CORPORATE GOVERNANCE, BONUS MECHANISM AND TUNNELING INCENTIVES' INFLUENCE ON TRANSFER PRICING PRACTICES

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ABSTRACT

This study aims to analyze the effect of corporate governance, bonus mechanisms, and tunneling incentive on transfer pricing. The sample of this study consists of manufacturing sector companies listed on the Stock Exchange between 2015 and 2019 that have submitted a complete financial report during the observation period. The data analysis technique used is multiple linear regression. Based on the results of hypothesis testing, it can be concluded that corporate governance, bonus mechanisms, and tunneling incentives have significant effect on transfer pricing.

Keywords : Corporate Governance; Bonus Mechanism; Tunneling Incentive; Transfer Pricing

INTRODUCTION

Taxes are the main source of state revenue even in some developing countries. Taxes contribute more than 80% of Indonesia's total state income. Meanwhile, many businesses attempt to reduce or even eliminate their tax obligations, one of which is through transfer pricing practices. The current development of the digital economy has altered the business strategies of multinational enterprises (MNEs), which has an impact on transfer pricing practices. The state's lack of foresight in anticipating the growth of this type of business creates opportunities for the practice of base erosion and profit shifting (BEPS), which is used to pay small amounts of taxes or no taxes at all. Tax avoidance, which is frequently practiced by multinational corporations, is a transfer pricing scheme that violates the arm's length principle.

Transfer pricing is a well-known issue in the field of taxation, particularly in international transactions involving multinational enterprises. This practice has become a global issue, undermining many countries' taxation systems. Manipulation of transfer pricing is a worldwide issue. The presence of corporate entities in the group operating in different countries creates a gap for companies to benefit from different tax systems. Toyota Manufacturing, for example, has long been a target of the Directorate General of Taxes because it has used transactions between affiliated companies at home and abroad to avoid paying taxes, namely by transferring excess profits from one country to another

with a lower tax rate (tax haven). Expenses are transferred by manipulating prices arbitrarily. The tax apparatus must focus on affiliates (associated enterprises) and the principle of fairness in the transaction in the practice of transfer pricing (Mispiyanti, 2015).

The practice of tax avoidance through transfer pricing is mostly carried out by large companies such as Amazon, Google, Apple, IKEA, Starbucks, and so on. The practice of tax avoidance can basically be carried out by all companies in accordance with applicable tax regulations or is legal. However, if tax avoidance activities have reached a large scale and there is fraud, the activity is classified as tax evasion.

From the government's perspective, transfer pricing is thought to result in a reduction or loss of a country's potential tax revenue because multinational enterprises tend to shift their tax obligations from countries with high tax rates to countries with low tax rates. Meanwhile, from a business standpoint, transfer pricing is thought to be an effective strategy for winning the competition for limited resources, particularly for multinational enterprises. Companies typically try to reduce costs (cost efficiency), which includes lowering corporate income tax payments.

One of the government's efforts to limit the space for taxpayers to engage in tax avoidance is through tax regulations issued by the government in PMK No. 213/PMK.03/2016 (PMK 213). The regulation addresses the types of documents and/or additional information that taxpayers who conduct transactions with related parties must keep, as well as the procedures for managing them. This will strengthen previous regulations related to the application of transfer pricing schemes for companies that have transactions with special relationships (related transactions). In practice, there are frequently differences in interpretation between taxpayers and tax examiners regarding the implementation of these regulations, resulting in a large number of tax disputes in the tax courts. According to Ministry of Finance data, tax dispute files totaled 12,882 in 2019, a significant increase from 7,813 in 2018.

Based on the context of this issue, the researcher is interested in conducting additional research titled "Corporate Governance, Bonus Mechanism, and Tunneling Incentives' Influence on Transfer Pricing Practices (a Survey of Manufacture Companies Listed on IDX from 2015 to 2019)."

Problem Formulation

This study was conducted to analyze the effect of Corporate Governance, Bonus Mechanism, and Tunneling Incentives on Transfer Pricing Practices based on the phenomena and results of previous empirical studies. As a result, the researchers identified the following research problems:

1. How is the influence of Corporate Governance on Transfer Pricing Practices?

2. How is the influence of the Bonus Mechanism on Transfer Pricing Practices?

3. How is the influence of Tunneling Incentive on Transfer Pricing Practices?

Research Objectives

This study aims to respond to the above-mentioned problem identification, specifically:

1. To identify the extent to which Corporate Governance has an impact on Transfer Pricing Practices.

2. To identify the extent to which the Bonus Mechanism influences Transfer Pricing Practices.

3. To identify the extent to which Corporate Governance has an impact on Transfer Pricing Practices.

Research Benefits

The findings of this study are expected to make the following theoretical and practical contributions:

1. Theoretical Contribution

The findings of this study are expected to help future researchers understand the concept of transfer pricing in relation to taxation, specifically how to analyze the factors that influence taxpayers to use transfer pricing.

2. Practical Contribution

This study has direct relevance to academic and practical fields, particularly taxation studies, in that it identifies the factors that encourage the practice of tax avoidance through transfer pricing.

3. Contribution to Financial Services Authority (OJK) and the Directorate General of Taxes.

The findings of this study are expected to inform the OJK and the Directorate General of Taxes' investigation of the factors that influence taxpayers to use transfer pricing.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory is a model used in the formulation of problems that arise between the principal and the agent, specifically the agency conflict that arises as a result of information asymmetry between the owner and company manager, in which individual goals tend to be prioritized by managers over company goals. This means that agency conflict arises as a result of competing interests between management and shareholders.

Shareholders or principals, as company owners, do not run their own company but hire several people (agents) to run the company's operations by delegating decision-making authority to them. Jensen and Meckling (1976) explain that there is an agreement that occurs between the principal and the agent in which the agent is hired to work according to the needs of the principal and is given decision-making authority. Each management performance result will be submitted to the principal in the form of a report, one of which will be the financial report. Management will have more information than the principal as a result of the delegation of authority to the agent. This encourages shareholders (principals) to incur agency costs in the context of monitoring any actions taken by management (agents), so that management does not take actions based solely on personal interests.

Shareholders as principals in principle want to get large profits on their investments in the company. This forces management to always provide good performance and generate large profits. The pressure to always provide large profits causes management to act in a variety of ways, including attempting to keep the company's tax burden as low as possible. Tax avoidance refers to efforts to reduce the tax burden that are carried out by exploiting loopholes in tax provisions. This is accomplished by engaging in transactions that result in a low tax burden, one of which is transfer pricing.

Corporate Governance

Corporate Governance is intended to perform the function of supervising every decision made by management as well as taxation management. Corporate governance can have an impact on how a company's policies are implemented in terms of meeting tax obligations (Santoso & Muid, 2014). The level of tax compliance will be higher if the company's governance is good (Sartori, 2010). The agency problem arises from the conflict of interests between shareholders (principal) and management (agent). This

problem can be mitigated by increasing shareholder oversight through the implementation of good corporate governance.

The external supervision of the company is one of the internal control mechanisms in corporate governance, while the Independent Commissioner is one of the external mechanisms. The Board of Commissioners is in charge of overseeing the board of directors' policies for running the company and advising the board of directors. In addition, independent commissioners have a responsibility to the interests of shareholders, so they will fight for corporate tax compliance and can prevent tax avoidance practices (Harto & Puspita, 2014). Companies with good management will always prioritize all policies that can provide benefits for the company's sustainability. The policies taken will prioritize long-term benefits for the company.

Independent commissioners play an important role in the company, serving as supervisors and directing the company to follow applicable regulations. Independent commissioners act as go-betweens for company management and owners when making strategic or policy decisions in order to avoid violating applicable regulations, which includes tax decisions. Independent commissioners play a significant role in determining the level of corporate tax payments. Independent commissioners are in charge of ensuring that the company complies with all applicable laws and regulations. The more independent commissioners there are, the more stringent the supervision of agents will be. It is expected that with increased oversight from independent commissioners, the effective tax rate will be as appropriate (Suyanto, 2012).

Furthermore, the audit committee is formed by the company's board of commissioners, and its members are appointed and dismissed by the board. The audit committee is a separate committee tasked with overseeing the process of preparing the company's financial statements in order to prevent management fraud. The audit committee also provides input on issues concerning the company's financial, accounting, and internal control policies (Diantari & Ulupui, 2016). The audit committee's role in good corporate governance is to ensure that the company operates in accordance with applicable laws, conducts its business ethically, and effectively monitors for conflicts of interest and fraud committed by company employees. Tighter oversight of a company's management will result in quality information and effective performance (Hanum & Zulaikha, 2013).

Several principles must be followed when implementing this governance, including:

1. Transparency

    Any relevant information about the company must be made transparent to stakeholders. Material information should be easily accessible.

2. Responsibility

    All company decisions and policies must be transparently accounted for. Companies should be properly managed, with every action taken in the best interests of stockholders and other stakeholders in mind. In order for the company to run sustainably, the company must always comply with all regulations and carry out responsibilities to the community where the company operates.

3. Independency

    Management must run the company independently. Intervention from various parties can have a negative impact on the company because differences in interests will be higher so that it can interfere with efforts to achieve company goals.

4. Fairness

    Companies must always consider the interests of all stakeholders, including stockholders. To ensure the company's long-term viability, equality and fairness to all stakeholders must be implemented.

    Good corporate governance is required to anticipate the company's many tax avoidance practices in order to avoid fraudulent actions that will have a negative impact on the company's performance. Thus, the following is the first hypothesis proposed in this study:

H1:   Corporate Governance has an effect on transfer pricing practices.

Bonus Mechanism

    The bonus mechanism is a component of calculating the amount of bonuses given by company owners or shareholders to members of the board of directors who are deemed to have good performance through the GMS (Hartati, 2014). Purwanti (2010) stated that tantiem/bonus is an appreciation given by company owners to managers if the company's profit targets are met, and Refgia (2017) stated that tantiem/bonus is an award given by the GMS to members of the board of directors every year if the company earns a profit. Furthermore, Irpan (2011), states that the bonus mechanism is a

method of providing compensation other than salary based on the results and work performance of the directors in question.

The mechanism for awarding bonuses will have an impact on management's profits in engineering. Managers tend to maximize net income in order to maximize bonuses. In other words, this bonus compensation system may induce actors, particularly company managers, to engineer the company's financial statements in order to receive the maximum bonus. Given that the bonus mechanism is based on profit, it stands to reason that the directors whose remuneration is based on profit will devise strategies to maximize bonus receipts and remuneration in the coming year. In other words, the bonus mechanism will have an impact on how the company conducts transfer pricing.

Hartati et al. (2014) conducted several studies on the effect of the bonus mechanism on transfer pricing decisions, concluding that the bonus mechanism had an effect on transfer pricing. According to Hartati et al. (2014), when the bonus is based on profit, it is natural for directors to try to regulate and manipulate profits in order to maximize the bonuses and remuneration they receive. This means that the company's owner will use the company's overall profit achievement to evaluate the work performance of its directors, and the directors will try to increase the company's overall profit as much as possible by implementing transfer pricing practices. Furthermore, Lo et al. (2010) discovered that bonuses have a positive effect on reported company earnings by increasing current period profits, one of which is through transfer pricing practices. The bonus mechanism motivates management to transfer pricing and creates a conflict of interest between management, who wants a bonus, and shareholders. One way to get bonuses is to save taxes through transfer pricing (Saifudin and Putri, 2018). On the other hand, research conducted by Pramana (2014) and Mispiyanti (2015) shows that the bonus mechanism has no effect on transfer pricing. As a result, the following is the second hypothesis proposed in this study:

H2: The bonus mechanism has an effect on transfer pricing practices.

Tunelling Incentive

Tunneling is the act of the controlling shareholder of transferring the company's assets and profits while the minority shareholder bears the cost of the transfer even though the transfer only benefits the controlling shareholder. (Mutamimah, 2009). Aharony et al. (2010) stated the same thing, that tunneling is an act of transferring

company assets and profits for the benefit of controlling shareholders who control minority shareholders. Tunneling emerged as a result of an agency conflict between the majority and minority shareholders.

Tunneling can be accomplished by conducting transactions with companies that have a relationship with the majority shareholder, which is accomplished by charging exorbitant prices, failing to distribute dividends, and appointing family members to important positions in the company despite the fact that they do not meet the qualifications (La Porta, et al. 2000). Transactions between related parties are used to transfer other current assets out of the company at inflated prices to benefit the controlling shareholder. Tunneling can be accomplished by purchasing goods or services above fair value and selling goods or services below fair value. Tunneling incentive refers to an incentive obtained through the transfer of company assets and profits by the majority shareholder, but the minority shareholder also bears the burden.

Transfer pricing mode is used for tax avoidance by manipulating the transaction price charged between companies with a special relationship in order to reduce the total tax burden payable. The company's transfer pricing decision can be seen from the special relationship between companies or called tunneling incentive. The controlling shareholder engages in tunneling activities in order to temporarily transfer assets to members or subsidiaries in order to reduce expenses and, as a result, reduce company profits.

According to Gilson and Gordon (2003), majority shareholders take several steps to obtain personal benefits, including control of the company's operating policies such as dividends, bonuses, salaries, and benefits, as well as steps to obtain personal benefits through contractual policies, such as tunneling. If more tunneling activities are carried out, transfer pricing activities will also increase and vice versa. In other words, tunneling affects transfer pricing practices.

Several tunneling incentive studies conducted by Yuniasih et al. (2012), Pramana (2014), Syamsuddin (2014), Marfuah & Azizah (2014), Tan (2014), Mispiyanti (2015), and Noviastika et al. (2016) demonstrate that tunneling incentives have a positive effect on transfer pricing practices. In other words, it is possible to conclude that the majority shareholder will act in ways that maximize profits while sacrificing the rights of

minority shareholders. One way is by transfer pricing (Pramana, 2014). Thus, the following is the third hypothesis proposed in this study:

H3: Tunneling incentive has a positive effect on transfer pricing practices.

Transfer Pricing

Transfer pricing can occur as a result of a special relationship between companies in a multinational group of companies, allowing them to negotiate and work well together in determining transfer prices. One of the reasons companies use transfer pricing is to avoid paying taxes. High tax payments compel businesses to engage in tax avoidance, specifically transfer pricing. Multinational corporations with multiple branches in various countries tend to shift their tax obligations from countries with high tax rates to countries with low tax rates when engaging in transfer pricing activities.

Transfer pricing is the price paid for the sale of goods, services, and intangible assets to subsidiaries or related parties in different countries (Astuti, 2008:12). This means that the transfer price is the price charged by one subunit for a product or service supplied to another subunit in the same organization. Transfer pricing is basically the practice of setting prices for goods/services, both tangible and intangible, which is usually done by multinational enterprises to their fellow business group members. Multinational corporations seek to increase profits by minimizing the potential tax that must be paid by employing a transfer pricing scheme that violates the principles of fairness and business practice outlined in PER 32/PJ/2011. Therefore, transfer pricing disputes abound, one of which stems from the fact that the tax audit guidelines for transfer pricing schemes that serve as the reference still refer to the old regulations. As a result, the government must continue to update tax regulations in order to avoid an increase in tax dispute cases involving transfer pricing.

Hypothesis Development

Based on the phenomena and results of previous studies, the hypotheses proposed in this study are as follows:

H$_1$: *Corporate Governance has an effect on transfer pricing.*

H$_2$: *Bonus mechanism has an effect on transfer pricing.*

H$_3$: *Tunneling Incentive has an effect on transfer pricing.*

RESEARCH METHOD

Research Object and Population

The object of research is the variable to be examined in a study, it can be a concept from ordinary experience or something that is not concrete or abstract (Cooper & Schindler, 2013: 248). According to Kothari (2004:55), understanding the research population encompasses all aspects of a subject under investigation. This study's population consists of all manufacturing companies listed on the Indonesia Stock Exchange between 2015 and 2019. The sample was determined using a non-probability sampling method with a purposive sampling technique.

The following are the sampling criteria used in this study:

1. Manufacturing firms that have provided annual reports to the Indonesia Stock Exchange on a consistent basis between 2015 and 2019;

2. Manufacturing companies were not delisted during the observation period;

3. Manufacturing companies that publish complete and consistent financial reports during the 2015-2019 research year;

4. Manufacturing companies under the control of foreign companies with ownership percentages of 20% or more;

5. Manufacturing companies have no negative profit/loss. Companies that incur losses mean they do not bear the tax burden;

6. Manufacturing firms that present financial reports and have complete information on the variables studied between 2015 and 2019.

Research methods

Method is a method of work that can be used to obtain something. While the research method can be interpreted as a work procedure in the research process, both in searching for data or disclosing existing phenomena (Zulkarnaen, W., et al., 2020 :229). According to Kothari (2004:7-8), research methods are any methods or techniques used by researchers to conduct research. This study is quantitative in nature. The data source used is secondary data. Data was gathered using documentation techniques by accessing secondary sources such as www.idx.co.id, specifically data from manufacturing companies' annual reports from 2015 to 2019. The descriptive statistical test was used to test the data in this study. Furthermore, data was analyzed using the multiple regression method and then processed with the SPSS application.

Data Testing Method

The data testing method used in this research is descriptive statistical test and multiple regression analysis. According to Ghozali (2018), descriptive statistical tests are statistics that provide a description or description of data seen from the average value (mean), standard deviation, variance, maximum, minimum, sum, range. Descriptive statistical tests were used to determine the strength of the relationship between variables using correlation analysis, to make predictions using regression analysis, and to compare sample or population averages. Furthermore, before analyzing the data, the traditional assumption tests, such as the normality test, multicollinearity test, heteroscedasticity test, and auto correlation test, were performed.

Classic assumption test

a) **Normality test**

The normality test determines whether the confounding variable or the residual variable in the regression model has a normal distribution. The nonparametric statistical test used in this study was the Kolmogorov Smirnov (K-S). If the significance probability > 0.05 then the data distribution is normal, on the contrary if the significance value is < 0.05 then the distribution is not normal (Ghozali, 2013: 98).

b) **Multicollinearity Test**

The multicollinearity test aims to test whether there is a high correlation between the independent variables in the regression model. A good regression model should not have a correlation between the independent variables. The multicollinearity test in this study was carried out by looking at the VIF (Variance Inflation Factors) and the Tolerance value. If the VIF > 10 and the Tolerance value < 0.10, it indicates that multicollinearity symptoms exist (Ghozali, 2013: 106).

c) **Heteroscedasticity Test**

Heteroscedasticity test aims to determine whether in the regression model there is an inequality of variance from the residuals between one observation to another observation. A good regression model is one in which heteroscedasticity does not occur. To detect the presence or absence of heteroscedasticity, it is done by looking at the scatterplot graph. This method is done by looking at the scatterplot graph between ZPRED or the dependent variable and the SRESID or residual (Ghozali, 2018:138).

d) Autocorrelation Test

The auto-correlation test aims to determine whether there is a correlation between the confounding variables in a certain period and the confounding variables in the previous period. Autocorrelation arises because successive observations over time are related to each other. This problem arises because the residual is not independent from one observation to another. The autocorrelation test in this study was carried out using the Durbin-Watson test (DW test).

Data analysis method

Data analysis in this study used multiple regression method, which is a method to test the effect of two or more independent variables on the dependent variable. This analysis aims to test whether each independent variable is positively or negatively related. In addition, regression analysis is intended to predict the value of the dependent variable if the value of the independent variable increases or decreases (Ghozali, 2018). The accuracy of the regression function in estimating the actual value can be measured from its Goodness of fit, which is seen from the value of the coefficient of determination, the value of the F statistic and the value of the t statistic. The regression model in this study can be formulated as follows:

$$Y = a + \beta 1 X1 + \beta 2 X2 + \beta 3 X3 + e$$

Note :
Y	= Transfer Pricing
a	= Constant
X1	= Corporate Governance
X2	= Bonus Mechanism
X3	= Tunneling Incentive
e	= Variable outside the model (error)

a) **Corporate Governance (X1)**

Independent commissioners and audit committees, for example, can act as proxies for good corporate governance. Independent commissioners, as corporate organs, are collectively tasked and responsible for supervising and advising the board of directors, as well as ensuring that the company follows Good Corporate Governance practices (Hamdani, 2016:82). Independent commissioners are commissioners who are appointed from outside the company, do not own stock in the company, and have no direct or indirect relationship with the company's operations. This variable is calculated by

dividing the number of independent commissioners by the number of board of commissioners members (Bakri, 2008):

Proportion of Independent Commissioners =

$$\frac{\Sigma\ \text{Independent Commissioner}}{\Sigma\ \text{Member of the Board of Commissioners}} \text{ x 100\%}$$

The audit committee is the total number of audit committee members in a company. The audit committee in accordance with the rules set by BAPEPAM Kep-29/PM/2004 requires the audit committee to consist of at least 3 (three) members who are independent commissioners and parties from outside the issuer or public company chaired by an independent commissioner. The audit committee is measured by counting the number of audit committee members in a company (Wulansari, 2014) as follows:

Audit Committee = Number of Audit Committee

b) Bonus Mechanism (X2)

The bonus mechanism is a component of calculating the amount of bonuses given to members of the board of directors by company owners or shareholders through the GMS each year if they make a profit (Suryatiningsih, 2009). The bonus mechanism variable is measured using the Net Profit Trend Index formula (Irpan, 2010). The Net Profit Trend Index (ITRENDLB) is measured by:

$$\textbf{ITRENDLB} = \frac{\text{Net Profit Year t}}{\text{Net Profit Year t}-1} \text{ x 100\%}$$

c) Tunneling Incentive (X3)

Tunneling is the activity of transferring assets and profits out of the company for the benefit of the controlling shareholder of the company. The tunneling incentive variable in this study is based on the amount of foreign share ownership that exceeds 20%. An entity is considered to have a significant direct or indirect effect on other entities if it includes 20% or more capital based on Statement of Financial Accounting Standards (PSAK) No. 15. Tunneling incentive in this study is measured based on the amount of foreign share ownership of more than 20% divided by the number of outstanding shares, with the following formula (Saraswati and Sujana, 2017):

$$\textit{Tunneling Incentive} = \frac{\text{The Largest Number of Shareholdings}}{\text{Number of shares outstanding}}$$

d) Transfer Pricing (Y)

Transfer pricing is a company policy that determines the transfer price of a transaction, whether it is for goods, services, intangible assets, or financial transactions between parties with a special relationship, in order to maximize profits. This study employs the value of related party transactions because both transfer pricing and related party transactions involve parties with a special relationship. Transfer pricing variable is proxied by the presence or absence of sales to related parties. Sales to related parties indicate transfer pricing practices. The price set in sales to related parties usually overrides the principle of fairness, namely by increasing or decreasing prices (Noviastika et al. 2016).

The measurement of transfer pricing in this study uses the following formula:

$$\textbf{\textit{Transfer Pricing}} = \frac{\text{Receivables from Related Party Transactions}}{\text{Total Accounts Receivable}} \times 100\%$$

RESULT AND DISCUSSION

The population in this study were manufacturing companies listed on the Indonesia Stock Exchange between 2015 and 2019, totaling 193 companies. Data on manufacturing companies can be obtained from https://www.invesnesia.com.

Purposive sampling was used, which means that the sample was chosen based on factors related to the study's objectives. Based on the sample selection, 13 companies were sampled in this study. The sample selection procedure is described in the table below:

Descriptive Statistical Results

- Outlier Test

The outlier test is used to identify data with characteristics that differ significantly from other observations and appear in the form of extreme values (Ghozali, 2018). Outlier data detection can be accomplished by determining the limit value that will be classified as outlier data and converting the value into a standardized score or Z-score. In this study, a Z-score with a value of -2.5 to 2.5 was used. The test results revealed 5 outlier data points, which were removed from the sample, and the total number of observations was 60.

- Descriptive statistics

Descriptive statistical tests are statistics that provide a description or description of data seen from the average value (mean), standard deviation, variance, maximum,

minimum, sum, range (Ghozali, 2018). Descriptive statistical tests were used to determine the strength of the relationship between variables using correlation analysis, to make predictions using regression analysis, and to compare sample or population averages. The following are the results of descriptive statistical tests:

Classical Assumption Test Results

- Normality test

The normality test aims to test whether in the regression model, the confounding variable or the residual variable has a normal distribution. The nonparametric statistical test used in this study was the Kolmogorov Smirnov (K-S). If the significance probability is > 0.05 then the data distribution is normal; otherwise, if the significance value is < 0.05 then the distribution is not normal (Ghozali, 2018). The normality test using the Kolmogorov Smirnov (K-S) results in a significance value of 0.396, which is > 0.05, indicating that the data used in this study is normally distributed.

- Multicollinearity Test

The multicollinearity test determines whether the independent variables in the regression model have a high correlation. There should be no correlation between the independent variables in a good regression model. The multicollinearity test in this study was carried out by looking at the VIF (Variance Inflation Factors) and the Tolerance value. If the VIF > 10 and the Tolerance value < 0.10, it means that multicollinearity symptoms occur (Ghozali, 2018). From the test results presented in table 4, the value of VIF < 10 and Tolerance > 0.10, it can be concluded that the research data is free from multicollinearity symptoms.

- Heteroscedasticity Test

Heteroscedasticity test aims to determine whether in the regression model there is an inequality of variance from the residuals between one observation to another observation. A good regression model is one that does not occur heteroscedasticity. To detect the presence or absence of heteroscedasticity, the rank-spearman test is carried out. If the significance value is > 0.05, then there is no heteroscedasticity problem. From the test results, the significance value of the four independent variables used in this study was greater than 0.05. As a result, the regression model used in this study did not detect heteroscedasticity issues.

- Autocorrelation Test

The auto-correlation test is used to see if there is a relationship between the confounding variables in one period and the confounding variables in the previous period. Autocorrelation arises because successive observations over time are related to each other. This problem arises because the residual is not independent from one observation to another. The autocorrelation test in this study was carried out using the Durbin-Watson test (DW test). According to Field (2009), if the value of DW < 1 and DW > 3, then there is an autocorrelation. From table 5, it can be seen that the DW value is 1.494, because the DW value is between 1-3, there is no autocorrelation.

Data Test Results

- *Goodness of Fit Test Results*

The accuracy of the regression model in predicting the actual value can be seen from the goodness of fit value which is statistically measured through the value of the coefficient of determination, the value of the F statistic and the value of the T statistic (Ghozali, 2018).

Based on table 6, it can be seen that the Adjusted R-Square value is 0.160 or 16%. This means that 16% of the transfer pricing variable can be explained by the variables of the independent commissioner, audit committee, bonus mechanism, and tunneling incentive.

The ANOVA test was carried out as a model test to see if the regression model in this study could be used for forecasting/prediction. From the table below, it can be seen that the significance value of 0.008 is below 0.05. Therefore, it can be said that the regression model in this study is feasible to use for forecasting.

- Hypothesis Test Results

To determine the effect of each independent variable on the dependent variable, hypothesis testing employs a partial test or t test. The test results can be seen in the table below:

Based on the results of testing the data in table 8, it can be formulated:

TRF PRICING = 0,101 + 1,713 KOM IND + 0,002 KOM AUD -0,063 BONUS - 0.007 TUNNELING + e

H1$_a$: Independent commissioners have a negative effect on transfer pricing

In corporate governance there is internal control, one of which is the Independent Commissioner. Independent commissioners are responsible for supervising the company to comply with applicable laws and regulations. Good management will always prioritize all policies that can benefit the company's long-term viability. The more independent commissioners there are, the more stringent the oversight will be to ensure that the tax rate is appropriate (Suyanto, 2012).

Based on the data in table 8, it can be seen that the independent commissioner variable has a significance value of 0.037 <0.05, so H1a is rejected. This means that the independent commissioner has a positive effect on transfer pricing practices.

H1$_b$: The audit committee has a negative effect on transfer pricing

The audit committee is an additional committee that aims to supervise the process of preparing the company's financial statements to avoid management fraud. The audit committee also provides input on issues concerning the company's financial, accounting, and internal control policies (Diantari & Ulupui, 2016). The audit committee's responsibility in good corporate governance (GCG) is to ensure that the company operates in accordance with applicable laws, conducts its business ethically, and effectively supervises conflicts of interest and fraud committed by company employees.

Based on the data in table 8, it can be seen that the audit committee variable has a significance value of 0.988 > 0.05 so that H1b is accepted. This means that the audit committee has no effect on transfer pricing practices.

H2: The bonus mechanism has a positive effect on transfer pricing

The bonus mechanism is a method of providing compensation outside of salary based on the results and work performance of the directors concerned (Irpan, 2011). According to Hartati et al. (2014), when the bonus is based on the amount of profit, it is logical if the directors try to take action to regulate and manipulate profits in order to maximize the bonuses and remuneration they receive. This means that the company's owner will use the company's overall profit achievement to evaluate the work performance of its directors. Then, the directors will try to increase the company's overall profit as much as possible by implementing transfer pricing practices.

Based on the data in table 8, it can be seen that the bonus mechanism variable has a significance value of 0.063 > 0.05, which means that H2 is accepted. The bonus

mechanism does not have a positive effect on transfer pricing. The results of this study are in line with the results of Pramana (2014), and Mispiyanti (2015) which show that there is no effect of the bonus mechanism on transfer pricing. On the other hand, the results of this study are not in line with the results of Lo et al. (2010), Hartati (2014), and Saifudin and Putri (2018) who concluded that the bonus mechanism has a positive effect on transfer pricing.

H3: Tunneling incentive has a positive effect on transfer pricing

The controlling shareholder conducts tunneling activities with the aim of being able to temporarily transfer their assets to members or subsidiaries to reduce expenses so that later they can reduce company profits. If more tunneling activities are carried out, transfer pricing activities will also increase and vice versa. In other words, tunneling has a positive effect on transfer pricing practices.

Based on the data in table 8, it can be seen that the tunneling incentive variable has a significance value of $0.001 < 0.05$. This means that H3 is rejected or tunneling has an effect on transfer pricing, but the direction is negative. The results of this study are not in line with the results of previous studies conducted by Yuniasih et al. (2012), Pramana (2014), Syamsuddin (2014), Marfuah & Azizah (2014), Tan (2014), Mispiyanti (2015), and Noviastika et al. (2016), which prove that tunneling incentives have a positive effect on transfer pricing practices.

CONCLUSION

Conclusions

Based on the findings of this study, it is can be concluded that corporate governance has no negative impact on transfer pricing practices, and that bonus mechanisms and tunneling incentives have no positive impact on transfer pricing practices.

Recommendations

Based on the findings of this study, researchers can make the following recommendations:

1. For the Directorate General of Taxes (DGT)

   The results of this study indicate that tax avoidance efforts that have been mostly carried out by multinational enterprises through transfer pricing practices have not been proven to be influenced by the absence of good corporate governance, the

provision of compensation outside of salaries or bonus mechanisms, and the transfer of temporary assets to subsidiaries or tunneling incentives. In other words, the practice of transfer pricing as a tax avoidance strategy that has occurred thus far is not the result of poor corporate governance, the existence of a bonus mechanism, or the use of tunneling incentives. Further studies into other factors that encourage tax avoidance through transfer pricing will be required so that it can be used as an input for DGT in anticipating it.

2. For other researchers

Further studies into other factors that are expected to influence tax avoidance through transfer pricing practices are recommended as a form of development of this research.

Implication and Limitations

This study has limitations in that the companies surveyed are limited to manufacturing firms under foreign control (share ownership > 20%). Therefore, the research sample that meets these criteria is limited to 13 companies over a five-year period, from 2015 to 2019. This is a study limitation that has implications for the study's results.

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TABLE AND FIGURE

Table 1. Research Sample Selection

Notes	Total
Total manufacturing company	193
Manufacturing companies under the control of foreign companies with ownership percentage below 20%	(176)
Companies that suffered losses between 2015 and 2019	(1)
Companies that have insufficient information about the variables studied between 2015 and 2019.	(2)
Total sample companies	13
Total observations	65

Tabel 2. Descriptive Statistics

	N	Min	Max	Mean	Std. Dev
KOM_IND	60	0.29	0.50	0.3792	0.06887
KOM_AUD	60	3.00	4.00	3.2333	0.42652
BONUS	60	0.30	1.87	1.0705	0.34980
TUNNELING	60	24.56	98.07	60.6920	26.22836
TRF_PRICING	60	0.00	0.98	0.2789	0.35340

Source: SPSS Results

Table 3. Normality Test Results

		Unstandardized Residual
N		60
Normal Parameters[a,b]	Mean	0.00000
	Std. Deviation	0.31269188
Most Extreme Differences	Absolute	0.116
	Positive	0.116
	Negative	-0.111
Kolmogorov-Smirnov Z		0.897
Asymp. Sig. (2-tailed)		0.396

a. Test distribution is Normal.
b. Calculated from data.

Source: SPSS Results

Table 4. Multicollinearity Test Results

Model	Collinearity Statistics	
	Tolerance	VIF
KOM_IND	0.587	1.705
KOM_AUD	0.769	1.301
BONUS	0.871	1.148
TUNNELING	0.719	1.390

a. Dependent Variable: TRF_PRICING

Source: SPSS Results

Table 5. Heteroscedasticity Test Results

		KOM_IND	KOM_AUD	BONUS	TUNNELING	TRF_PRICING
Spearman's rho	KOM_IND Correlation Coefficient	1.000	-.436**	-.070	.440**	-.002
	Sig. (2-tailed)	.	.000	.593	.000	.986
	N	60	60	60	60	60
	KOM_AUD Correlation Coefficient	-.436**	1.000	-.189	-.047	-.068
	Sig. (2-tailed)	.000	.	.148	.723	.604
	N	60	60	60	60	60
	BONUS Correlation Coefficient	-.070	-.189	1.000	.103	-.126
	Sig. (2-tailed)	.593	.148	.	.432	.336
	N	60	60	60	60	60
	TUNNELING Correlation Coefficient	.440**	-.047	.103	1.000	-.156
	Sig. (2-tailed)	.000	.723	.432	.	.233
	N	60	60	60	60	60
	TRF_PRICING Correlation Coefficient	-.002	-.068	-.126	-.156	1.000
	Sig. (2-tailed)	.986	.604	.336	.233	.
	N	60	60	60	60	60

**. Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS Results

Table 6. Autocorrelation Test Results

Model	Durbin-Watson
1	1.494

Source: SPSS Results

Table 7. Goodness of Fit

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.466[a]	0.217	0.160	0.32386

Source: SPSS Results

Table 8. ANOVA test

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	1.600	4	0.400	3.813	0.008[b]
Residual	5.769	55	0.105		
Total	7.369	59			

Source: SPSS Results

Table 9. Hypothesis Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.101	0.594		0.170	0.865
KOM_IND	1.713	0.799	0.334	2.143	0.037
1 KOM_AUD	0.002	0.113	0.002	0.016	0.988
BONUS	-0.063	0.129	-0.062	-0.484	0.630
TUNNELING	-0.007	0.002	-0.502	-3.571	0.001

a. Dependent Variable: TRF_PRICING

Source: SPSS Results

Figure 1 Research Model