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Influences on Transfer Pricing Decisions: The Roles of Tunneling Incentives, Debt Covenants, and Bonus Mechanisms with Tax Minimization as a Moderator

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Authors' contributions

This work was carried out in collaboration between both authors. Both authors read and approved the final manuscript.

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ABSTRACT

Managing transfer pricing in multinational corporations has become a central issue in the scope of global tax policy. This research aims to detail the factors influencing transfer pricing decisions, focusing on the influence of tunneling incentive, debt covenant, and bonus mechanism. Tax minimization will be used as a moderating variable that enriches understanding in research on the dynamics of transfer pricing policies in multinational manufacturing companies. With a sample of 23 multinational companies listed on the IDX and 115 data from observed financial reports, it was analyzed using SPSS version 25 with multiple regression methods and interaction tests. The

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findings or research results indicate that tunneling incentive and debt covenant have a significant effect, but the bonus mechanism does not have a significant effect, while tax minimization only affects the relationship between debt covenant and transfer pricing.

Keywords: Tunneling incentive; debt covenant; bonus mechanism; tax minimization; transfer pricing.

1. INTRODUCTION

"The Industrial Revolution 4.0 and the growing globalization of the economy have influenced business patterns and attitudes of business people regardless of national borders. As a profit-orientated company, the company will try to get maximum profit including cost efficiency" [1]. "One of the methods most often used by multinational companies is the application of tax avoidance, which is a legal tax avoidance effort because there is no violation of tax regulations because the methods and techniques used by it take advantage of existing weaknesses in tax laws and regulations to reduce the amount of tax payable" [2]. "According to Setiawan (2014), the term transfer pricing is connoted with something bad (often called abuse of transfer pricing), namely manipulation or exploitation of transfer pricing rules and practices for the purpose of minimizing taxes or shifting profits to low-tax jurisdictions" [3].

Transfer pricing has become an interesting global issue among tax authorities and is still difficult to be resolved by the government due to differences in interests between entrepreneurs and tax offices in various countries. From the government's perspective, transfer pricing practices are believed to potentially reduce a country's tax revenue, while from a business perspective, transfer pricing practices benefit companies so that companies will seek to minimize losses and reduce the burden of corporate tax payments. Quoting from the OECD for some transfer pricing practices that have been carried out abroad, including by Caterpillar and Nike in 2017. Transfer pricing carried out by multinational companies has occurred several times in Indonesia, PT CocaCola Indonesia and PT Toyota Motor Manufacturing Indonesia are some companies that are indicated to practice transfer pricing negatively, namely to avoid taxes (tax avoidance).

In 2019, the Tax Justice Network reported the abuse of transfer pricing practices carried out by a subsidiary of British American Tobacco (BAT), PT Bentoel International Investama Tbk [4]. Quoting from DDTC News and OECD statistics, the trend of tax disputes related to transfer pricing cases in Indonesia is increasing. In 2019, there was an increase in the number of new cases for transfer pricing dispute cases by 11%, and in 2020 the number of cases will still remain high, even though the Covid-19 pandemic hit all over the world.Quoting from the OECD, here are the findings of several tax dispute cases that occurred in Indonesia throughout 2016-2020.

It can be seen in the graph above that there was a significant increase in 2018 related to tax dispute cases with indications of transfer pricing,

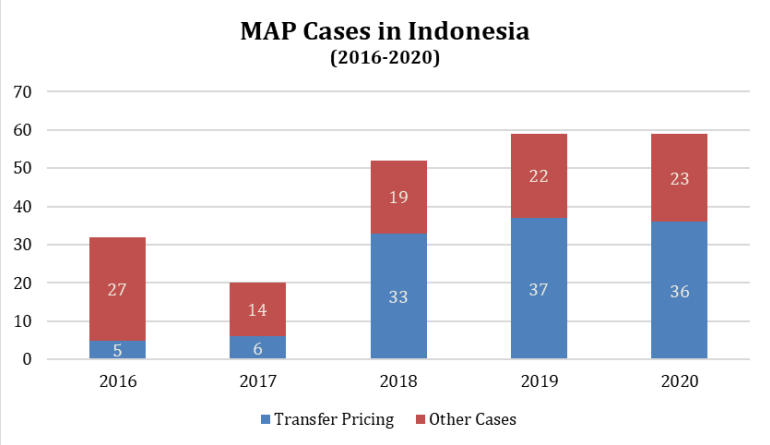

Fig. 1. Number of Tax Dispute Cases through MAP Statistics in Indonesia
Source: MAP Statistic Reporting Framework, OECD (2016-2020)

and even this figure is still the same in 2020, given the Covid-19 pandemic. According to a study conducted by the Tax Justice Network in 2020, each year Indonesia has the potential to experience revenue forgone of US$ 48 billion. Interestingly, the transfer pricing manipulation scheme is a relatively dominant scheme in the tax avoidance mode. Transfer pricing practices result in the potential income of developing-poor countries from the tax sector shrinking or even disappearing. Meanwhile, tax is the main source of state revenue and in some developing countries, tax contributes more than 80% of total revenue.

There are several reasons why companies decide to do transfer pricing. The first is tunnelling incentive. Research on the effect of tunneling incentive on transfer pricing has been conducted by Anggraeni & Lutfillah (2019), finding that tunneling incentive has a positive effect on transfer pricing decisions [5]. "Second, is debt covenant. According to Watts & Zimmerman (1986), the motive for choosing an accounting method cannot be separated from positive accounting theory, one of which is the debt covenant hypothesis" [6]. "Third, is the bonus mechanism. Research from Rahma & Wahjudi (2021), revealed that the bonus mechanism affects transfer pricing decisions" [7]. "Amanah & Suyono's research (2020), examines that the bonus mechanism has no significant effect on transfer pricing decisions" [8].

Based on the political cost theory, the government requires multinational companies to pay taxes, which in turn makes the company under pressure because it must regularly pay taxes to the state. As a result of this pressure, company managers will tend to choose to do transfer pricing to their group companies in other countries so that the taxes paid by the company can be as minimal as possible. These decisions can be based on the existence of tax minimization strategies undertaken by the company. Some tax minimization strategies such as tax deduction and credit, tax deferral, entity selection, international tax planning, tax-efficient investment, estate planning, and international tax planning, which includes transfer pricing.

2. LITERATURE REVIEW

2.1 Agency Theory

Jensen & Meckling (2019), "state that agency theory is a theory that explains the relationship between managers, agents, and shareholders, as principals" [9]. "The relationship materializes if there is an agreement or contract between one or more principals, where the principal gives orders to the agent to perform services on behalf of the principal by authorizing the agent to manage and make decisions that are in the best interests of the principal" [10]. Agency theory implies the existence of information asymmetry where there is a conflict of interest between management as an agent and owners and creditors as the principal.

2.2 Political Cost Theory

Political cost theory is a theory related to political policy. This theory explains that the greater the political costs borne by the company, the more likely managers are to choose accounting methods or procedures that can defer reporting profits from the current period to a future period. The relationship between political cost theory and transfer pricing is that generally large companies may be subject to higher performance standards, especially when the company also has high profitability capabilities, thus increasing political costs.

2.3 Transfer Pricing

"In practice, transfer pricing is a transaction between companies in one group (there is a special relationship) with the aim of shifting taxable income from a country with a high tax rate to a country with a low tax rate in order to reduce the total tax burden paid by the group company" [2]. "According to the Minister of Finance Regulation Number 7/PMK.03/2015, transfer pricing is the determination of prices in transactions between parties that have a special relationship" [11].

The definition of special relationship according to the Income Tax Law number 36 of 2008 (Income Tax Law) is 'Special relationship is considered to exist if: (a) Taxpayers have direct or indirect equity participation of at least 25% in other taxpayers, or the relationship between taxpayers with equity participation of at least 25% of two or more taxpayers, as well as the relationship between the last two or more taxpayers; or (b) Taxpayers control other taxpayers or two or more taxpayers are under the same control either directly or indirectly or (c) There is a family relationship by blood and consanguinity in a straight line and or unilaterally' [12].

2.4 Tax

"Tax is a mandatory contribution to the state owed by individuals or entities that is coercive based on the law, without receiving direct compensation, and is used for the needs of the state for the greatest possible prosperity of the people" [13]. Tax has a primary function as a source of state revenue used to finance national development and government operations. Tax plays an important role in the life of the nation, especially in the implementation of development, because it is a source of state income to finance all expenditures, including development financing.

2.5 Tunnelling Incentive

Tunnelling incentives are motivations that encourage corporate control holders to utilize their position in a way that harms minority interests, for example by harming the company for personal gain (OECD, 2018). "Shareholdings in Indonesia tend to be concentrated, leading to the emergence of controlling and minority shareholders" [14].

2.6 Debt Covenant

Debt covenant is a contractual provision set by the lender in a loan agreement that regulates the actions and obligations that the borrower must comply with. These provisions include restrictions on expenditures, dividend payments, asset sales, and other financial parameters [15]. The purpose of debt covenants is to mitigate the lender's risk by imposing conditions that help ensure the borrower's ability to repay its debt. By setting these restrictions, lenders aim to protect their investment and maintain control over the borrower's actions over the term of the loan. Companies that tend to have high debt or liability ratios, tend to try to avoid contract violations by utilizing accounting methods that can increase profits, one of which is by applying transfer pricing practices.

2.7 Bonus Mechanism

Bonus mechanism is an incentive system used by companies to provide additional rewards to employees as a reward for achieving certain performance desired by the company. Bonuses can be in the form of cash, stock, stock options, or other benefits [16]. "Common types of bonus mechanisms include: performance-based bonuses, profit-sharing bonuses, team bonuses, discretionary bonuses and long-term incentive plans. Income-based bonus schemes are the most popular way to reward managers, hence it is logical for managers to manipulate earnings to maximize their income" [17].

2.8 Tax Minimization

Tax minimization is a strategy or effort made by individuals or companies to reduce the amount of tax payable to the government. This strategy can involve a variety of methods, such as utilizing legitimate tax loopholes or incentives, using tax-efficient corporate structures, or conducting careful financial planning to manipulate tax liabilities. Research by Rahayu et al., (2020), "suggests that the transfer pricing mode is carried out by engineering the charging of transaction prices between companies that have special relationships, with the aim of minimizing the overall tax burden" [18]. Similar research suggests that the increasing tax burden triggers companies to carry out transfer pricing in the hope of reducing the burden.

2.9 Empirical Review

2.9.1 The effect of tunneling incentive on transfer pricing

Research conducted by Claessens et al., (2000) "shows that the structure of ownership companies in ASEAN countries including Indonesia tends to be concentrated, as the ownership structure leads to the formation of controlling shareholders and minority shareholders. PSAK No. 15 states that a party can be said to be a controlling shareholder if it owns shares or equity securities of 20% or more". Solikhah et al., (2021), found that the act of tunnelling incentive has a positive effect on transfer pricing provisions, conditions for equity concentration of listed manufacturing companies in Indonesia for tunnelling incentives by major shareholders [19]. Tarmidi et al., (2023), also found that while this act of tunneling is indeed has a positive and significant on transfer pricing provisions of practices, it doesn't impact corporate tax policy [20]. However, Nazihah et al. (2019) states that tunneling incentive doesn't have a significant effect on transfer pricing practices [21].

2.9.2 The effect of debt covenant on transfer pricing

In agency theory, it has been explained that debt covenants are closely related to agency theory, where in practice investors as company owners delegate the management of resources in the

company to contracted parties, namely managers, to be able to generate profitable returns for the company. Sormin (2019), found that debt covenant does not affect tax avoidance practices, one of which is transfer pricing practices [22]. However, Supriyati et al., (2021), suggest that debt covenants have a significant and positive effect [23]. On the other hand, Osho & Adisa (2022) states that debt ratio (DER) has a significant, but a negative effect on tax disclosure [24].

2.9.3 The Effect of bonus mechanism on transfer pricing

The bonus mechanism in the strategy or calculation motive in accounting is shown for directors or management as an award seen from the company's profit. The higher the overall company profit achieved, the higher the appreciation given by the owner to the directors. Therefore, transfer pricing practice is chosen by the directors to maximize the company's profit. Supriyati et al., (2021), "found that the bonus mechanism does not have a positive and significant effect on transfer pricing provisions" [23]. "However, Rahma & Wahjudi (2021), suggested that the bonus mechanism has a significant and positive effect" [7]. "Previous research conducted by Machfirah and Afrizal (2018) also stated that bonus mechanism has a significant effect on transfer pricing practices" [25].

2.9.4 The effect of tax minimization as a moderating variable on the relationship between tunneling incentive and transfer pricing

Tang (2016), stated that tunnelling can be one of the tax avoidance incentives [26]. Companies can save taxes by shifting profits from companies in countries with high tax rates to countries with low tax rates. The existence of a strong tax minimization motive can intensify the impact of tunneling incentive on the transfer pricing decision of multinational companies. The greater the focus on tax minimization, the more likely multinationals are to be influenced by the tunneling incentive and switch to aggressive transfer pricing practices. Suryarini, et al. (2020), found that tax minimization significantly moderates the effect of tunneling incentive on transfer pricing practices [27]. However, Handayani, Riaty (2021) on their research, states that tax minimization as a moderating variable doesn't significantly moderates the effect of tunneling incentive on transfer pricing practices [28].

2.9.5 The effect of tax minimization as a moderating variable on the relationship between debt covenant and transfer pricing

Debt covenants explain how managers address debt covenants. When multinationals prioritize tax minimization, it can influence their approach to transfer pricing with respect to debt covenants in various ways, such as maintaining financial ratios and maintaining cash flow (by reducing taxable income in high-tax jurisdictions, multinationals can minimize their tax payments, thereby improving their cash flow position and ensuring they have sufficient funds to service their debt).

2.9.6 The Effect of Tax Minimization as a Moderating Variable on the Relationship between Bonus Mechanism and Transfer Pricing

The existence of bonus mechanism will affect the company's strategy. Managers will try to get bonuses by increasing the company's profit, one of which is by transfer pricing. On the other hand, tax minimization motive may influence the selection of performance metrics and increase the incentive to encourage transfer pricing.

2.10 Hypothesis

- **H_1** Tunneling incentive has a significant and positive effect on transfer pricing decisions in multinational companies listed on the IDX in 2018-2022.
- **H_2** Debt covenant has a significant and positive effect on transfer pricing decisions in multinational companies listed on the IDX in 2018-2022.
- **H_3** Bonus mechanism has a significant and positive effect on transfer pricing decisions in multinational companies listed on the IDX in 2018-2022.
- **H_4** Tax minimization can moderate the positive effect of tunneling incentive on transfer pricing decisions in multinational companies listed on the IDX in 2018-2022.
- **H_5** Tax minimization can moderate the positive effect of debt covenants on transfer pricing decisions in multinational companies listed on the IDX in 2018-2022.
- **H_6** Tax minimization can moderate the positive effect of the bonus mechanism on transfer pricing decisions in multinational companies listed on the IDX in 2018-2022.

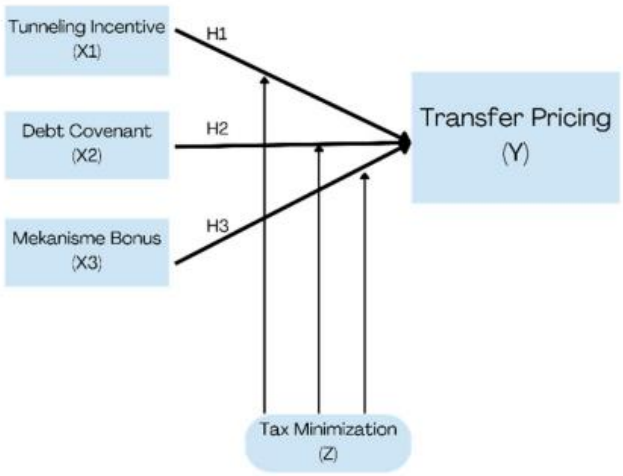

Fig. 2. Research Framework

3. RESEARCH METHODS

3.1 Population and Sample

The population in this study were all multinational companies listed on the Indonesia Stock Exchange. Meanwhile, the sampling technique used in this study is purposive sampling with the specified criteria with a total sample of 115.

3.2 Research Analysis Methods

This research was conducted using secondary data and is quantitative in nature, sourced from annual financial reports of multinational manufacturing companies in the period 2018 - 2022, and the data was taken from the official IDX website, www.idx.co.id and analyzed using IBM SPSS 25 software. In this study, the independent variable as a moderator is Tax Minimization (Z), to test the hypothesis regarding the influence of several factors including: Tunneling Incentive (X1), Debt Covenant (X2), and Bonus Mechanism (X3) on Transfer Pricing (Y).

To prove the hypothesis in this study, the data obtained were analyzed using multiple linear regression models. This multiple linear test can be done with 2 (two) models, among others:

1. Multiple linear regression test of independent variables on transfer pricing decision without moderating variables.

$Y = \alpha + \beta1\ (TI) + \beta2\ (DER) + \beta3\ (ITRENDLB) + e$

2. Multiple linear regression test of independent variables on transfer pricing decisions with moderating variables.

$Y = \alpha + \beta1\ (TI) + \beta2\ (DER) + \beta3\ (ITRENDLB) + \beta4\ (TI*TM) + \beta5\ (DER*TM) + \beta6\ (ITRENDLB*DER) + e$

4. RESULTS AND DISCUSSION

4.1 Results

4.1.1 Descriptive statistic

This research was conducted using secondary data from the annual financial statements of multinational manufacturing companies in the period 2018 - 2022. descriptive analysis, using the average value (mean), maximum value, minimum value, and standard deviation (std.dev) of each variable in this study. The results of the descriptive analysis can be seen in the following table:

Based on Table 1, the interpretation is as follows:

1. The minimum, maximum, average, and standard deviation values of the Tunneling Incentive (TI) variable are 0.187, 0.931, 0.56694, 0.213269, respectively. The standard deviation value of tunneling incentive variable is smaller than the average value, which indicates that the tunneling incentive data is homogeneous. The company with the minimum value is Selamat Sempurna Tbk. in 2018, while the company with the maximum value is Unilever Indonesia Tbk. in 2019.

Table 1. Descriptive Statistics Results

	N	Minimum	Maximum	Mean	Std. Deviation
TI (X1)	115	.187	.931	.56694	.213269
DC (X2)	115	.175	3.825	.87989	.692908
MB (X3)	115	.050	7.676	1.33304	.985547
TM (M)	115	-.051	.815	.23916	.098613
TP (Y)	115	.000	.864	.14202	.205516
Valid N (listwise	115				

Source: Processed secondary data, 2024

2. The minimum, maximum, average, and standard deviation values of the Debt Covenant (DC) variable are 0.175, 3.825, 0.87989, 0.692908, respectively. The standard deviation value of the debt covenant variable is smaller than the average value, which indicates that the debt covenant data is homogeneous. The company that has the minimum value is Delta Djakarta Tbk. in 2019, while the company that has the maximum value is PT Pyridam Farma Tbk. in 2021.

3. The minimum, maximum, average, and standard deviation values of the Bonus Mechanism (MB) variable are 0.050, 7.676, 1.33304, 0.985547, respectively. The standard deviation value of the bonus mechanism variable is greater than the average value, which indicates that the bonus mechanism data is heterogeneous. The company that has the minimum value is PT Pyridam Farma Tbk. in 2022, while the company that has the maximum value is Tjiwi Kimia Paper Mill Tbk. in 2018.

4. The minimum, maximum, average, and standard deviation values of the Tax Minimization (TM) variable are -0.051, 0.815, 0.23916, 0.098613, respectively. The standard deviation value of the tax minimization variable is smaller than the average value, which indicates that the tax minimization data is homogeneous. The company that has the minimum value is PT Nippon Indosari Corporindo Tbk. in 2020, while the company that has the maximum value is Sekar Bumi Tbk. in 2019.

5. The minimum, maximum, average, and standard deviation values of the transfer pricing (TP) variable are 0.000, 0.864, 0.14202, 0.205516, respectively. The standard deviation value of transfer pricing variable is greater than the average value, which indicates that the transfer pricing data is heterogeneous. The company that has the minimum value is PT Akasha Wira International Tbk. in 2018-2022, while the company that has the maximum value is Indah Kiat Pulp & Paper Tbk. in 2018.

4.1.2 Classical assumption test

The classical assumption tests in this study are normality, multicollinearity, heteroscedasticity and autocorrelation tests. The results of these four tests are listed in Table 3.

Table 2. Classical Assumption Test

Classical Assumption Test	Method	Results	Requirements	Description
Normality	Kolmogorov Smirnov	,064	Sig > ,05	Normally distributed
Multicollinearity	VIF & Tolerance	,769 & 1,300 ,901 & 1,110 ,972 & 1,029 ,813 & 1,231	Tolerance>,10 VIF <10	No multicollinearity
Heteroscedasticity	Glejser Test	,148 ,185 ,920 ,289	Sig > ,05	No heteroscedasticity
Autocorrelation	Durbin Watson	1,927	Du<DW<4-Du	No autocorrelation

Source: Processed secondary data, 2024

4.1.3 Hypothesis testing

Based on the linear regression test results above, it is known that:

a. It is concluded from the coefficient of determination test that the transfer pricing variable can be explained by the tunneling incentive, debt covenant, and bonus mechanism variables by 0.198 or 19.8%. While the remaining 80.2% can be explained by other factors not explained in this study, such as profitability and company size, and others.

b. It is concluded that the results of all independent variables have a calculated F value of 8,900 with a significance of 0.000. It can be concluded with significance value <0.05, and F count (8.900) > F table (2.699 (df1 = 3, df2 = 93), then it can be said that tunneling incentive, debt covenant, and bonus mechanism simultaneously have significant effect on company decision to do transfer pricing.

c. It is concluded that there is a relationship between independent variable and dependent variable partially, with significance value of 0.05 and t table value of 1.661 (df = 93).

d. Based on the previous Table 4, the regression equation above can be obtained and it is concluded that the regression results can interpret the relationship between the independent variable and the dependent variable, both partially and simultaneously.

TP = -3.726 + -1.762 (TI) + 0.860 (DER) + 0.045 (ITRENDLB) + e

4.1.4 Moderate regression analysis test (MRA)

"The interaction test or what is often called Moderated Regression Analysis (MRA), which aims to determine whether the moderating variables in a study can strengthen or weaken the relationship between the independent variable and the dependent variable" (Ghozali, 2018). The following are the results of the Coefficient of Determination, F test, and t test after adding interactions with moderating variables.

Table 3. Model Conformity Test Result

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-3.726	.299		-12.461	.000
TI (X1)	-1.762	386	-.434	-4.559	.000
DC (X2)	860	.245	.333	3.509	.001
MB (X3)	.045	.244	.017	.186	.853
a. Dependent Variable: TP (Y)					
Uji F = 0.000					
Adjusted R Square = 0.198					

Source: Processed secondary data, 2024

Table 4. Model Conformity Test Result

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	*Beta*		
(Constant)	-2.188	1.377		-1.589	116
TI (X1)	-.422	1.338	-.105	-.316	.753
DC (X2)	-1.284	1.053	-.497	-1.219	226
MB (X3)	.357	.416	.135	.859	.393
X1. M	1.043	.879	.684	1.186	.239
X2. M	-1.440	.667	-.877	-2.159	.034
X3. M	.252	.277	.172	.908	.366
a. Dependent Variable: TP (Y)					
Uji F = 0.000					
Adjusted R Square = .229					

Source: Processed secondary data, 2024

Based on the linear regression test results above, it is known that:

1. It is concluded that the transfer pricing variable can be explained by the tunneling incentive, debt covenant, and bonus mechanism variables that have been moderated by tax minimization of 0.229 or 22.9%. While the remaining 77.1% can be explained by other factors not explained in this study, such as profitability and company size, and others.

2. It is concluded that all independent variables that have been added to the moderating variable have a calculated F value of 5,022 with a significance of 0.000. It can be concluded with a significance value <0.05, and F count 5.022) > F table (2.699 (df1 = 3, df2 = 93), then it can be said that tunneling incentive, debt covenant, and bonus mechanism that has been added with tax minimization simultaneously have a significant effect on the company's decision to do transfer pricing.

3. It is concluded that there is a relationship between the independent variable and the dependent variable partially, with a significance value of 0.05 and a t table value of 1.661 (df = 93).

4. Based on the previous Table 4, the regression equation above can be obtained and it is concluded that the regression results can be interpreted as the relationship between the independent variable and the dependent variable, both partially and simultaneously, and also after adding moderating variables.

TP = -2.188 + -0.422 (TI) + -1.284 (DER) + 0.357 (ITRENDLB) + 1.043 (TI*TM) + -1.440 (DER*TM) + 0.252 (ITRENDLB*TM) + e

4.2 Discussion

4.2.1 The effect of tunneling incentive on transfer pricing

The hypothesis test results above show that there is a partial and negative influence by tunnelling incentive on the decision of multinational manufacturing companies to conduct transfer pricing. Tunnelling incentive may result in companies using transfer pricing to move profits to business entities in countries with lower tax rates. This may reduce the tax revenue that should be earned by the higher tax rate country, which in turn may result in conflicts with tax authorities and affect the company's image. In addition, tunnelling incentives may create inequalities in profit sharing among business entities within a corporate group.

The results of this study are in line with research previously conducted by Rahma et al., (2021), and Handayani, Riaty (2021) where this research shows that tunneling incentive has a significant effect on the decision of multinational manufacturing companies to carry out transfer pricing between subsidiaries [7,28], and also the results of this study are in line with research conducted also by Rahmawati et al., (2020) where in their research they state that tunneling incentive has a negative impact on the decision of multinational manufacturing companies to carry out transfer pricing.

4.2.2 The Effect of Debt Covenant on Transfer Pricing

The hypothesis test results above show that there is a partial and positive influence by debt covenant on the decision of multinational manufacturing companies to conduct transfer pricing. Debt covenant has a positive effect on transfer pricing decision because the obligation to comply with debt covenant can create additional pressure for companies to increase revenue or minimize costs. In an effort to achieve financial targets set by debt covenants, companies can use transfer pricing as a tool to optimize cost and profit structures. In addition, strict debt covenants may limit firms' financial flexibility, which may encourage them to seek ways to optimize their financial position through transfer pricing. By adjusting transfer prices between business units within a corporate group, companies can achieve tax efficiency and reduce the financial burden associated with debt.

The results of this study are in line with previous research conducted by Supriyati et al, (2021), and Nguyen Huu Anh, et al (2018) where this study shows that debt covenants have a significant and positive effect on the decision of multinational manufacturing companies to conduct transfer pricing between subsidiaries [23,29].

4.2.3 The Effect of Bonus Mechanism on Transfer Pricing

The result of hypothesis testing above shows that the variable of bonus mechanism does not

partially influence the decision of multinational manufacturing companies to conduct transfer pricing. In this study, the bonus mechanism is more oriented towards achieving short-term performance goals rather than long-term transfer pricing strategy. Although the bonus mechanism may provide incentives to achieve certain performance targets, its relationship may not be directly related to transfer pricing decisions. Multinational companies often have complex organizational structures with many branches or divisions spread across different countries.

The results of this study are in line with previous research conducted by Supriyati et al. (2021), and Prayudiawan and Jodie (2020) which in this study showed that the bonus mechanism does not significantly affect the decision of multinational manufacturing companies in transfer pricing between subsidiaries [23,30].

4.2.4 The Effect of Tax Minimization in Moderating Tunneling Incentive

The hypothesis test results above show that the moderating variable of tax minimization is not able to moderate the relationship between tunneling incentive and transfer pricing decision. This suggests that the effort to minimize overall tax through transfer pricing strategy may not have a significant effect in changing the company's decision related to tunneling. In this case, although the company may have an incentive to engage in tunneling, the effort to minimize overall tax does not significantly affect the transfer pricing decision, possibly due to other factors that are dominant in the company's decision making. The results of this study are in line with previous research conducted by Handayani (2021), where tax minimization is not able to moderate the relationship of independent variables, one of which is tunneling incentive, to transfer pricing decisions [28].

4.2.5 The Effect of Tax Minimization in Moderating Debt Covenant

The hypothesis test results above show that the moderating variable of tax minimization is able to moderate the relationship between debt covenant and transfer pricing decision. This shows that when companies try to minimize overall taxes, for example by optimizing tax structure and transfer pricing management, the effect of debt covenants on transfer pricing decisions becomes more complex. Debt covenants often include clauses that govern how the firm should manage its finances and assets. When companies seek to maximize tax minimization, this may limit their flexibility in setting transfer prices profitably. For example, restrictive clauses in debt covenants may limit a firm's ability to set below-market transfer prices to avoid taxes.

4.2.6 The Effect of Tax Minimization in Moderating the Bonus Mechanism

The hypothesis test results above show that the moderating variable of tax minimization is able to moderate the relationship between debt covenant and transfer pricing decision. The decision to provide a bonus policy in a company with the aim of obtaining high profits through tax payment efficiency in order to minimize the company's payable tax burden. However, efforts to minimize the payable tax burden are not always carried out with a bonus mechanism, because the bonus earned by the company will always be in line with the profits earned, thus the company will use good tax management so that later it can affect the overall value of the company.

The results of this study are in line with previous research conducted by Handayani (2021), where tax minimization is unable to moderate the relationship between independent variables, one of which is the bonus mechanism, on transfer pricing decisions [28]. Some previous studies that support this result also include research conducted by Ratna and Raden , and Ayem, Sri and Ria Ayu Ningsih [31,32].

5. CONCLUSION

Based on the results and discussion, the conclusions of this study are as follows:

1) Tunneling Incentive has a significant and negative effect on transfer pricing decision by multinational manufacturing companies. The greater the level of tunneling incentive, the lower the level of transfer pricing decision by multinational manufacturing companies.

2) Debt Covenant has a significant and positive effect on transfer pricing decisions by multinational manufacturing companies. The greater the level of debt covenant, the higher the level of transfer pricing decision by multinational manufacturing companies.

3) Bonus mechanism has no significant and positive effect on transfer pricing decision

by multinational manufacturing companies. Although bonus mechanisms can motivate managers and employees to achieve certain performance targets, they do not directly affect the company's decision related to transfer pricing.

4) Tax minimization is not able to moderate the relationship between tunneling incentive and transfer pricing decision. Although firms may have an incentive to engage in tunneling, efforts to minimize overall taxes do not significantly affect transfer pricing decisions.

5) Tax minimization is able to negatively moderate the relationship between debt covenant and transfer pricing decision. The greater the level of debt covenant that has been moderated by tax minimization, the level of transfer pricing decision by multinational manufacturing companies will decrease.

6) Tax minimization is not able to moderate the relationship between bonus mechanism and transfer pricing decision. Some efforts to minimize the payable tax burden are not always done with the bonus mechanism, because the bonus obtained by the company will always be in line with the profit earned.

DISCLAIMER (ARTIFICIAL INTELLIGENCE)

Author(s) hereby declare that NO generative AI technologies such as Large Language Models (ChatGPT, COPILOT, etc) and text-to-image generators have been used during writing or editing of manuscripts.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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