPZ	.094	.100	.160	.940	.354

a. Dependent Variable: LN_RES2

Table 5 above shows that the sig. of each variable has a value above 0.05, so it can be concluded that the regression model is not infected with heteroscedasticity.

Autocorrelation Test

The results of the autocorrelation test from this study are presented in Table 6.

Tabel 6 Runs Test

	Unstandardized Residual
Test Value ^a	-3.75419
Cases < Test Value	19
Cases >= Test Value	19
Total Cases	38
Number of Runs	16
Z	-1.151
Asymp. Sig. (2-tailed)	.250

a. Median

In Table 6, based on the Run test, the Asymp sig (2-tailed) value is 0.250, more than 0.05, so the regression model is not infected with autocorrelation

Hypothesis Testing

This study uses three steps to test the hypothesis, namely the F test, test the coefficient of determination (R²), and t test, test

F is the test conducted to test the feasibility of the research model. The results of the F test from this study are presented in Table 7.

Tabel 7

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3882.871	3	1294.290	3.030	.043 ^b
	Residual	14524.859	34	427.202		
	Total	18407.731	37			

- a. Dependent Variable: Y
- b. Predictors: (Constant), X3, X1, X2

Table 7 above shows the significance value for the regression model in this study of 0.043. Therefore, the regression model in this study is feasible.

The coefficient of determination test aims to measure the model's ability to explain the dependent variable. The results of the test for the coefficient of determination in this study are presented in Table 8.

Tabel 8

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.459 ^a	.211	.141	20.66885925

Predictors: (Constant), X3, X1, X2

Table 8 above shows the adjusted R2 value in the regression model in this study is 0.141. Based on this, it is known that the ability of all independent variables to explain Transfer Pricing is 14.1%, while the remaining 85.9% is explained by other variables outside the model.

The t test is a test conducted to find out how much each independent variable affects the dependent variable. The results of the t test from this study are presented in Table 9.

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
1 (Constant)	25.090	5.136			4.885	.000
MULNAT	1.119	.549	.553		2.040	.049
THAV	93.328	51.975	.490		1.796	.081
TCAPZ	1.871	.856	.342		2.186	.036

- a. Dependent Variable: Y

Table 9 shows the results of hypothesis testing. An explanation of the results of hypothesis testing is as follows:

Based on the t test, multinationality has a sig. of 0.049 (sig < 0.05), so that Ha1 is accepted. Therefore, multinationality has a positive effect on transfer pricing. The results of this study are in line with the research results of

Ramadhan & Kustian (2017) and Rezky & Fachrizal (2018) which state that multinationality has a positive effect on transfer pricing. The results of this study are in accordance with the opinion of Afifah & Prastiwi (2019) which states that multinational companies have easier access to external funding than domestic companies because funding can be obtained from various sources from countries where company affiliates are established. Multinationality refers to the more foreign subsidiaries, the greater the transfer pricing practices carried out by the company.

Based on the t test, the tax haven has a sig. of 0.081 (sig>0.05), so that Ha2 is rejected. Therefore, tax havens have no effect on transfer pricing. The results of this study are in contrast to the results of the research conducted by Ramadhan & Kustiani (2017) and Anh, et al., (2018). From the information on affiliated companies disclosed in the financial statements, it can be seen that 58% of the companies studied have affiliated companies in Singapore, 23% in Malaysia, 18% in the British Virgin Islands, 12% in the Netherlands and the rest are spread across various countries. Singapore is a country included in the list of tax haven countries issued by the Tax Justice Network. Singapore is known to charge a relatively low corporate tax of 17%, while the corporate tax in Indonesia is 25%. Singapore is also known to be able to provide incentives to reduce tariffs, and not impose taxes (withholding tax) for certain income such as interest and dividends (Santosa, 2015). With this policy in place, it is possible that companies only need to make transactions with companies in Singapore which are enough to reduce the tax burden without having to establish affiliated companies in many tax haven countries. The purpose of establishing a subsidiary in a tax haven can also be for financial arbitrage in managing the company's foreign currency cash flows and to avoid risks from foreign currency exchange rates (Nurhidayati & Fuadillah, 2018). Utilization of tax haven countries does not have a significant effect on transfer pricing and can also be caused by the existence of tax treaties or Double Tax Avoidance Agreements (P3B). P3B is an international agreement in the field of taxation between the two countries that regulates the distribution of tax rights on income received or earned by residents of one of the countries or residents of both countries in the agreement (Lathifa, 2019). One of the objectives of the existence of a tax treaty is as a medium for exchanging information to prevent tax evasion. Countries related to P3B can report the income of foreign residents in the source country, for example by sending proof of receipt of income from the source country. At present, many tax haven countries are willing to carry out tax treaties. With the existence of a tax treaty between the State of Indonesia and tax haven countries it is assumed that it can minimize the utilization of tax haven countries as a medium for tax avoidance.

Based on the t test, thin capitalization has a sig. of 0.036 (sig <0.05), so that Ha3 is accepted. Therefore, thin capitalization has an effect on transfer pricing. The results of this study support the opinion of Afifah & Prastiwi (2019) which states that multinational companies have easier access to external funding than domestic companies because funding can be obtained from

various sources from the country where the company's affiliation is established.

DISCUSSION

In this study, multinationality and thin capitalization are proven to have an effect on transfer pricing. Meanwhile, tax havens have proven to have no effect on transfer pricing. The results of this study are in accordance with the opinion of Afifah & Prastiwi (2019) which states that multinational companies have easier access to external funding than domestic companies because funding can be obtained from various sources from countries where company affiliates are established.

In Indonesia, regulations regarding thin capitalization are regulated in Minister of Finance Regulation no. 169/PMK. 010/2015 concerning Determination of the Amount of Comparison between the company's debt and capital for the purpose of calculating income tax is set at a maximum of four to one (4:1). This Regulation of the Minister of Finance is in accordance with Article 18 paragraph (1) of the Income Tax Law concerning the Thin Capitalization Rule in which the Minister of Finance has the authority to determine the ratio of debt to capital that can be justified for tax calculation purposes.

In the Regulation of the Minister of Finance regarding thin capitalization there is a provision which states that payments on loan interest that exceed the Debt to Equity Ratio (DER), are treated as dividend payments (Rafinska, 2020). Excess interest payments that are considered as dividend payments will eventually be subject to income tax on dividends. The research data shows that the average value of thin capitalization is 2.38 indicating that companies that carry out thin capitalization, avoid taxes through transfer pricing. From the explanation above, it can be concluded that multinational companies in Indonesia are proven to still practice tax avoidance with thin capitalization. This could be a consideration for the Minister of Finance of Indonesia to reduce the DER ratio, which is expected to obtain a fairly high tax revenue.

The ratio of debt and capital applied in Indonesia has actually provided quite a wide space, namely 4:1, compared to Australia which sets a DER ratio of 1.5:1 and Japan at 3:1.

From the explanation above, it can be concluded that multinational companies in Indonesia are proven to still practice transfer pricing with thin capitalization. Therefore, this could be a consideration for the Minister of Finance of Indonesia to reduce the DER ratio to 3:1. That way, if there are still many companies that have a DER ratio of more than 3:1, the State will still receive quite high tax revenues. This is because the company's opportunity to minimize the tax burden through interest expense is getting smaller.

This study also did not find any effect of tax haven utilization on transfer pricing. The results of this study indicate that multinational companies in Indonesia do not take full advantage of tax havens but only a few, such as only taking advantage of low tax rates and tax incentives from Singapore.

The company's management must still consider its decision to carry out transfer pricing in order to minimize the tax burden. Companies that are

accustomed to tax evasion do not rule out tax evasion. Tax evasion is illegal and can be subject to quite severe sanctions, namely in the form of a crime or a fine of four times the amount of unpaid tax owed.

For the government, to minimize the use of tax havens to minimize the tax burden by conducting transfer pricing, a cooperation agreement with a tax haven country can be entered into in the form of a bilateral information exchange agreement. That way, the State can find out information about the financial accounts of tax haven countries and can minimize tax evasion.

CONCLUSIONS AND RECOMMENDATIONS

This study aims to analyze the factors that influence transfer pricing. The results of hypothesis testing show that multinationality and thin capitalization have an effect on transfer pricing. Meanwhile, the use of tax haven countries has proven to have no effect on transfer pricing. This can happen because multinational companies have easier access to external funding than domestic companies because funding can be obtained from various sources from the country where the company's affiliation is established.

Theoretically, this research can prove that there is an adverse selection problem in a contract, namely the practice of thin capitalization. In contract theory, adverse selection is a condition when managers have more information about the state of the company than other parties. Practically, this study proves that companies carry out transfer pricing by using thin capitalization practices. However, the existence of the thin capitalization rule applied in Indonesia has been able to reduce the practice of thin capitalization because in the research data there are no companies that have a DER ratio of more than 4:1.

Transfer pricing is actually a common thing to do, but it must be in accordance with the pricing that has been set. If the transfer pricing is not in accordance with the pricing then transfer pricing already has another meaning. Therefore, it is expected that companies can reconsider in making decisions to carry out transfer pricing with the aim of avoiding taxes. The aim is for the company to help expedite state revenues in terms of acknowledging all taxes that must be paid so as to avoid bad risks such as tax debt, cases of tax evasion, and so on which can actually worsen the condition of the company itself.

FURTHER STUDY

The limitation faced in this study is obtaining the data needed to measure thin capitalization. In this study, the measuring tool used to calculate thin capitalization is the DER ratio. The calculation of DER in terms of taxation is slightly different from the calculation of DER in general. In terms of taxation, the debt balance used as a DER calculation is debt that bears interest, especially debt to related parties. Meanwhile, the DER calculation generally uses the total debt regardless of whether there is interest payment or not and to whom the transaction is made.

Based on the research conducted, there are suggestions given by researchers, especially for future researchers. It is hoped that future researchers can add other variables that are thought to influence transfer pricing decisions such as company size, ownership structure, intangible assets, and profitability. In

addition, future researchers can also use another proxy to measure thin capitalization, namely the MAD Ratio

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