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DETERMINANTS OF TRANSFER PRICING

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ABSTRACT

The results of research that have been conducted so far related to transfer pricing show inconsistencies in *independent* variables that affect *transfer pricing*. In addition, in 2019-2021, several companies were still found to carry out[1] *transfer pricing* practices that needed to be by the rules, causing state losses. This study examines the effect of *the effective tax rate*, bonus mechanism and *debt covenant* on *transfer pricing*. The research was conducted on manufacturing companies on the Indonesia Stock Exchange in 2019-2021. Signal theory, agency and positive accounting were used as the theoretical basis for this study. The sampling method used *purposive sampling* and obtained sample data of 33 samples. The analysis technique used is the multiple regression analysis technique. This study concluded that there is insufficient evidence that effective *tax rates*, bonus mechanisms and *debt covenants* positively affect *transfer pricing*.

Keywords: Effective Tax Rate, Bonus Mechanism, Debt Contract, Transfer Price

1. INTRODUCTION

A company's motivation to obtain maximum profits is increasingly competitive and varied accompanied by rapid globalization and modernization in all sectors. This is an encouragement for a company to maintain its existence. Companies can make this happen through *transfer pricing* practices (Suandy, 2016:66).

Transfer *pricing* is generally understood as bad because the practice is often done to avoid taxes *(tax avoidance)* which will greatly harm a country's tax revenue. The government has regulated the implementation of transfer pricing through which in essence regulates important issues or problems related to *transfer* pricing, ACT Number 7 Year 2021 About Harmonization Regulation Taxationnamely *secondary adjustment*, the application of *benchmarking* and fair pricing to optimize efforts to prevent *tax avoidance*.

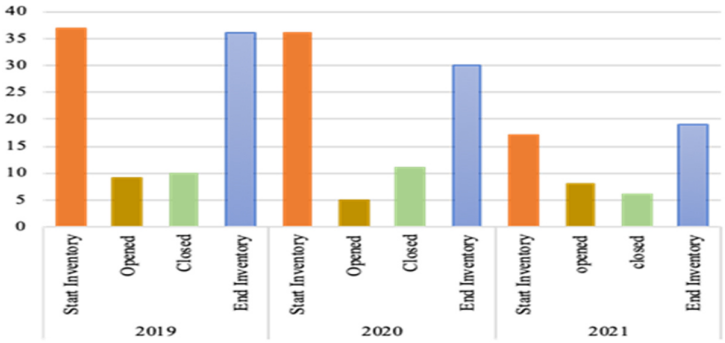

Figure 1 *Transfer Pricing Case*
Source:www.oecd.com

From Graph 1 above, it is known that in 2019-2021 there are tax problems or cases related to *transfer pricing* in Indonesia. As seen in the *MAP Statistics* 2022 published by the *OECD (Organization*

for Economic Cooperation and Development) in 2019 there were 9 cases, in 2020 there were 5 cases and in 2021 there were 8 cases heard related to *transfer pricing*. Meanwhile, the number of dispute resolutions recorded in 2019 amounted to 10 cases, in 2020 there were 11 cases and in 2021 there were 6 cases that could be resolved.

A multinational company decides to practice *transfer pricing*, the goal is to minimize or reduce the tax burden to be paid by the company. As done by PT. *Bentoel International Investama (RMBA*) which is part of *British American Tobacco (BATS)* in 2018, a multinational company that produces various cigarette and non-cigarette products that allegedly carry out transfer pricing practices that cost the state US $ 14 million per year(www.kontan.co.id). Another company suspected of similar practices is PT. Tiga Pilar Sejahtera Food Tbk with issuer code AISA, one of the manufacturing companies in the consumer goods industry sector is suspected in 2019 of manipulating data related to the company's profit acquisition by transferring the budget to the company's related parties, causing state losses of Rp. 10 trillion.(www.cnbcindonesia.com)

Law Number 36 Year 2008Article 18 regulates and accommodates Income Tax related to *transfer pricing* practices. *Transfer pricing* rules include the definition of preferential relationships, the authority to correct transactions that do not have a special relationship *(arm's length)* and the authority to determine the ratio of debt and capital. states that the special relationship as regulated is the relationship between the Taxpayer and parties who have a relationship in the form of direct or indirect capital control of 25% or more.Tampubolon and Farizi (2019:22)ACT Number 36 Year 2008

According to previous research, *transfer pricing* practices carried out by a company can be caused or motivated by several factors, namely internal and external factors, including company size, bonus mechanisms, taxes, *debt covenants* and so on. These factors further lead to the transaction of goods or services which of course there are differences in tax rates between taxpayers with special relationships.

A company can be considered good or bad in managing corporate tax, one of which is to know the *effective tax rate*. The board of directors is considered not doing tax planning properly if the company's *effective tax rate* increases from the previous year. Conversely, the board of directors and their staff will be considered good in planning tax if the company's *effective tax rate* is low.

Research conducted by and states thatYumna, Sumiatiand Susanti (2021:145)Sarifah, Probowulan and Susanti (2019:227) *the effective tax rate (ETR)* has a positive effect on *transfer pricing.* This indicates that the *effective tax rate* borne by the company is one of the factors in the company carrying out *transfer pricing*. Different results are shown from research conducted by and which states thatSetyorini and Nurhayati (2022:241)Adelia and Santioso (2021:729) *effective tax rates* negatively affect *transfer pricing*. The higher the *effective tax rate* value, the *lower the transfer pricing* value. While research states that Rosmawati and Ginting (2022:64)Baiti and Syriac (2020:150) *the effective tax rate* does not influence *transfer pricing*. A *company's high or low tax burden does not influence transfer pricing practices*.

In addition to being motivated by taxation, the company's decision to carry out *transfer pricing* can also be motivated by the bonus mechanism. The bonus mechanism is one of the company's policies in using accounting methods to provide Lestari (2019:26) *rewards* to management based on the receipt of company profits. Based on the study's results, it is stated that the bonus mechanism has a positive effect on Auliyah (2020:75) Siregar (2022:45) *transfer pricing*. This means that the higher the company's profit, the more the company's decision to transfer *pricing*. Conversely, if the company earns low profits, the company will reduce *transfer pricing* practices. The results of this study are different from research conducted by, which states the results of its research that the bonus mechanism has a negative effect on Pratomo and Wade (2022:458) Anggraini (2019:83) *transfer pricing*. That is, if the company's profit increases, the transfer pricing practice will decrease and if the company's profit decreases, the *transfer pricing* practice will increase. Unlike the previous study, the bonus mechanism has no influence onPrananda and Triyanto (2020:223)Barus, Tarihoran, Wailan'An (2022:46) *transfer pricing*. The high or low profit does not affect the company's transfer *pricing.* This happens because the company has an internal supervision system in deciding the implementation of *transfer pricing*.

Transfer pricing practices can also be affected by *debt covenants*. Defines a debt Budiandru, Habsariand Safuan (2019:235) *covenant* as a debt contract addressed to a borrower by a creditor to limit activities that might damage the value of the loan and *loan recovery*. Research related to the effect of debt covenant on transfer pricing has been conducted by, in the research results it is stated that *debt covenant* has a positive influence on the company's decision to do Stanley (2019:67)Junaidi and Yuniarti (2020:42) *transfer pricing*. That is, the higher the company's debt ratio, the companys will carry out accounting procedures that can increase the company's profits. Research conducted by, states that Azzuhriyyah and Gift (2023:71)Julius (2021:49) *debt covenants* have a negative influence on *transfer pricing*. The lower *debt-to-equity ratio (DER)* will make the company decide to apply *transfer pricing*. Meanwhile, research shows that Pandia and Gultom (2022:15)Ginting, Triadiarti and Ancient (2019:38) *debt covenants* do not influence *transfer pricing*. That is, the high and low *debt covenant* does not affect *transfer pricing* decisions in the company.

2. LITERATURE REVIEW

Agency Theory

The agency theory was first proposed by Jensen and Meckling in 1976 which explains the relationship between shareholders (principal) and managers (agent), where the principal entrusts the agent to carry out duties for the principal's benefit. This agency theory seeks to explain agency problems that occur due to different goals between parties who are interrelated and work together.

According to agency theory, a concept describes the relationship between the principal (contractor) and the agent (contractee), where the principal contracts the agent to work for the principal's interests or goals so that the principal gives decision-making authority to the agent to achieve these goals. The existence of these goals can cause conflicts Supriyono (2018:63) *of interest because* the agent has an opportunist attitude to him.(Supriadi, 2020:42)

In understanding the company's financial statements, management can use agency theory through behavior based on employee motivation, namely *opportunistic* motivation that tends to use *aggressive accounting* policies and signaling motivation that tends to lead to profit persistence. With this motivation, the principal can instruct the financial statement maker (agent) to manipulate existing data to benefit himself or the common interest and vice versa the agent can make financial statements for his benefit.(Indrarini, 2019:16)

Signalling Theory

In 1973, Michael Spance initiated or proposed for the first time related to signal theory. This theory involves insiders (signalers), management and outsiders (signal receivers) such as investors. Michael Spence said that the management will try to convey relevant information so that investors can utilize it by giving signals or signals to investors. Next, the investor will try to understand the signal and the results of his decision adjust to the investor's understanding of the signal.(Spence, 1973:355-374)

According toSuganda (2018:15) *signal theory (signaling theory)* is a concept that can explain the background of company management when providing information to investors that can influence investor decisions in valuing the company. The information can be in the form of financial and annual company statements, company policies and other things that can describe the state and performance of the company.(Suarjana, 2021:4)

Positive Accounting Theory

Positive accounting research was first proposed by William H. Beaver (1968). Furthermore, positional accounting theory is recognized when it states the results of its research. It explains the accounting process from the beginning to the present and how accounting information is presented so that it can be communicated to other parties in the company. The results of this research have made positive accounting theory a dominant accounting research paradigm based on qualitative empirical. They can be used to justify various accounting techniques or methods currently used to find the latest

rules of theory and accounting concepts in the future.Watts and Zimmerman (1978:112-133)(Setijaningsih, 2012:428)

In this theory, 3 profit management hypotheses are known. Explain the hypothesis, namely:Supriadi (2020:40)

1. *The Bonus Plan Hypothesis*
   Generally, bookkeeping procedures related to reporting profit turnover from the coming year to the year financial statements are made will be carried out by managers with bonus planning. Managers and directors want maximum income in each period if their wages are based on bonuses derived from the company's net income.
2. *The Debt Covenant Hypothesis*
   Company managers can use the method of bookkeeping changes in profits for the upcoming period to the time of reporting if the company is judged to be committing bookkeeping violations based on agreed debt agreements.
3. *The Cost Political Hypothesis*
   The greater the political cost to the organization, the manager will generally gravitate towards a bookkeeping system that takes advantage of the profits revealed from now to the future.

Transfer Pricing

Transfer pricing is price assessed as management's control over the transfer of goods and services between profit or cost accountability centers, including price determination for goods, remuneration for services, loan interest rates, charges on rentals and payment methods(Zain, 2008:330). Referring to the statement stated by those who mentionSaraswati and Sujana (2017:6) *transfer pricing* measurement can be done in several ways, including detecting sales to parties with a special relationship.

In this study, transfer *pricing* is a dependent variable, a policy the company decides in determining the transfer price of a transaction, be it goods, services and intangible assets or financial transactions between parties with a special relationship aimed at maximizing profits.

Effective Tax Rate

Tax is one of the obligations in the state, namely as a means for the community to participate to meet the state revenue target as a source of development financing(Edeline and Sandra, 2018:197)

Septiawan, Kevin, Ahmar, Nurmala, Ahmar, Darminto and Prastowo (2021:26)Defines effective tax rate as the actual *tax rate* payable by the taxpayer versus the income generated by the taxpayer. *Effective tax rate (ETR)* is a ratio that compares the total cost of corporate income tax to pretax income calculated by dividing the income tax burden by profit before tax. (Arshad and Natsir, 2022:175)Income tax and profit before tax are obtained from the company's audited annual financial statements (Gloria & Apriwenni, 2020:22)

Companies engage in tax avoidance to minimize the tax burden to be paid by manipulating transfer prices charged between companies with special relationships. This study measures tax using the *effective tax rate (ETR)*, which compares tax burden minus deferred tax expense divided by taxable profit. If the effective tax rate value is high, the company's chances of transfer *pricing* are also high.(Setyorini and Nurhayati, 2022:236)

Ha_1 : *Effective Tax Rate* has a positive effect on *transfer pricing*.

Bonus Mechanism

According to the mechanism, bonuses are one of the components of calculations in accounting, the purpose of which is to reward management by looking at the company's profit as a whole. states that in the bonusLestari (2019:26)Sulistyanto (2018:45) *plan hypothesis*, managers with bonus plans will use accounting procedures with reported changes in profits from the future to the present. If in a certain year the manager's performance is low to get a bonus, then the manager will do profit management so that his profit can reach the minimum level to get a bonus. Conversely, the manager will arrange for the reported profit to be manageable if the performance is considered good to obtain bonuses. Given that the bonus mechanism based on the amount of profit is the most popular way of

rewarding directors or managers, it is logical that directors whose bonuses are based on profit levels will manipulate these profits to maximize bonus receipts.

The bonus mechanism in this study is one of the strategies or calculation motives in accounting that aims to reward management by considering the company's overall profit. This study measured the bonus mechanism using the Net Profit Trend Index (ITRENDLB). According to ITRENDLB, it measures how big companies are in implementing bonus mechanisms.Amelia and Greetings (2022:65)
Ha_2 : Bonus mechanism has a positive effect on *transfer pricing*.

Debt Covenant

Budiandru et al (2019:235)Defining a debt *covenant* is a debt contract addressed to the borrower by the creditor to limit activities that might damage the value of the loan and *loan recovery*. Debt contracts are related to agency theory where shareholders delegate the company's management to the management they have hired to achieve maximum work results. According to being able to find outSetyaningrum (2020:28) *the debt covenant*, you can use leverage proxies.

According to stated thatSalma and Riska (2019:85) *leverage* is a ratio to measure a company's debt which means the amount of debt used by the company to finance its business activities when compared to using its capital. *The leverage* can be derived from the *Debt to Equity Ratio (DER).*

The debt covenant in this study is proxied with a debt ratio using the *Dept to Equity Ratio (DER).* If the results of the calculation show a high DER, this means that the ratio of debt is higher than equity and vice versa if the lower the value of DER means the level of debt owned by the company is also low.(Siringoringo, 2020:4)
Ha_3 : *Debt Covenant* has a positive effect on *transfer pricing*.

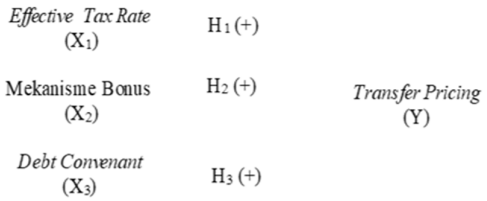

Figure 2. Frame of Mind

3. METHODS

The objects used in this study are manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2021. This research uses secondary data from company financial statements obtained from www.idx.co.id.

Measurement of Research Variables

1. Dependent Variables

The variable tied to this study is *transfer pricing* denoted by Y. This variable is measured using a proxy ratio of transaction value of related parties receivables to total receivables.(Hasibuan and Ancient, 2022:11)

$$TP = \frac{\text{Total Privileged Party Receivables}}{\text{Total Receivables}} \times 100\%$$

2. Independent Variables

a. Effective Tax Rate

Effective tax rate is the actual tax rate payable by the taxpayer versus the income generated by the taxpayer. The effective tax rate of a company can be measured by the ratio of tax expense minus deferred tax expense divided by taxable profit.(Septiawan et al., 2021:26)(Setyorini and Nurhayati, 2022:236)

$$ETR = \frac{\text{Tax Expense – Deferred Tax Burden}}{}$$

Taxable Profit

b. Bonus Mechanism

The bonus mechanism is one of the calculation components in accounting that aims to reward management by looking at the company's overall profit. In this study using a bonus mechanism measured using the Net Profit Trend Index (ITRENDLB). According to ITRENDLB is used to measure how big companies are in implementing bonus mechanisms which can be calculated as follows:(Lestari, 2019:26)Amelia and Greetings (2022:65)

$$ITRENDLB = \frac{Laba\ Bersih\ Tahun\ t}{Laba\ Bersih\ Tahun\ t-1}$$

c. Debt Covenant

A debt covenant is a debt contract addressed to the borrower by the creditor to limit activities that might damage the loan's value and recovery. (Budiandru et al., 2019:235)*The debt covenant* in this study is proxied with a debt ratio using the *Dept to Equity Ratio (DER).* If the results of the calculation show high DER, it means that the ratio of debt is higher than equity, and vice versa, if the lower the value of DER, it means that the level of debt owned by the company is also low.(Siringoringo, 2020:4)

$$DER = \frac{Total\ Hutang}{Modal}$$

Population and Sample

The population in this study is manufacturing companies listed on the IDX in 2019-2021 with 409 companies. The determination of the research sample was carried out by purposive sampling method with the following criteria:

Table 1. Company Sample Criteria

KRITERIA SAMPEL	JUMLAH
Perusahaan manufaktur yang terdaftar di BEI tahun 2019-2021.	409
Perusahaan manufaktur yang IPO dan delisting tahun 2019-2021	(120)
Perusahaan manufaktur yang tidak mempublikasikan laporan keuangan secara berturut-turut tahun 2019-2021	(28)
Perusahaan manufaktur yang tidak mempublikasikan laporan keuangan dalam bentuk mata uang rupiah.	(37)
Perusahaan manufaktur yang mengalami kerugian berturut-turut sejak tahun 2019-2021.	(112)
Perusahaan manufaktur yang memiliki data yang tidak memenuhi kriteria variabel yang memiliki hubungan istimewa pihak berelasi dalam laporan keuangannya pada tahun 2019-2021	(78)
Jumlah sampel perusahaan memenuhi kriteria	34
Data sample outlier	(23)
Data perusahaan sample digunakan	11
Jumlah data perusahaan selama 3 tahun (13 x 3 th)	33

Based on Table 1 above, sample data from as many as 34 companies that met the criteria as samples in this study were obtained. To meet the classical assumption test criteria, as many as 69 data were not used in this study, so the total observation data after outliers was 11 company data. Thus, the sample of this study was 33 samples.

Data Analysis Techniques

The data analysis technique used in this study is a quantitative data analysis technique using the *Statistical Package for Social Science (SPSS) program.* The analytical tools used in this study are

descriptive statistical analysis, classical assumption test, multiple linear regression analysis, and hypothesis test.

1. Descriptive Statistical Test
   According to statistical analysis, this provides an overview or description of a data seen from the minimum, maximum, average (mean), and standard deviation (SD) values. The data examined in descriptive statistical analysis areGhozali (2018:19) *transfer pricing*, *effective tax rate*, bonus mechanism, and *debt covenant.*
2. Coefficient Similarity Test
   The coefficient similarity test in this study aims to determine whether combining *time series data (pooling)* with *cross sectional* can be done and to identify whether there is *intercept, slope* or both in the regression equation. If there is evidence that there are differences in (Ghozali, 2018:172) *intercept, slope* or both in the regression equation, pooling cannot be done and the data must be cross-sectional. Meanwhile, data pooling can be done if there is no difference in intercept, slope or both in the regression equation.
3. Classical Assumption Test
   Conducted to test whether the regression model used in this study is feasible or not. There are 4 classical assumption tests, namely: normality test (Kolmogorov Smirnov Test) and oulier test (boxplot), multicollinearity test (VIF Test), heteroscedasticity test (Glejser test), autocorrelation test (Durbin Watson Test).
4. Multiple Regression Analyst
   Used to measure the strength of the relationship between two or more variables and also show the direction of the relationship between dependent and independent variables measured using multiple linear regression formula equations. The multiple linear regression equation model of this study is formulated as follows: (Ghozali, 2018:95)

   $$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + b_3 X_3 + e$$

   Information:
   Y= *Transfer Pricing*
   X_1 = *Effective tax rate*
   X_2 = Bonus Mechanism
   X_3 = *Debt Covenant*
   β_0 = Constant
   β_1 = Regression coefficient of *effective tax rate* variable
   β_2 = Regression coefficient of bonus mechanism variable
   β_3 = Regression coefficient of *debt covenant* variables
   e= *Error*
5. Model Coefficient Test (F Test)
   The F test is used to show whether all the independent variables included in the model have an influence together on the dependent variable. The decision-making criteria in this test are H 0 (Ghozali, 2018:98) accepted and H_a rejected if the F $value_{is\ calculated} < F_{table}$ and sig > 0.05. Conversely,$_{H0}$ is rejected and H_a is accepted if F $_{counts} > F_{table}$ and the sig value < = 0.05.α(Sugiyono, 2019:208)
6. Partial Regression Coefficient Test (t Test)
   The t test aims to determine how much influence the *independent* variable (X) has on the *dependent* variable (Y). Hypothesis testing will be performed using the criteria H 0 (Ghozali, 2018:98) rejected and H_a accepted if t $_{count} > t_{table}$ and significant value < = 0.05. Conversely,α_{H0} is accepted and H_a is rejected if t $_{counts} < t_{table}$ and the significant value > = 0.05.α(Sugiyono, 2019:206)
7. Test Coefficient of Determination (R^2)
   Sugiyono (2019:201)states that determination analysis is carried out to determine the magnitude of the influence of the independent variable on the dependent variable. The coefficient of determination test is used to measure the magnitude of the model's ability to explain the variation

of the *dependent* variable caused by the *independent* variable determined by the *Adjusted R Square* value (Ghozali, 2018:179). The criteria are determined by the value of the coefficient of determination located between 0 and 1 ($0 < R^2 < 1$) and seen from the magnitude of the *Adjusted R Square* value.

4. RESULTS AND DISCUSSION

Descriptive Statistical Test

Based on Table 1, it is known that the number of samples used in this study was 33 samples.

The *variable effective tax rate* (X_1) has an average value of 0.223 with a spread rate or standard deviation of 0.032. The minimum value of 0.161 is owned by Surya Pertiwi Tbk in 2021. Meanwhile, the maximum value of 0.280 is owned by United Tractors Tbk in 2019.

The bonus mechanism variable (X_2) has an average value of 1.149 with a spread rate or standard deviation of 0.445. The minimum value of 0.477 is owned by Surya Pertiwi Tbk 2020. Meanwhile, the maximum value of 2,125 is also owned by Surya Pertiwi Tbk in 2021.

The *variable debt covenant* (X_3) has an average value of 0.563 with a spread rate or standard deviation of 0.282. Media Nusantara Citra Tbk owned the minimum value of 0.219 in 2021. While the maximum value of 1,256 is owned by Garudafood Putra Putri Jaya Tbk in 2020.

The *transfer pricing* variable (X_4) has an average value of 0.049 with a spread rate or standard deviation of 0.036. The minimum value of 0.0003 is owned by Surya Pertiwi Tbk in 2020. Meanwhile, the maximum value of 0.140 is owned by Garudafood Putra Putri Jaya Tbk in 2021.

Coefficient Similarity Test (Pooling Test)

Based on Table 2, the results of significance values (Sig) X1_D1, X2_D2 and X3_D3 as well as X1_D2, X2_D2 and X3_D2 greater than 0.05 (> 0.05). The value indicates no difference in diagonal lines throughout the year, so the data can be combined.α

Normality Test

Based on Table 3, normality test results with *Asymp values. Sig.* (*2-tailed*) of 0.200. This shows that the data is normally distributed because the value is greater than the research significance level of 0.05. Thus, the data can be continued in the next statistical testing process.

Multicollinearity Test

Based on Table 4, it is known that the VIF value of *the variable effective tax rate (ETR*) is 1.238, the bonus mechanism (ITRENDLB) is 1.226 and the debt covenant (DER) is 1.031. In addition, the *tolerance* value of the variable *effective tax rate* (*ETR*) is 0.807, the bonus mechanism (ITRENDLB) is 0.816 and the *debt covenant (DER)* is 0.970. Thus, the independent variables in this study have a VIF value of < 10 and a *tolerance* value of > 0.10 which means that there is no multicolonierity between *independent* variables in this study.

Heteroscedasticity Test

Based on Table 5, it is known that the value of sig-$t_{calculates}$ the *variables effective tax rate (ETR*), bonus mechanism (ITRENDLB) and *debt covenant (DER),* which are 0.139, 0.030 and 0.502. This shows that the calculated sig-t value in this study > 0.05. Thus, the data in this study did not occur heteroscedasticity and can be used for further analysis.

Autocorrelation Test

Based on Table 6 it is known that the DW value is 0.999. The value will be compared with the DW table with a sample count of 33 samples and the number of independent variables is 3 variables and a confidence level of 5%. The value of DU = 1.651, the value of dL = 1.258, and the value of 4-dU = 4-1.651 = 2.349, the value of 4-dL = 4-1.258 = 2.742. Thus, the results of the autocorrelation test of this study are 1.258 < 0.999 < 2.349 which means there is no conclusion that autocorrelation occurs in this study.

Multiple Linear Regression Analysis (Model Test)

Based on Table 7, the multiple linear regression equation of this study is obtained as follows:

$$Y = -0{,}024 + 0{,}258\text{ETR} + 0{,}012ITRENDLB + 0{,}003DER$$

Based on the results of the regression equation above, it can be explained as follows:

A constant of -0.024 and a negative value indicates that the *variables effective tax rate*, bonus mechanism and *debt covenant (independent)* in this study have the opposite influence on the *transfer pricing variable (dependent).* This shows that if the *effective tax rate* variable, bonus mechanism and *debt supply* increase by 1 unit, then on the contrary, *the transfer pricing* variable will decrease by -0.024 assuming the other variables remain constant

The value of the regression coefficient of *the effective tax rate (ETR)* variable has a positive value, which is 0.258. This shows a unidirectional influence between the *independent* variable and the *dependent* variable. This shows that if the bonus mechanism increases by 1 unit, transfer *pricing* will increase by 0.258 assuming other *independent* variables are considered constant.

The value of the regression coefficient of the bonus mechanism variable (ITRENDLB) is positive, 0.012. This shows a unidirectional influence between the *independent* variable and the *dependent* variable. This shows that if the bonus mechanism increases by 1 unit, transfer *pricing* will increase by 0.012 assuming other *independent* variables are considered constant.

The debt covenant variable (DER) regression coefficient value is positive, -0.003. This shows a unidirectional influence between the *independent* variable and the *dependent* variable. This shows that if the bonus mechanism increases by 1 unit, transfer *pricing* will increase by 0.003 assuming other *independent* variables are considered constant.

Test F

Based on Table 8, $a_{calculated}$ F value of 0.510 is obtained with a Sig value of 0.679. This indicates that the $_{calculated}$ F value is smaller than the table F (0.510 < 2.93) and the Sig value is greater than 0.05 (0.679 > 0.05). Thus, transfer pricing, bonus mechanism and *debt covenant* do not significantly affect *transfer pricing.*

Test t

Based on Table 9,$_{\text{the calculated t}}$ value is obtained from the variables effective *tax rate (ETR),* bonus mechanism (ITRENDLB) and *debt covenant (DER)* in this study.

Based on the table, $a_{calculated}$ t value of 0.981 is obtained with a Sig value of 0.334. This indicates that the $_{calculated}$ t value is smaller than$_{the\ table}$ t value of 2.045 and the Sig value is greater than 0.05. Thus, H_0 is accepted and H_1 is rejected. The *variable effective tax rate* does not significantly influence *transfer pricing.*

Based on the table, the t-value of$_{calculating}$ the bonus mechanism (ITRENDLB) is 0.311 with a Sig value of 0.758. This indicates that the $_{calculated}$ t value is smaller than$_{the\ table}$ t value of 2.045 and the Sig value is greater than 0.05. Thus, H_0 is accepted and H_a is rejected. This means that the variable bonus mechanism does not significantly influence *transfer pricing.*

Based on the table, the t-value of$_{calculating}$ *the debt covenant (DER)* is 0.322 with a Sig value of 0.749. This indicates that the $_{calculated}$ t value is smaller than$_{the\ table}$ t value of 2.045 and the Sig value is greater than 0.05. Thus, H_0 is accepted and H_a is rejected. This means that variable *debt covenants* do not significantly influence *transfer pricing*.

Test R^2

Based on Table 10, an R value of 0.050 is obtained. This shows a very low relationship between the *effective tax rate*, bonus mechanism and *debt covenant* on *transfer pricing* in manufacturing companies listed on the Indonesia Stock Exchange in 2019-2021. It can also be interpreted that the independent variable in this study influences *transfer pricing* in manufacturing companies listed on the IDX in 2019 is 5.0% while other variables outside the study influence the remaining 95.0%.

Discussion

The Effect of Effective Tax Rate on Transfer Pricing

Based on hypothesis testing that the author has done through a partial regression coefficient test (Test t), it is known that the *effective tax rate* variable (X_1) has a positive $_{t\ count}$ of 0.981 and a significance value of 0.334. Thus, the *effective tax rate* variable (X_1) has a$_{calculated}$ t value (0.981) smaller than the$_{table}$ t (2.045) and a significance value (0.334) greater than 0.05. This shows that the proposed H_1 hypothesis is rejected, meaning that *the effective tax rate* does not affect *transfer pricing*. This shows that the large tax burden does not trigger companies to do *transfer pricing* to reduce the tax costs that the company must pay.

This study's results support the research that states thatRosmawati and Mandatory Ginting (2022:62) *effective tax rates* do not affect transfer pricing decisions. This shows that the effective tax rate size cannot guarantee transfer pricing decisions' existence. That shows that *the effective tax rate* does not affectBaiti and Syriac (2020:149) *transfer pricing* decisions. This shows the possibility of companies reducing the tax burden by implementing tax management that is carried out by minimizing taxes in such a way that tax debt is in a minimal position.

The Effect of Bonus Mechanism on Transfer Pricing

Based on hypothesis testing done by the author through a partial regression coefficient test (Test t), it is known that the bonus mechanism variable (X_2) has a positive $_{t\ count}$ of 0.311 and a significance value of 0.758. Thus, the bonus mechanism variable (X 2) has a $_{calculated}$ t value (0.311) smaller than table t (2.045) and a significance value (0.758) greater than 0.05. This shows that the proposed H2 hypothesis is rejected, which means that the bonus mechanism has no effect on *transfer pricing*. This shows that the transfer pricing practices carried out by the sample companies in this study are not determined by the size of the profits obtained. Before doing transfer pricing, the company will analyze the existing risks.

This study supports the results of research by stating that the bonus mechanism has no effect on the indication ofPrananda and Dedic Nur Triyanto (2020:222) *transfer pricing*. This happens because the bonus amount is not based on the overall profit obtained. Not necessarily a large profit will make the reason for the management to receive a large bonus, so it must apply *transfer pricing* practices. This study's results align with research that shows that the bonus mechanism has no effect onBarus Et al (2022:45-46) *transfer pricing*. This is because not only profit is considered in providing bonuses. However, the performance of the manager can be considered. Before doing *transfer* pricing, the company's directors must analyze the risks they might face if they do transfer *pricing*. In addition, it is also motivated by the company's internal control, thus closing the opportunity for directors to transfer *pricing*.

The Effect of Debt Covenant on Transfer Pricing

Based on hypothesis testing done by the author through a partial regression coefficient test (Test t), it is known that the *debt covenant* variable (X_3) has a positive $_{t\ count}$ of 0.322 and a significance value of 0.749. Thus, the *debt covenant* variable ($_{X3}$) has a$_{calculated}$ t value (0.322) smaller than table t (2.045) and a significance value (0.749) greater than 0.05. This shows that the proposed H3 hypothesis is rejected, meaning the *debt covenant* does not affect *transfer pricing*. In other words, the increasing or decreasing *debt to equity ratio* of the sample companies in this study, does not determine the company to do *transfer pricing* because the company can decide to make loans to creditors or not and the company's ability to carry out profit management so that the company's financial condition is stable so that it does not do.

This study supports the results of research by stating that high and lowPandia and Robinhot Gultom (2022:15) *debt covenants* do not affect *transfer pricing* decisions in companies. When the debt *covenant* increases, *transfer pricing* is still carried out because creditors will still give the company loans in the form of capital to companies that have good financial statements where the company's debt allocation is intended for investment needs. The results of this study are also in line with research

conducted by which states that(Ginting et al., 2019) *debt covenants* have no effect on *transfer pricing*. The reason for the non-effect of *debt covenants* on *transfer pricing* is that the company's reported profits in the year of research observation are increasing and stable, which means that it will reduce technical negligence. That is why companies are not interested in deciding to implement *transfer pricing practices.*

5. CONCLUSION

This study concluded that there is insufficient evidence that effective *tax rates*, bonus mechanisms and *debt covenants* positively affect *transfer pricing*.

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