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Analysis of The Effect of Tax Minimization, Tunneling Incentive, and Bonus Mechanism on Corporate Decisions to Make a Pricing Transfer (Empirical Study on Manufacturing Companies Listed on IDX)

Wijaya Pranata Muliya and David HM Hasibuan
Sekolah Tinggi Ilmu Ekonomi Kesatuan

hasibuan_david62@yahoo.com

Abstract. World financial sector today already growth without seeing the boundaries. Every singel owner of the company compete to produce excellent product with a low price to resolve maximum earning. it can be resolve with transfer pricing action.

This study aims to examine the influence of tax minimization, tunneling incentive and Bonus mechanism with decision to do a transfer pricing. The population in this study is a manufacturing company listed on the stock exchange in 2013-1016 totaled 31 companies, and the sample is toke with purposive sampling method. Data was collacted using purposive sampling method for manufacturing companies listed on the indonesia stock exchange.The analysis tool is logistic regression used SPSS V.23.

Data were analyzed using logistic reggression analysis. The result of this study is tax minimization, tunneling incentive and Bonus Mechanism influence the company decision to do a transfer pricing.The determination coefficient is 0,385 that means 38,5% transfer pricing affected by independent variable, while the rest is explained by other variable.This result shows that is many other variable in outside of this study that can explain transfer pricing.

Keywords: Tax Minimization, Tunneling Incentive and Transfer Pricing

INTRODUCTION

Economic development in the era of globalization has a huge influence on business patterns and attitudes of business people. Globalization of markets and companies is accompanied by the development of strong information and communication systems. As a consequence, multinational companies establish an integrated process that leads to an increase in the number of inter-company transactions, so that multinational companies will face the problem of differences in tax rates that apply in each country. As a profit-oriented company, then, of course, the company will try to get maximum profit through various ways, including through cost efficiency. This can be done one of them by transfer pricing action, which is to increase the purchase price or cost (over invoice) or reduce the selling price (under invoice) (Ilyas and Suhartono, 2009,93). Companies that have subsidiaries in countries with high tax rates will be a problem because they have to pay more taxes, so the benefits are less. The greater tax burden triggers companies to transfer pricing in the hope of suppressing the burden. The magnitude of the decision to practice transfer pricing will result in lower global tax payments in general.

Transfer pricing allows companies to avoid double taxation but is also open to abuse. Transfer pricing practices are used to divert profits to countries that have low tariffs by maximizing the burden that can ultimately reduce the company's income (Price Waterhouse Cooper 2009) in Yuniasih et al., (2012.2). Because this can be used to divert profits to countries with low tax rates by maximizing the burden, and ultimately impacting the company's income.

Transfer pricing raises a number of problems, and it is difficult to solve these problems, including customs, anti-dumping provisions, and unfair business competition. Although some companies wished to adjust prices fairly in a single policy, this immediately caused opposition from other companies. (Folsom and Gordon, 1999 in Lo et al., 2010,9).

The Taxation Law refers to the term transfer pricing with transactions between parties that have a special relationship. This is as regulated in article 18 paragraph (4) of Law No. 36 of 2008 concerning Income Tax, namely a special relationship between corporate taxpayers can occur due to ownership or share capital ownership of an entity by another body as much as 25% (twenty-five percent) or more, or between several bodies that are 25% (twenty five percent) or more shares are owned by an entity. Special relationships can result in irregularities in prices, costs, or other benefits realized in a business transaction (Yuniasih et al, 2012,3). In addition, transactions between parties that have a special relationship can result in the transfer of income, the basis of tax imposition or to engineer the number of fees by the taxpayer.

According to the Director General of Taxation of Indonesia, there is no doubt that transfer pricing is very influential on state tax revenues. According to the calculation of the Director General of Taxation, the country has the potential to lose 1,300 trillion rupiah due to transfer pricing practices. Even more emphasized, according to the Director General of Taxes' internal information, the loss was due to interest payments, royalties and intragroup service, so the Director General of Taxes believed that by stopping the payment the country would no longer need to add debt. (Yuniasih et al, 2012.1).

Through the practice of transfer pricing, tax minimization is carried out by diverting the income and costs of a company that has a special relationship with companies in other countries whose tax rates are different. This is supported by Rahayu's research (2010.4), he found that the mode of transfer pricing is done by engineering the price of transactions between companies that have a special relationship. With the aim of minimizing the overall tax burden owed. This proves that tax minimization has a high role in influencing decisions on transfer pricing.

Research on taxes that influences management's decision to transfer pricing has been done. In his research, Swenson (2001,13) found that the prices reported in the financial statements will increase when the combined effects of taxes and tariffs provide incentives for companies to transfer pricing. In the research, Yuniasih (2012, 12) stated that taxes affect the company's decision to transfer pricing.

This is different from the opinion of Mispiyanti (2015.70) who argues that the tax motive does not have a significant influence on the company's decision to make transfer pricing. From these results, it is explained that different tax rates in each country do not encourage multinational companies to make decisions on transfer pricing. This is because, the sample used is less than other studies, namely only numbering as many as 22 manufacturing companies. From this description, the tax reduction factor or Tax Minimization is thought to have an influence on the practice of transfer pricing. Generally, companies avoid paying large taxes because it will reduce the profits of companies that impact on the decline in the company's stock price.

In addition to motivation tax minimization, the decision to transfer pricing is also influenced by share ownership. The ownership structure in Indonesia is concentrated in a few owners so that there is an agency conflict between the majority shareholders and minority shareholders. The majority shareholders can make decisions that are beneficial for themselves, regardless of the other interests of minority shareholders. Another thing that makes this agency conflict is the weak protection of the rights of minority shareholders, encouraging the majority shareholders to carry out tunneling which is detrimental to minority shareholders (Claessens, et al 2002, 28). Share ownership in Indonesia tends to be concentrated causing the emergence of controlling and minority shareholders (La Porta et al., 2000, 18).

The emergence of agency problems between majority shareholders and minority shareholders, according to Yuniasih et al., (2012.6), is caused by the following: First, the majority shareholders are involved in management as directors or commissioners who are likely to expropriate the holder's minority shares (Mitton, 2002,5). Second, the voting rights of the majority shareholders exceed the rights to the cash flow, because of the ownership of shares in crossed, pyramid and class forms (Claessens et al., 2000.85).

According to Hartati et al. (2015,5), tunneling incentive is a behavior of majority shareholders who transfer company assets and profits for their own benefit, but minority shareholders share the costs they incur. According to Johnson et al., (2000,25), Tunneling can be done by selling products to companies that have special relationships, at lower prices. Lo et al., (2010, 18), also found that concentration of ownership by the government in China influences transfer pricing decisions, whereby companies are willing to sacrifice tax savings for funneling profits to the parent company. Minority shareholders of the company are often disadvantaged when the transfer price benefits the parent company or majority shareholder (Lo et al., 2010,16).

Several studies on tunneling incentive have been conducted by several researchers including, Mutamimah (2008.49) found that tunneling by majority shareholders to minority shareholders occurred through merger and acquisition strategies. Lo et al., (2010,23) found that concentration of ownership by the government in China influences transfer pricing decisions, whereby companies are willing to sacrifice tax savings for funneling profits to the parent company. Aharony et al (2010,7) found that tunneling incentives after an initial public offering (IPO) were related to the sale of a special relationship before the IPO. And Yuniasih et al (2012, 12) found tunneling incentive has a positive effect on the company's decision to transfer pricing. From this description tunneling incentives are thought to have an effect on the practice of transfer pricing because the majority owner usually transfers the profit or profit to himself and gives a burden to the minority owner.

Furthermore, the decision to transfer pricing is also influenced by the bonus mechanism (bonus mechanism). According to Purwanti (2010,431), the bonus is an award given by the GMS to members of the Board of Directors if the company earns a profit. This bonus granting system will have an effect on management in generating profits. Managers will tend to take actions that regulate net income to maximize the bonus they will receive. This includes transfer pricing.

Several studies on bonus plans have been carried out and the results according to Lo et al., (2010, 23) have a positive effect on the increase in reported corporate income by increasing profit for the current period, one of which is the transfer pricing practice. Palestin (2008,33) analyzed the effect of bonuses on earnings management, the results of which showed a positive effect on earnings management.

Based on the above discussion, the tax minimization, tunneling incentive, and bonus mechanism are expected to influence transfer pricing decisions.

LITERATURE REVIEW

AGENCY THEORY

Agency theory is a theory that arises when there are two parties that are interdependent, where both parties agree to use services. Agency relations are as contracts, where one or more people (principals) employ other people or parties (agents) to carry out a number of services and delegate authority to make decisions. Therefore, management must account for all decisions on users of financial statements, including investors, stakeholders, shareholders, and creditors.

In the ownership structure, shareholders, in general, are not willing to monitor, because they have to bear all the costs of monitoring and only enjoy the benefits in accordance with the proportion of their shareholdings. If all shareholders behave the same, there will be no oversight of management (Zhuang et al., 2001,28). Thus, the agency conflict that occurs in dispersed ownership structures is agency conflict between managers and shareholders (Jensen and Meckling, 1976,13).

Positive Accounting Theory

Watts and Zimmerman (1986) in his journal Positive Accounting Theory cited by Pramana (2014.15) states that Positive Accounting Theory can explain why accounting policies become a problem for companies and parties with an interest in financial statements, and to predict accounting policies that want to be selected by the company under certain conditions. Positive accounting theory proposes three earnings management hypotheses, namely: (1) the bonus program hypothesis (the bonus plan hypothesis), (2) the debt covenant hypothesis, and (3) the political cost hypothesis. (Watts and Zimmerman, 1986).

Tax

According to Article 1 paragraph 1 of the Tax Law (Law No. 16 of 2009), what is meant by tax is: Compulsory contribution to a country owned by an individual or a compelling entity based on the law, by not getting direct compensation and being used for state needs for the prosperity of the people.

Tunneling Incentive

According to Mutamimah (2008.49), Tunneling is the behavior of management or majority shareholders who transfer company assets and profits for their own benefit, but the costs are charged to minority shareholders.

Tunneling incentive appears in two forms, namely: first, the majority shareholder can move wealth from the subsidiary company to himself through transactions between companies and the majority shareholders of the company. The transaction can be carried out with asset sales, excessive contract compensation for executive compensation, lending, and others. The second form is that majority shareholders can increase their share of the company without moving assets through issuance of shares or other financial transactions that result in losses on the minority shareholders (Johnson, 2000, 22).

Bonus Mechanism

According to Suryatiningsih et al., (2009.94), the bonus mechanism is a component of calculating the amount of bonus given by the owner of the company or the shareholders through the GMS to the directors who are considered to have good performance.

Given that the bonus is based on the amount of profit, it is logical that the directors try to regulate and manipulate profits in order to maximize the bonus and remuneration they receive. So, it can be concluded that the bonus mechanism is one of the strategies or motives for calculation in accounting whose purpose is to maximize the acceptance of compensation by the directors or management by increasing the company's overall profit. However, as a result of the practice of transfer pricing.

Transfer Pricing

The transfer price in English comes from the word transfer price, which is often interpreted as the value attached to the transfer of goods and services in a transaction between a special party. According to Horngren (2008: 375), what is meant by transfer pricing is the price charged by a subunit for a product or service supplied to another subunit in the same organization.

Research Hypothesis

The research hypothesis is a temporary estimate of the results of the study.

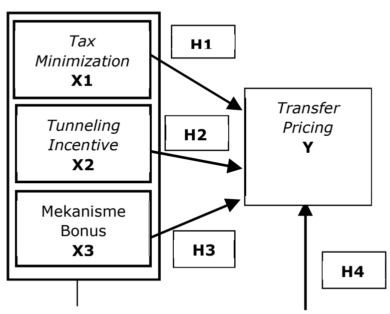
H1: Suspected Tax minimization has a positive effect on transfer pricing decisions

H2: Suspected Tunneling incentive has a positive effect on transfer pricing decisions

H3: Suspected bonus mechanism has a positive effect on transfer pricing decisions

H4: Suspected Tax Minimization, Tunneling Incentive, and bonus mechanisms simultaneously have a positive effect on transfer pricing decisions have a positive effect on firm value.

Conceptual Frame



RESEARCH METHODOLOGY

Population and Sample

The population used is the population of manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2013 to 2016.

This study uses sampling techniques by means of purposive sampling (Quota Sampling), which is a sampling technique from a population based on certain criteria. The sample sampling criteria are as follows:

1. Manufacturing companies listed on the IDX from 2013 to 2016.
2. The sample company is controlled by a foreign company with a percentage of ownership of 20% or more.
3. The Company always reports the Financial Report to the Indonesia Stock Exchange in the 2013-2016 period and does not experience losses.

The data used in this study are secondary data, namely: financial reports and independent auditor reports from each public company for the period 2013-2016, this data is then processed using a logistic regression analysis model in the SPSS application.

Data collection procedures are carried out using documentation and literature study methods. The analytical method used in this study is descriptive statistical analysis, inferential statistics, logistic regression analysis, calculating the coefficient of determination and testing hypotheses.

RESULTS AND DISCUSSION

The results of the analysis showed that there was a decrease in the initial -LLL value (Block number = 0) of 59,897 to the final -2LL (Block number = 1) of 49,539. There was a decrease of 10.358 in (-2LikeLihood) -2LL indicating that the model is fit with the data so that H0 is accepted because of a decrease in regression.

From the test results it can be seen that the calculated Chi-Square value is 19,641 with a significance value of 0,000, because the calculated Chi-Square value is greater than the Chi-Square table value (19,641> 7,81) and a significance value smaller than alpha 0,05 (0,000 <0,05), it can be concluded that the model involving independent variables in the form of tax minimization, tunneling incentives, and bonus mechanisms can be said that there is a real influence simultaneously or jointly on the dependent variable model in the form of transfer pricing.

The test results show that the calculated Chi-Square value is 3.098 with the significance value obtained is 0.928. The Chi-Square value is smaller than the Chi-Square table (3.098 <15.51) and the significance value is greater than 0.05 (0.928> 0.05), it can be seen that the model used has a predictive probability equal to the probability observed or the model formed is able to predict the observed data well and the model is suitable for use.

The coefficient of determination test shows the value of Nagelkerke R Square from the results of data processing using SPSS V.23 shows the results of 0.385 which means that the variability of the dependent variable that can be explained by the independent variable is 38.5%, while the remaining 61.5% is explained by other variables outside this research model.

The classification matrix test results show that in observation observations where the prediction rate of 100% of companies do transfer pricing and 12.5% do not do transfer pricing. Overall, the model with the variables of tax minimization, tunneling incentive, and bonus mechanism can be predicted statistically at 94.4%.

Multicollinearity

From the multicollinearity testing that has been done, the results show that the absence of correlation values between variables is greater than 0.8. This means that there is no symptom of multicollinearity that occurs between variables.

Based on the tests that have been done, the regression equation is as follows: TP = 5.370 -0.037 TM -6.917 TI + 30.89 ME + e

Tax Minimization of Transfer Pricing Decisions

From the tests that have been conducted, Wald obtained for the Tax Minimization variable of 5.424 and the sig value. 0.02. Chi-Square table value is 3.84 with df = 1. Chi-Square count> Chi-Square table and sig value. <0.005. It was concluded that the H1 hypothesis test was accepted, the results showed that tax minimization had an influence on transfer pricing decisions.

Tunneling Incentive to Transfer Pricing Decisions

From the tests that have been done, Wald is obtained for the tunneling incentive variable of 7.176 and the sig value. 0.007. Chi-Square table value is 3.84 with df = 1. Chi-Square count> Chi-Square table and sig value. <0.005. It was concluded that the H2 hypothesis test was accepted, the results showed that Tunneling Incentive had an influence on transfer pricing decisions.

Bonus Mechanism for Transfer Pricing Decisions

From the tests that have been done, Wald obtained for the bonus mechanism variable is 9.36 and the sig value. 0.002. The Chi-Square table value is 3.84 with df = 1. Chi-Square count> Chi-Square table and sig value. <0.005. It was concluded that the testing of the H3 hypothesis was accepted, the results showed that the bonus mechanism had an influence on transfer pricing decisions.

Tax minimization, tunneling incentives and bonus mechanisms for transfer pricing decisions
From the test results it can be seen that the calculated Chi-Square value is 19,641 with a significance value of 0,000, because the calculated Chi-Square value is greater than the Chi-Square table value (19,641> 7,81) and a significance value smaller than alpha 0,05 (0,000 <0,05), it can be concluded that the model by including independent variables in the form of tax minimization, tunneling incentives, and bonus mechanisms is better and can be used in the model or it can be said that there is a real influence simultaneously or together towards the dependent variable model in the form of transfer pricing.

DISCUSSION

Tax Minimization of Transfer Pricing Decisions

Based on the test results it can be seen that the tax has a negative and significant effect on the occurrence of transfer pricing transactions of manufacturing companies sampled, so that transfer pricing transactions can be justified by manufacturing companies with foreign share ownership in order to engineer company profits so that the profits earned by the company in the year certain looks lower and indirectly results in reduced taxes that will be paid to the state.
The results of this study support agency theory which explains that the emergence of agency problems occurs because there are parties who have different interests but work together in different tasks. Agency conflicts can be detrimental to the principal (owner) because they are not directly involved in the management of the company so they do not have access to obtain adequate information.

Tunneling Incentive to Transfer Pricing Decisions

In accordance with what was stated by Lo et al which stated that the ownership of companies today generally does not spread but is concentrated only on a few shareholders.
If the practice of transfer pricing is carried out by a subsidiary company by selling inventory to the parent company at a price far below the market price, it will automatically affect the income earned by the subsidiary company, which results in a smaller company profit than it should, or even if the subsidiary company buying supplies for the parent company at a price far more expensive than the fair price, the imposition of the cost of raw materials for the subsidiary company will also greatly affect the profits that will be obtained by the subsidiary company, and this will be very beneficial for the parent company.

Bonus Mechanism for Transfer Pricing Decisions

Transfer pricing is one way for the directors to be able to lift profits in the expected year, namely by selling inventory to affiliated companies at prices above market prices. This will affect the company's income and increase profits in that year.
The results of this study support a positive accounting theory which explains company managers with bonus plans tend to choose accounting procedures with changes in reported earnings from future periods to present periods.

Tax Minimization, Tunneling Incentive and Bonus Mechanism for Transfer Pricing Decisions

Tunneling Incentive is the behavior of management or majority shareholders who transfer company assets and profits for their own benefit, but costs are charged to minority shareholders. Companies that have a high number of foreign ownership will conduct transfer pricing transactions in order to reduce the burden and increase the benefit of the majority shareholders, while minority shareholders bear the burden of the majority shareholders.
The bonus is the provision of non-salary rewards to the company's directors for management for the work done by the company management. The bonus mechanism is one of the accounting strategies or motives in accounting for the purpose of maximizing the acceptance of compensation by directors or management by increasing overall corporate profits.

CONCLUSION AND SUGGESTIONS

Conclusion

Based on the results of data analysis and discussion, it can be concluded:
1. Tax Minimization has a significant negative effect on Transfer Pricing.
2. Tunneling Incentive has a significant effect on Transfer Pricing.
3. Bonus mechanism has a significant effect on Transfer Pricing.

4. Tax minimization, tunneling incentives, and bonus mechanisms simultaneously have a significant effect on Transfer Pricing.

Suggestions

Suggestions for this research are as follows:

1. It is recommended to develop other variables to study, such as tariffs, etc.
2. The sample used in this study is not only focused on manufacturing companies listed on the Indonesia Stock Exchange (IDX).
3. We recommend using different measurements for independent and dependent variables.
4. The government is more tightening and clarifying the contents of the regulation on transfer pricing, namely regulation PER-32 / PJ / 2011 concerning the application of the fairness principle in special relationship transactions so that companies actually implement transfer pricing activities based on fair prices.

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