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THE EFFECT OF TAX BURDEN AND TUNNELING INCENTIVE ON TRANSFER PRICING (Empirical Study on All Multinational Companies Listed on the Indonesia Stock Exchange for the 2019–2023 Period)

Yohana Eka Putri Saralisa [1], Made Gede Wirakusuma [2]
Faculty of Economics and Business, Udayana University
email: yohanaesp1809@gmail.com

Abstract: This study aims to examine the effect of tax burden and tunneling incentive on transfer pricing practices in multinational companies listed on the Indonesia Stock Exchange (IDX) for the 2019–2023 period. The study is based on 163 observations from 34 multinational companies selected using purposive sampling. Transfer pricing is measured using the ratio of total related party transactions (RPTAL), while the tax burden is proxied by the effective tax rate (ETR), and tunneling incentive is proxied by ultimate ownership. This study applies stakeholder theory to explain the influence of external pressure from stakeholders, particularly tax authorities, on corporate policies regarding transfer pricing. Panel data regression analysis is conducted using the random effect model (REM). The results show that the tax burden has a significant effect on transfer pricing, indicating that the higher the tax burden, the greater the tendency for companies to engage in transfer pricing. Meanwhile, the tunneling incentive has no effect on transfer pricing, suggesting that large ownership stakes do not necessarily encourage transfer pricing practices in multinational companies. Companies' responses to fiscal pressure indicate a tendency to optimize through transfer pricing strategies to minimize tax burdens and maintain financial performance. Nevertheless, such decisions still take into account trust, governance, and oversight from other stakeholders.

Keywords: transfer pricing, tax burden, tunneling incentive, multinational companies, stakeholder theory.

INTRODUCTION

The development of globalization has continuously fostered innovation in various sectors, with the economy and business sectors being particularly influenced. Economic globalization has driven the growth of multinational corporations (MNCs) across countries, including Indonesia. Multinational companies possess operational advantages and cross-border business strategies that enable them to optimize financial and tax structures globally. One commonly used strategy is transfer pricing, which refers to the pricing of transactions between entities with special relationships within a business group.

The establishment of subsidiaries in various countries is a strategic effort by companies to maintain and expand market share, as well as to control relatively scarce resources. Within multinational corporations, most transactions and economic activities occur among related parties with special relationships, including sales transactions, raw material purchases, service provision, use of intellectual property

rights, lending, and others (Purwanto & Tumewu, 2018). In MNCs, inter-divisional transactions—such as the sale of goods and services—are frequent and typically involve entities with special relationships.

To remain competitive in the global market, multinational corporations implement various strategies to enhance operational efficiency and maximize profits. One key challenge faced by MNCs is the difference in tax rates across countries. Companies with subsidiaries in high-tax jurisdictions will bear greater tax burdens, reducing overall profitability. Some companies view this as an opportunity and adopt strategies to benefit from both sales and tax avoidance. Differences in national regulations and tax policies can lead to fraudulent activities, and transfer pricing is one of the most common schemes used by multinational firms to shift profits (Setyorini & Nurhayati, 2022).

Law No. 36 of 2008 serves as the main legal foundation for Income Tax (PPh) regulation in Indonesia. Article 18 Paragraph (4) states that a special relationship exists when a company owns 25% or more of another company's shares, either directly or indirectly. This provision forms the basis for tax authorities to assess the fairness of related party transactions and allows for fiscal adjustments in cases of profit shifting through transfer pricing (Syahputra, 2021).

Financial Accounting Standards (PSAK) No. 7 of 2015 regulate the disclosure of transactions and relationships between related parties in financial statements. This standard defines a special relationship as a condition in which one party has the power to control or significantly influence the financial and operational decisions of another party. These relationships apply even across parent companies and subsidiaries. Transactions under such relationships often result in unfair transfer costs due to the limited application of market forces (Syahputra, 2021).

Generally, transfer pricing practices are not inherently illegal, and tax regulations already outline how such practices should be treated. However, abuse of transfer pricing refers to the deliberate mispricing of intercompany transactions to shift profits from high-tax to low-tax jurisdictions within a group of companies (Setiawan, 2014). Transfer pricing is acceptable if it adheres to the arm’s length principle, which mandates that related party transactions must reflect terms that would be agreed upon by unrelated parties under similar circumstances. Indonesia’s tax laws require the application of this principle, as stated in DGT Regulation No. PER-32/PJ/2011.

The main objective of non-arm’s length transfer pricing is clearly to minimize tax payments. This is achieved by routing profits to group affiliates in countries with lower tax rates through controllable transactions. Unfortunately, such practices remain widespread among companies seeking to avoid significant tax liabilities. Countries with higher tax rates increase the incentive for MNCs to engage in transfer pricing. Sari et al. (2022) found that tax burden moderates the relationship between debt covenants and transfer pricing, with companies tending to use transfer pricing to lower their tax obligations.

The growing trend of transfer pricing cases is evident from Mutual Agreement Procedure (MAP) statistics published by the OECD. The number of transfer pricing disputes rose by 20% from 930 cases in 2018 to 1,156 in 2019 (OECD, 2019), followed by

a 24% increase to 1,178 cases in 2020 (OECD, 2020). Although there was a 10.8% decrease to 1,051 cases in 2021, the figure rose again by 10.9% to 1,166 in 2022 (OECD, 2022).

According to the Tax Justice Network (2023), Indonesia loses approximately USD 2.736 billion annually due to tax avoidance by companies. The report also warns that global tax losses could reach nearly USD 5 trillion over the next decade, primarily driven by profit shifting by MNCs and wealthy individuals using tax havens.

One of the largest transfer pricing cases occurred in Canada, involving Cameco (Canadian Mining and Energy Corporation), amounting to C$2.2 billion (approx. IDR 21.7 trillion). The case involved a Swiss subsidiary that signed long-term contracts to sell uranium at prices between $10 and $130 per pound while the market price was $30 per pound (news.ddtc.co.id).

In Indonesia, PT Adaro Energy Tbk. was implicated in a transfer pricing case identified by the Directorate General of Taxes (DGT), resulting in underpaid taxes of USD 125 million. A Global Witness report alleged that Adaro used transfer pricing to shift revenues and profits from coal sales mined in Indonesia to Coaltrade Services International (CSI), a Singapore-based subsidiary, thereby reducing its taxable income in Indonesia. CSI reportedly sold the coal at higher prices abroad and received commissions totaling USD 55 million annually from 2009 to 2017. This practice resulted in a significant understatement of taxable income in Indonesia (Tirto.id, 2019). Transfer pricing generally occurs in affiliate transactions where pricing does not follow fair market principles, enabling profit shifting. Given that one-third of global trade involves intercompany transactions, the potential loss of national revenue due to transfer pricing is considerable (Hadmoko & Irawan, 2022).

Beyond tax burden, tunneling incentives are another factor driving transfer pricing. Tunneling refers to the transfer of company assets or profits by controlling shareholders for personal gain through special transactions (Marfuah & Azizah, 2014). Controlling shareholders may prefer transfer pricing schemes over distributing dividends to minority shareholders. As their ownership stakes increase, so does their ability to manipulate transfer pricing (Lutfiati & Yunita, 2021).

Tunneling incentives arise when controlling shareholders transfer assets and profits at the expense of minority shareholders (Hidayat et al., 2019). Originally observed in the Czech Republic, tunneling refers to the extraction of corporate wealth by controlling shareholders. The higher the tunneling incentive, the greater the likelihood of transfer pricing. This creates agency problems, as controlling shareholders can act in their own interests, disregarding the interests of minority shareholders (Nugraha, 2016).

Transfer pricing for tax avoidance poses significant challenges for tax authorities seeking to maximize state revenue, especially since tax revenue is a primary source of the state budget. The decision to use transfer pricing often stems from the company's intent to reduce its overall tax burden by shifting profits to lower-tax jurisdictions.

Multinational corporations are selected for this study due to their inherent characteristics, which make them more vulnerable and relevant to transfer pricing issues. Their cross-border activities and frequent related party transactions provide

ample opportunities for income shifting. Kamilah (2019) notes that MNCs employ transfer pricing as a strategy to shift profits to lower-tax countries, impacting national tax revenues significantly.

Previous studies, such as those by Rifqiyati et al. (2021) and Ridwan et al. (2023), found that tax burden significantly affects transfer pricing. However, Cahyani et al. (2023) reported no such effect.

Tunneling incentives have also been studied, with Refgia et al. (2017) finding that they significantly influence transfer pricing, especially in entities with concentrated ownership. In contrast, Wijaya & Amalia (2020) found no significant relationship, suggesting that ownership structure alone does not guarantee control over transfer pricing decisions.

This study integrates variables from prior research to examine the influence of tax burden and tunneling incentives on transfer pricing decisions using a five-year period (2019–2023), offering a robust portrayal of corporate behavior in Indonesia. A novelty of this study lies in its use of the Relative Share of Related Party Transaction Asset and Liabilities to Book Value of Equity (RPTAL) as the proxy for transfer pricing—an approach rarely used in prior research.

The study is also motivated by recent regulatory developments, particularly PMK No. 172 of 2023 issued by the DGT, which consolidates prior rules on transfer pricing and replaces PMK No. 213/2016. This regulation mandates the use of the arm's length principle and requires documentation of transfer pricing practices. Strengthening these documentation requirements ensures taxpayers comply with the principle of fairness in related party transactions (Tambunan et al., 2019).

Based on the above discussion, the researcher is interested in conducting a study titled: **"The Effect of Tax Burden and Tunneling Incentives on Transfer Pricing Decisions."**

METHOD

This study adopts a quantitative approach with an associative research design, aiming to analyze the relationship between tax burden and tunneling incentive on transfer pricing practices among multinational companies listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 period. Multinational companies were selected due to their cross-border operational structures, which enable the implementation of tax efficiency strategies such as transfer pricing. The data used in this study consist of both quantitative and qualitative panel data, combining time-series and cross-sectional dimensions. These data were sourced from annual financial reports obtained through the official IDX website (Sugiyono, 2022; Darwin et al., 2021).

The study involves transfer pricing as the dependent variable, while tax burden and tunneling incentive serve as independent variables. Transfer pricing is measured using the ratio of related party transactions (assets and liabilities) to equity (RPTAL). Tax burden is proxied by the Effective Tax Rate (ETR), and tunneling incentive is measured by the proportion of the largest shareholding to total outstanding shares (Utama, 2015; Ariputri, 2020; Rifqiyati et al., 2021; Jayanti & Supadmi, 2023; Melani, 2016). A purposive sampling method was applied based on specific criteria, resulting in a

sample of 34 companies with a total of 170 firm-year observations. The sampling criteria included the publication of complete financial statements, consistent profitability, and the presence of significant related party transactions, in accordance with the provisions of Regulation PMK No. 172 of 2023 (Sugiyono, 2022).

Data analysis was conducted using panel data regression models via EViews 13 software. The best-fit model was determined through the Chow test, Hausman test, and Lagrange Multiplier (LM) test, which helped choose among the Common Effect Model (CEM), Fixed Effect Model (FEM), or Random Effect Model (REM). Upon identifying the most appropriate model, classical assumption tests such as multicollinearity and heteroscedasticity were performed if necessary. Multiple linear regression analysis was conducted to test both simultaneous and partial effects, supported by the F-test, t-test, and the coefficient of determination (Adjusted R^2) to evaluate the model's fitness and predictive strength between variables (Gujarati, 2012; Basuki & Prawoto, 2017; Sugiyono, 2022).

RESULTS AND DISCUSSION

Research Data Analysis Results

Descriptive Statistics

Table 1. Descriptive Statistics Results

Variables	Mean	Std. Dev.	Min	Max
Transfer pricing	0.107914	0.129503	0.000000	0.565000
Tax Burden	0.227638	0.105986	-0.193000	0.653000
Tunneling Incentive	0.569135	0.189322	0.183000	0.925000

Source: Processed Data 2025

Based on Table 1, the results of the descriptive statistical analysis for each variable can be explained as follows:

1) The Transfer Pricing (Y) The minimum value of transfer pricing is 0.000000, observed in PT Bintang Mitra Semestaraya Tbk. (BMSR), indicating that the company did not engage in any related party transactions during the study period. The maximum value is 0.565000, recorded by PT Barito Pacific Tbk. (BRPT), which suggests a relatively high ratio of related party transactions to total equity. The average (mean) value of transfer pricing is 0.107914, with a standard deviation of 0.129503. This indicates that the majority of companies in the sample have relatively low RPTAL values, approximately 24% of their total equity.
2) Tax Burden (X1) The minimum value of the effective tax rate (ETR) is -0.193000, found in PT IMC Pelita Logistik Tbk. (PSSI). This negative ETR occurred because the company reported no tax expense in 2020 but recorded tax benefits instead. The maximum ETR value is 0.653000, belonging to PT Energi Mega Persada Tbk. (ENRG), reflecting significant variation in the tax burden across companies. The mean ETR is 0.227638, which shows that, on average, the companies in the sample

bear an effective tax burden of 23% of their pre-tax income. The standard deviation indicates inter-company variation in the tax expenses incurred or tax benefits received. It also shows that the majority of companies have ETRs ranging between 12.4% and 33.6%, although some reported negative ETRs due to receiving tax benefits.

3) Tunneling Incentive (X2) The lowest value of tunneling incentive is 0.183000, recorded by PT Merdeka Copper Gold Tbk. (MDKA), while the highest is 0.925000, observed in PT HM Sampoerna Tbk. (HMSP). This suggests a significant variation in major shareholding among the companies. The mean tunneling incentive is 0.569135, indicating that, on average, approximately 55% of the companies in the sample are controlled by majority shareholders. The standard deviation of 0.189322 shows that most companies have majority shareholders who hold between 36.1% and 73.9% of the outstanding shares.

Panel Data Regression Model Selection Test

1) Chow Test

Table 2. Chow Test Results

Redundant Fixed Effects Test	
Cross-section fixed effects test	Prob
Cross-sectionF	0.0000
Cross-section Chi-Square	0.0000

Source: Data processed 2025

The Chow test is used to determine the appropriate model to be used between the Common Effect Model (CEM) and the Fixed Effect Model (FEM) for panel data regression. Based on Table 2, it is known that the probability value of the Cross-section Chi-Square is 0.0000 < 0.05. This explains that statistically, H_0 is rejected, so the selected model is the Fixed Effect Model (FEM).

2) Hausman test

Table 3. Hausman Test Results

Correlated Random Effects – Hausman Test	
Cross-section random effects test	
Test Summary	Prob
Random cross-section	0.8299

Source: Data processed 2025

The Hausman test is used to determine the appropriate model between the Random Effect Model (REM) and the Fixed Effect Model (FEM) for panel data

regression. Based on Table 3, it is known that the probability value of the Cross-section random is 0.8299 > 0.05. This indicates that statistically, H_1 is rejected, so the selected model is the Random Effect Model (REM).

3) Lagrange Multiplier Test

Table 4. Lagrange Multiplier Test Results

Lagrange Multiplier Tests for Random Effects	
Hypothesis Test	Prob
Breusch-Pagan cross-section	0.0000

Source: Data processed 2025

The Lagrange Multiplier test is used to determine the appropriate model between the Common Effect Model (CEM) and the Random Effect Model (REM) for panel data regression. Based on Table 4, the probability value of the Cross-section Breusch-Pagan is 0.0000 < 0.05. This indicates that statistically, H_0 is rejected, so the appropriate model to use is the Random Effect Model (REM).

Classical Assumption Test

The classical assumption test is conducted to ensure that the test results avoid biased outcomes during hypothesis testing. In this study, the Random Effect Model (REM) estimation model was selected. The REM model uses the Generalized Least Squares (GLS) method, which is one of the advantages of panel data analysis, as GLS technically addresses issues of heteroscedasticity and autocorrelation, and does not require normality of residuals (Gujarati & Porter, 2009). However, the multicollinearity test is still performed in this study.

1) Multicollinearity Test

Table 5. Multicollinearity Test Results

Variables	**VIF**
X1_ETR	1.000021
X2_TUNN	1.000022

Source: Data processed 2025

Based on the results of the multicollinearity test, this study indicates that all research variables have a Variance Inflation Factor (VIF) value of less than 10.00. It can thus be concluded that the variables in this study are free from multicollinearity symptoms.

Panel Data Regression Analysis

Table 6. Results of Panel Data Regression Analysis

Variables	Coefficient	Std. Error	t-Statistic	Prob.
C	0.030016	0.042074	0.713408	0.4766
X1_ETR	0.240688	0.090016	2.673829	0.0083
X2_TUNN	0.039249	0.057320	0.684728	0.4945

Source: Data processed 2025

Based on the regression results above, the following regression equation can be formulated:

Y_RPTAL = 0.03 + 0.24*X1_ETR + 0.04*X2_TUNN + [CX=R]

The above equation can be interpreted as follows:

1) The constant value represents the magnitude of the dependent variable when all independent variables are equal to zero. A constant value of 0.03 indicates that if ETR (X1) and TUNN (X2) are both 0, then the transfer pricing (Y) will be 3%.
2) The regression coefficient for the tax burden variable (X1) is 0.24, which means that a 1% increase in the company's tax burden will result in a 24% increase in transfer pricing (Y), assuming all other variables remain constant.
3) The regression coefficient for the tunneling incentive variable (X2) is 0.04, which indicates that a 1% increase in tunneling incentive (X2) will lead to a 4% increase in transfer pricing (Y), assuming other variables remain constant.

Coefficient of Determination Test (R2)

Table 7. Results of Coefficient of Determination (R2) Test

R-squared	0.045818
Adjusted R-squared	0.033891

Source: Data processed 2025

Based on Table 7, the adjusted R^2 value is 0.033. This means that 3.3% of the variation in transfer pricing is explained by the variables tax burden and tunneling incentive, while the remaining 96.7% is influenced by other variables not included in this study. This value is considered low. However, according to Gujarati & Porter (2009), in cross-sectional data analysis, the coefficient of determination (R^2) often yields a low value. This is due to the heterogeneity across cross-sectional units—such as differences between firms—that may not be fully captured by a simple regression model. Given the substantial natural variation, low R^2 values in cross-sectional regressions are common and not necessarily a cause for concern.

Model Feasibility Test (F Test)

Table 8. Results of Model Feasibility Test (F Test)

F-statistic	3.841430
Prob(F-statistic)	0.023470

Source: Data processed 2025

Based on Table 8, the calculated F-value (F-statistic) is 3.841430, which is greater than the F-table value of 3.0525 (3.841430 > 3.0525). This indicates that the regression model is feasible and that the independent variables jointly have a statistically significant effect on the dependent variable.

The F-test can also be interpreted by examining the probability value (p-value) of the F-statistic. At a 5% significance level (α = 0.05), the obtained p-value is 0.023470, which is smaller than 0.05 (0.023470 < 0.05). Therefore, it can be concluded that tax burden and tunneling incentive have a simultaneous and significant effect on transfer pricing.

Hypothesis Test (t-Test)

1) First Hypothesis Testing (H1)

Table 6 shows that the p-value is 0.0083, which is smaller than the significance level of 0.05 (0.0083 < 0.05). This result supports the first hypothesis, which states that the tax burden has a significant effect on transfer pricing. Accordingly, it can be concluded that an increase in the tax burden may encourage companies to engage in transfer pricing practices.

2) Second Hypothesis Testing (H2)

Table 6 indicates a p-value of 0.4945, which is greater than the significance level of 0.05 (0.4945 > 0.05). This means that tunneling incentive does not significantly affect the company's decision to conduct transfer pricing, and thus, the second hypothesis is rejected. This implies that the level of controlling ownership does not influence the company's decision to implement transfer pricing.

Discussion of Research Findinga

The Effect of Tax Burden on Transfer Pricing

Based on the results of the panel data regression test, the significance level of the independent variable tax burden is less than 0.05, namely 0.0083. This indicates that the tax burden variable has a significant influence on a company's decision to engage in transfer pricing. Therefore, the first hypothesis, which states that the tax burden affects the company's decision to implement transfer pricing, is accepted. The tax burden variable is measured using the effective tax rate (ETR), which is the ratio of income tax expense to profit before tax. The findings suggest that the higher the tax

burden borne by a company, the greater the tendency for the company to engage in transfer pricing practices.

These results are in line with previous studies that show companies tend to use transfer pricing as a tool to reduce tax burden—especially in multinational structures with entities located in countries with lower tax rates—so that the overall tax burden can be minimized. This finding indicates that companies do not only consider internal interests, but also adjust their behavior in response to pressures and expectations from external stakeholders, in this case the government. Therefore, this finding supports the Stakeholder Theory, as it demonstrates that transfer pricing decisions are made as a form of adaptation to the demands and pressures from various stakeholders. Although the practice is legally permissible, the decision to engage in transfer pricing still takes into account the interests of investors, shareholders, and regulators.

This result is consistent with the findings of Saraswati & Sujana (2017), Nazihah & Azwardi (2019), and Yulia et al. (2019), who found that tax burden has a positive influence on transfer pricing, where a higher tax burden leads to a greater tendency for companies to shift profits to countries with lower tax rates in order to minimize tax expenses. However, the findings of this study contrast with those of Cahyani et al. (2023), Saifudin & Putri (2017), and Herawati & Anne (2017), which suggest that although companies may face high tax burdens, this does not necessarily encourage them to adopt transfer pricing as a fiscal burden reduction strategy.

The Effect of Tunneling Incentive on Transfer Pricing

Based on the results of the panel data regression test, the significance level of the independent variable tunneling incentive is greater than 0.05, specifically 0.4945. This indicates that the tunneling incentive variable does not tend to influence a company's decision to engage in transfer pricing. Therefore, the second hypothesis, which states that tunneling incentive has an effect on the company's decision to implement transfer pricing, is rejected. The tunneling incentive, proxied by majority share ownership, indicates that controlling shareholders do not have a tendency to influence management to engage in transfer pricing practices.

The findings of this study show that tunneling incentive does not have a significant effect on transfer pricing among multinational companies listed on the Indonesia Stock Exchange (IDX) during the observation period. In theory, share ownership exceeding 20% can potentially create an incentive for controlling shareholders to engage in tunneling practices, which involve the transfer of company resources for personal or group gain, often through related-party transactions such as transfer pricing. However, this study finds that even with high levels of controlling ownership, there is no significant relationship with transfer pricing practices.

This finding can be explained using the Stakeholder Theory approach, which emphasizes that companies have responsibilities not only to majority shareholders but also to various other stakeholder groups, such as minority shareholders, employees, government agencies, tax authorities, and the general public (Freeman, 1984). In this context, multinational companies in Indonesia are subject to pressures from stakeholders such as tax authorities, capital market regulations (OJK and IDX), as well

as public scrutiny through media and societal oversight, all of which function as monitoring mechanisms that restrict the actions of controlling shareholders from engaging in tunneling incentive practices.

Furthermore, multinational companies tend to adopt higher standards of corporate governance, including the presence of independent boards of commissioners, audit committees, and the obligation to publicly disclose affiliated transactions in accordance with PMK No. 172 of 2023. These mechanisms serve as counterbalances to corporate power structures and reduce the likelihood of abuse of authority. Thus, a higher level of controlling ownership does not necessarily indicate an intention or opportunity to conduct transfer pricing. In fact, significant ownership stakes may also reflect the long-term commitment of major investors to the company.

These findings are consistent with the studies of Erawati (2020), Pranatio & Sutrisno (2024), and Indra Wijaya & Anisa Amalia (2020), which state that large foreign ownership does not necessarily place shareholders in a strong position to control decisions related to tunneling through transfer pricing practices. However, the results contradict the findings of Refgia et al. (2017), Saraswati & Sujana (2017), and Andayani & Sulistyawati (2020), who found that tunneling incentive has a significant influence on transfer pricing

CONCLUSION

Based on the results of data analysis and the discussion presented, the following conclusions can be drawn.

1) Tax burden has an effect on transfer pricing, which is proxied by the Effective Tax Rate (ETR). The regression test results indicate that the higher the tax burden borne by a company, the greater the likelihood that the company will engage in transfer pricing practices. This demonstrates that the tax burden is one of the driving factors influencing companies in formulating financial strategies, including minimizing tax obligations by shifting profits through cross-border related-party transactions.
2) Tunneling incentive does not have an effect on transfer pricing. The findings reveal that controlling share ownership in multinational companies does not significantly influence transfer pricing practices. This suggests that the presence of majority shareholders does not necessarily encourage corporate management to transfer resources through transfer pricing, as regulatory oversight, transparency requirements, and sound corporate governance mechanisms may serve to limit such practices.

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