



THE TAX BURDEN, TUNNELLING INCENTIVES, FOREIGN OWNERSHIP AND BONUS MECHANISM ON TRANSFER PRICING

BEBAN PAJAK, INSENTIF TUNNELLING, KEPEMILIKAN ASING, DAN MEKANISME BONUS DALAM PENETAPAN HARGA TRANSFER

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ARTICLE INFO	ABSTRACT
<i>Article history: Tanggal Masuk</i> 3 Juli 2025 <i>Revisi Diterima</i> 19 Agustus 2025 <i>Tanggal Diterima</i> 19 September 2025 <i>Tersedia Online</i> 30 September 2025 Keywords: Tax Burden; Tunneling Incentives; Foreign Ownership; Bonus Mechanism; Transfer Pricing	Transfer pricing refers to the determination of prices for goods, services, and intangible assets traded between related entities, such as affiliated companies or subsidiaries within a multinational corporation. In its implementation, transfer pricing must adhere to the arm's length principle. This study analyses the effect of tax burden, tunnelling incentives, foreign ownership, and bonus mechanisms on transfer pricing decisions in oil, gas, coal and supporting sub-sector companies listed on the Indonesia Stock Exchange from 2021 to 2023. The sample in this study was selected using purposive sampling with a total of 93 firm year observation. This study used secondary data obtained from the Indonesia Stock Exchange website, the OSIRIS database, and the companies' official websites. This data is analyzed with panel data regression analysis using the EViews v12 program. The results show that tax burden and tunnelling incentives significantly affect transfer pricing. In contrast, foreign ownership and bonus mechanisms do not substantially affect transfer pricing.
Kata Kunci: Tax Burden; Tunnelling Incentives; Foreign Ownership; Bonus Mechanism; Transfer Pricing	ABSTRAK Transfer pricing merujuk pada penetapan harga barang, jasa dan aset tidak berwujud yang diperdagangkan antara entitas terkait seperti antar perusahaan afiliasi atau anak perusahaan dalam suatu perusahaan multinasional. Pada implementasinya, transfer pricing perlu dilakukan dengan mengindahkan prinsip harga wajar. Tujuan dari penelitian ini adalah untuk menganalisis pengaruh tax burden, tunneling incentives, foreign ownership dan bonus mechanism terhadap keputusan penetapan transfer pricing pada perusahaan sub sektor minyak, gas dan batu bara dan pendukungnya yang terdaftar di Bursa Efek

Indonesia pada rentang tahun 2021 - 2023. Sampel yang digunakan dalam penelitian ini dipilih menggunakan metode purposive sampling dari perusahaan sub sektor minyak, gas & batu bara dan pendukungnya yang terdaftar di Bursa Efek Indonesia pada rentang tahun 2021 - 2023 dengan 93 sampel final. Data yang digunakan dalam penelitian ini adalah data sekunder yang diperoleh dari situs web Bursa Efek Indonesia, database OSIRIS maupun situs web perusahaan. Metode analisis yang digunakan adalah analisis regresi data panel dan diolah menggunakan program Eviews v12. Hasil pengujian menunjukkan variabel *tax burden* dan *tunneling incentives* berpengaruh signifikan terhadap transfer pricing sedangkan variabel *foreign ownership* dan mekanisme bonus tidak berpengaruh signifikan terhadap transfer pricing.

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1. Introduction

The rapid growth of the international economy has driven the expansion of multinational companies. The existence of the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO) has facilitated the flow of goods, services, and capital between countries (Anggraeni & Lutfillah, 2019). Trade through the World Trade Organization (WTO) has encouraged companies to develop into multinational corporations capable of competing in the global market. These multinational companies are also involved in foreign direct investment in cross-border transactions through subsidiaries and branches abroad, making the policies implemented have an impact on social and economic development (Nguyen, 2019). The trend among multinational companies is to reduce tax obligations by applying transfer pricing mechanisms, which involve shifting income and liabilities to countries with different tax rates. Profit transfer is carried out by setting transfer prices between the company and its affiliated companies abroad (Anggraeni & Lutfillah, 2019).

According to a study by Hikmatin & Suryarini (2019), the country's losses reach 1.3 trillion rupiahs per year in terms of potential tax revenue. Furthermore, other sources indicate that the possible loss of tax revenue is around 2 trillion rupiahs per year. One of the causes of the loss of potential tax revenue is the transfer pricing practices carried out by multinational companies. Transfer pricing practices are an international tax issue in managing a country's tax system (Habib, 2016). Multinational companies apply transfer pricing practices to maximize global income by minimizing taxes through affiliated companies in jurisdictions with low or zero tax rates (Amidu et al., 2019). The purpose of applying transfer pricing practices by multinational companies is to shift profits or income to affiliated companies in other countries, thereby reducing the tax burden, increasing the company's profit (Anggraeni & Lutfillah, 2019). According to Evi et al. (2023), Transfer pricing can be both a challenge and an opportunity for companies to achieve significant profits. However, if not managed carefully, it can become a serious issue. Some multinational

companies attempt to manipulate transfer pricing to reduce taxes or hide profits by setting unreasonable prices for internal transfers. Such actions can lead to controversy with the Tax Authority and may result in sanctions or fines if deemed to violate applicable tax regulations.

Specifically, the regulation governing the determination of transfer pricing is contained in the Director General of Taxes Regulation Number 32 of 2011, Article 1, Paragraph 5, regarding the Arm's Length Principle (ALP). The ALP is a principle that stipulates that transactions between parties with special relationships must be aligned or compared to transactions between unrelated parties. In other words, the price or profit in transactions between related parties must be the same or within the range of prices or earnings from transactions conducted by unrelated parties as a benchmark. The Indonesian Mining Association (API) has revealed data stating that Indonesia ranks sixth in mineral resource wealth. This reality positions the mining sector as a strategic force in driving economic growth in Indonesia. However, among various business sectors, the mining sector, particularly the oil, gas, coal and supporting sub-sectors, is one of the sectors that often avoids paying taxes by applying transfer pricing practices (Saraswati, 2021). The Corruption Eradication Commission (KPK) confirms this, stating that the mining sector causes state losses of 15.9 trillion rupiahs annually due to tax avoidance (Novriansa, 2019).

In Indonesia, PT Adaro Energy Indonesia Tbk. (ADRO), A multinational mining company was involved in a transfer pricing case as an attempt to reduce taxes. PT Adaro Energy Indonesia Tbk. is suspected of engaging in transfer pricing practices with its affiliate in Singapore, Coaltride Service International Pte. Ltd., from 2009 to 2017. In this case, PT Adaro Energy Indonesia Tbk. sold coal to its affiliate. The Direktorat Jenderal Pajak (DJP) found evidence that the products transferred to Singapore were sold below the market price by US\$125 million or less than the price that should have been applied in Indonesia. Subsequently, Coaltride Service International Pte. Ltd. resold the coal to buyers at the market price applicable at that time (Devita & Solikhah, 2021).

The tax burden borne by multinational companies is a key factor influencing their decision to engage in transfer pricing practices. Previous studies on transfer pricing behaviour motivated by tax considerations have found that tax burden affects transfer pricing practices. One example is a study conducted by Indriaswari and Aprilia (2018), which revealed that tax burden significantly affects transfer pricing. This finding is also supported by the studies of Azzura and Pratama (2019) as well as Abbas and Eksandy (2020). However, other studies such as those by Sujana et al. (2022), Susanti and Firmansyah (2018) as well as Hikmatin and Suryarini (2019) found that tax burden does not influence a company's decision to engage in transfer pricing. These findings indicate that transfer pricing practices are driven by tax motives and non-tax factors such as tunnelling incentives, foreign ownership and bonus mechanisms.

Another contributing factor is the presence of tunnelling. According to Azzura and Pratama (2019) as well as Indriaswari and Aprilia (2018) Tunnelling incentives influence transfer pricing decisions. This finding is supported by studies conducted by Solikhah et al. (2021) and Sujana et al. (2022), which found a positive relationship between tunnelling incentives and transfer pricing. However, this is not consistent with the findings of Saraswati (2021), Susanti and Firmansyah (2018) and Devita and Solikhah (2021), who concluded that tunnelling incentives do not affect transfer pricing. Share ownership is another factor that drives companies to use transfer pricing practices. According to Hikmatin and Suryarini (2019), foreign ownership influences transfer pricing. However, a study by Evi et al. (2023) found that foreign ownership does not have a significant effect on transfer pricing.

This study also highlights the bonus mechanism as another factor supporting the implementation of transfer pricing practices. The study conducted by Herlina and Murniati (2023) found that the bonus mechanism influences transfer pricing decisions. However, studies by Hikmatin and Suryarini (2019), Indriaswari and Aprilia (2018) concluded that the bonus mechanism does not affect transfer pricing decisions. These findings are consistent with the studies of Sujana et al. (2022) as well as Susanti and Firmansyah (2018).

This study report aims to investigate the impact of tax burden, tunneling incentives, foreign ownership, and bonus mechanisms on transfer pricing practices, specifically in the oil, gas, coal, and supporting subsectors listed on the Indonesia Stock Exchange from 2021 to 2023. It does this by referencing the background and drawing on prior research that identifies gaps in the factors influencing transfer pricing decisions. This study provides novelty through its sample selection, which focuses on companies in the oil, gas, coal and supporting sub-sectors listed on the Indonesia Stock Exchange during the 2021–2023 period. These industries are particularly vulnerable to transfer pricing risks because of their cross-border, vertically integrated operations and internationally traded commodities. This study offers fresh empirical data from the energy subsector, which contributes significantly to Indonesia's fiscal revenues but has received little attention in the domestic literature, in contrast to earlier studies that mostly looked at the manufacturing or service sectors. Furthermore, a more thorough knowledge of the factors influencing transfer pricing practices is provided by combining internal (bonus systems) and external (tax burden, tunneling incentives, and foreign ownership) components into a single model. The sample in this study was selected using purposive sampling with a total of 93 firm year observation. This study used secondary data obtained from the Indonesia Stock Exchange website, the OSIRIS database, and the companies' official websites. This data is analyzed with panel data regression analysis using the EViews v12 program. The results show that tax burden and tunnelling incentives significantly affect transfer pricing. In contrast, foreign ownership and bonus mechanisms do not substantially affect transfer pricing.

2. Literature Review

The Agency Theory, first introduced by Jensen and Meckling (1976), is one of the supporting theories in this study. This theory explains the contractual relationship in which one or more parties (the principal) engage others to conduct business activities and provide decision-making authority for the company. In the context of a company, the agent's task is to carry out the instructions delegated by the shareholders. The difference in interests between shareholders and agents can lead to problems. Shareholders desire to maximize profits according to the actual condition of the company, while agents strive to gain additional incentives as a reward for their optimal performance. Conflicts within a company are often caused by managers (agents) who prioritize personal interests over the company's interests. This misalignment of goals can create detrimental issues for shareholders. Therefore, the main objective of this agency theory is to reduce costs or burdens on the company. According to Watts and Zimmerman (1990), three factors explain managers' motivation in selecting accounting methods to manage the firm: the bonus plan hypothesis and the political cost hypothesis. The bonus plan hypothesis suggests that managers bound by a bonus scheme report higher earnings by choosing accounting methods supporting income maximization. This is because managerial bonuses are linked to the company's financial performance, motivating managers to increase reported earnings by minimizing expenses. Reduced expenses result in higher profits, which ultimately influence the bonus management receives. Meanwhile, the political cost hypothesis indicates that the larger the company, the higher the political costs it is likely to incur. Large firms delay or reduce reported profits to avoid substantial political expenses related to regulatory scrutiny and taxation. One of the strategies employed is transfer pricing practices, which involve shifting profits or expenses to lower-tax jurisdictions.

The literature review is the primary source underpinning this study, including the background, theoretical framework, and research methods applied. Previous studies have examined the influence of tax burden, tunnelling incentives, foreign ownership, and bonus mechanisms on transfer pricing. Notable research in this area includes studies conducted by Solikhah et al. (2021), Indriaswari and Aprilia (2018), Herlina and Murniati (2023), Evi et al. (2023), Ernawati and Rahman (2022), Sujana et al. (2022), Saraswati (2021), Devita and (2021), Abbas and Eksandy (2020), Azzura and Pratama (2019), Hikmatin and Suryarini (2019) and Susanti and Firmansyah (2018). Previous studies conducted by Solikhah et al. (2021), the dependent variables used to determine the determinants of transfer pricing decisions were related party transaction assets and liabilities, and transfer pricing intensity. The independent variables in the study included tunnelling incentives, corporate governance mechanisms, foreign ownership, bonus mechanisms, and debt covenants. The findings revealed relatively high transfer pricing practices through related party transactions involving assets and liabilities. In the second study,

conducted by Indriaswari and Aprilia (2018), the objective was to analyse the impact of tax, tunnelling incentives, and bonus mechanisms on transfer pricing. The study's results indicated that tax and tunnelling incentives had a significant effect on transfer pricing, while the bonus mechanism had no significant impact on transfer pricing. The third study, conducted by Herlina and Murniati (2023), examined the impact of the effective tax rate, tunnelling incentives, and bonus method on transfer pricing. The results of this study showed that the effective tax rate had a positive and significant effect on transfer pricing. The presence of tunnelling incentives and the bonus method, however, had no significant impact on transfer pricing. The fourth study, conducted by Evi et al. (2023), aimed to analyze the influence of tax burden, company size, and foreign ownership on transfer pricing. The findings revealed that tax burden, company size, and foreign ownership significantly influenced transfer pricing. However, when analyzed separately, tax burden and foreign ownership had no significant impact on transfer pricing, while company size significantly affected transfer pricing. Another study by Ernawati and Rahman (2022) examined the influence of firm size, leverage, tax planning, tunnelling incentives, intangible assets, and multinationality on transfer pricing decisions. The results indicated that firm size positively influenced transfer pricing. In contrast, tax planning and tunnelling incentives had no effect on transfer pricing. Leverage, intangible assets, and multinationality, however, had a negative impact on transfer pricing. The sixth study, conducted by Sujana et al. (2022), aimed to test the impact of tax, bonus mechanisms, tunnelling incentives, and debt covenants on transfer pricing in multinational companies. The results indicated that tunnelling incentives positively influenced transfer pricing. However, tax, bonus mechanisms, and debt covenants did not affect transfer pricing. The seventh study, conducted by Saraswati (2021), used transfer pricing as the dependent variable, while tunnelling incentives, tax rate, and good corporate governance were independent variables. The results showed that tax rate positively affected transfer pricing decisions, while tunnelling incentives had no effect. Good corporate governance moderated the impact of tax rate on transfer pricing, but did not moderate the impact of tunnelling incentives on transfer pricing decisions. The eighth study, conducted by Solikhah (2021), provided evidence that institutional ownership and leverage significantly influenced transfer pricing. Tunnelling incentives and profitability, however, did not influence transfer pricing. On the other hand, the exchange rate significantly negatively impacted it. The ninth study, conducted by Abbas and Eksandy (2020) showed that the effective tax rate had a significant positive impact on transfer pricing, while the exchange rate had a significant negative effect. Tunnelling incentives, however, did not significantly impact transfer pricing. Another study, the tenth one, used taxes, exchange rate, profitability, and tunnelling incentives as the basis for analyzing corporate decisions in transfer pricing, conducted by Azzura and Pratama (2019). The analysis results of this study show that taxes and tunnelling incentives affect transfer pricing decisions, while exchange rate and

profitability do not. The eleventh study, conducted by Hikmatin and Suryarini (2019), aimed to analyze the influence of tax, bonus mechanism, foreign ownership, and company size on transfer pricing transactions. The results of this study indicated that foreign ownership had a significant effect on transfer pricing. However, the tax, bonus mechanism, and company size variables did not significantly impact transfer pricing. The twelfth study conducted by Susanti and Firmansyah (2018) shows that tax expenses and tunnelling have a negative effect on transfer pricing decisions, while the bonus mechanism has no effect.

Tax burden refers to the payments required by law from individuals or business entities to the government for the benefit of the government and society (Hafifah & Djohar, 2023). One of the reasons companies make transfer pricing decisions is due to tax payments. High payments make companies reluctant to pay taxes, leading them to engage in tax avoidance through transfer pricing. The positive accounting theory by Watts and Zimmerman (1990) The political cost hypothesis can be related to the variable of tax burden. The larger the company, the greater the political costs it incurs. One of the political costs incurred by the company is tax payments, which the company makes to fulfil its obligations to the government. According to the political cost hypothesis, companies tend to reduce or delay the profits they report in the current period, one of which can be achieved by implementing transfer pricing. This is also supported by the research conducted by Indriaswari and Aprilia (2018), which states that tax burden affects transfer pricing, and remains consistent with the findings of Azzura and Pratama (2019) and Abbas and Eksandy (2020) which also states that the tax burden has an impact on transfer pricing. Thus, the hypothesis developed is as follows:

H₁: Tax burden has a significant effect on transfer pricing.

Tunnelling incentives refer to the behaviour of the majority shareholders who divert the company's assets and profits for their benefit by imposing costs on minority shareholders. Based on the agency theory proposed by Jensen and Meckling (1976) Tunnelling incentives behaviour can be explained as a form of conflict of interest between majority shareholders and minority shareholders. As agents, majority shareholders have greater control over company decision-making, which allows them to take actions that benefit themselves, such as transferring assets and profits through transfer pricing. In this situation, the majority shareholders exploit their power to maximize their wealth, even if these actions harm minority shareholders. This behaviour reflects the misalignment of interests between the principal (minority shareholders) and the agent (majority shareholders), which is the core of agency theory. This theory is also supported by the research conducted by Azzura and Pratama (2019) and Indriaswari and Aprilia (2018) which states that tunnelling incentives influence transfer pricing decisions. This is consistent with the findings of Solikhah et al. (2021) and Sujana et al. (2022) which shows a positive relationship

between tunnelling incentives and transfer pricing. Therefore, the hypothesis developed is as follows:

H₂: Tunnelling incentives have a significant effect on transfer pricing.

According to Law No. 25 of 2007, Article 1, Paragraph 3, foreign ownership refers to the investment activities carried out by foreign investors to conduct business within the territory of the Republic of Indonesia, whether using entirely foreign capital or a small portion of foreign capital. If the proportion of foreign investment is significant, foreign ownership is formed. Suppose foreign shareholders have dominant control over the company. In that case, they will have a significant influence on making various decisions that the company will take, including decisions regarding the pricing structure that can be used in transfer pricing practices. Agency theory explains the relationship between the principal (controlling shareholders) and the agent (management) within a company, where potential conflicts of interest may arise due to differing objectives between the two parties. In the context of foreign ownership, foreign controlling shareholders as principals may have different interests from management as agents, particularly in transfer pricing strategies to maximize the company's global profits. Therefore, in situations where foreign ownership is dominant, agency theory suggests that foreign controlling shareholders will use their influence to direct company policies, including transfer pricing decisions, as appropriation. This theory is consistent with the findings of Hikmatin & Suryarini (2019), whose study states that foreign ownership affects transfer pricing. Therefore, the hypothesis developed is as follows:

H₃: Foreign ownership has a significant effect on transfer pricing.

The bonus mechanism is one of the components used to calculate the bonus awarded by the company owner or shareholders through the General Meeting of Shareholders (GMS) to board members who are considered to have performed well each year, and when the company generates profit. The bonus mechanism, which is based on the amount of profit, may encourage directors to manipulate earnings or engage in actions to manage net income to maximize their bonuses. A profit-based bonus mechanism is the most popular way for company owners to reward their directors. Company owners assess the directors' performance by looking at the overall company earnings, prompting directors to increase profits to maximize the bonuses they receive—even if it means using methods such as transfer pricing. Thus, the greater the profit targets set by the company owners, the more likely the directors are to attempt to maximize their bonuses, including through the implementation of transfer pricing (Indriaswari & Aprilia, 2018). This aligns with the Positive Accounting Theory by Watts and Zimmerman (1990), particularly the bonus plan hypothesis. Company directors who prioritize bonuses will be more motivated to report increased profits or income by selecting specific accounting procedures or methods. If directors

are rewarded based on their performance in generating profits, they will strive to minimize expenses to the most optimal level. The reduction in costs will increase the company's profits, which in turn will affect the bonuses received by the directors. One way to reduce expenses and thereby increase company profits is through the use of transfer pricing. This theory is in line with the findings of Herlina and Murniati (2023) which state that the bonus mechanism has a significant effect on transfer pricing. Therefore, the hypothesis developed is as follows:

H₄: Bonus mechanism has a significant effect on transfer pricing.

3. Research Method

This study employs a quantitative method to examine the influence of several independent variables on the dependent variable. This approach is used because it places greater emphasis on objective testing. The research model used in this study is:

$$TP_t = \alpha + \beta_1 TB_t + \beta_2 TI_t + \beta_3 FO_t + \beta_4 BM_t + \varepsilon$$

Transfer pricing is denoted by TP, tax burden by TB, tunneling incentives by TO, foreign ownership by FO, and bonus mechanism by BM.

Transfer pricing (Y)

In this study, the measurement of the dependent variable (Y), transfer pricing, follows the study conducted by Solikhah et al. (2021) using the following formula:

$$TP = \frac{\text{Related Party Transaction Receivables}}{\text{Total Receivables}}$$

Tax Burden (X1)

The measurement used for the tax burden variable follows the study by Hadmoko & Irawan (2022) in which the tax burden is measured using the proxy of the effective tax rate (ETR), where ETR represents the percentage of the current tax rate borne by the company.

$$ETR = \frac{\text{Total Current Tax Expense}}{\text{Total Profit Before Tax}}$$

Tunnelling Incentives (X2)

The measurement used for the tunnelling incentives variable follows the study by Solikhah et al. (2021) with the following formula:

$$TI = \frac{\text{Related Account Receivable}}{\text{Total Asset}}$$

Foreign Ownership (X3)

The foreign ownership variable in this study is measured using the same proxy as in the study by Solikhah et al. (2021) with the following formula:

$$FO = \frac{\text{Total Share Owned by Foreign}}{\text{Total Outstanding Share}} \times 100\%$$

Bonus Mechanism (X4)

The bonus mechanism variable will be measured using the net income trend index formula, which is based on the percentage of net income achievement in year *t* compared to net income in year *t-1* (Solikhah et al., 2021). Since managerial compensation are usually correlated with profit performance rather than sales or total assets, this proxy is employed. The net income growth from year to year suggests that performance-based remuneration is more likely to occur. As a result, the net income trend index offers a useful and measurable way to depict managerial incentives related to profit-based bonus systems. The formula is as follows:

$$ITRENDLB = \frac{\text{Net Income } (t)}{\text{Net Income } (t - 1)} \times 100\%$$

This study uses a quantitative research method with secondary data in the form of annual reports from 2021 to 2023, obtained from the OSIRIS database, the Indonesia Stock Exchange website, and the official websites of each company in the oil, gas, coal, and supporting subsectors. The type of data used in this study is ratio data. In this study, the object used is the annual report from companies in the oil, gas, coal and supporting sub-sectors listed on the Indonesia Stock Exchange during 2021–2023, obtained from the OSIRIS database, the Indonesia Stock Exchange website, and the official websites of each company in the oil, gas, coal and supporting sub-sectors industries.

Table 1
Research Sample

No.	Criteria	Total
1.	Oil, gas, coal and supporting sub-sectors industries listed on the Indonesia Stock Exchange during the 2021–2023 period.	63
2.	Oil, gas, coal and supporting sub-sectors industries that incurred losses during the research period of 2021–2023	(15)
3.	Oil, gas, coal and supporting sub-sectors industries were newly listed on the Indonesia Stock Exchange between 2021 and 2023.	(16)
4.	Oil, gas, coal and supporting sub-sectors industries that did not publish complete financial statements during the 2021–2023.	(1)
Total number of sample companies		31
Total of observation data during the period 2021 – 2023 (3 years x 31 companies)		93

Source: Processed by the author (2024)

The population in this study consists of all mining sector companies listed on the Indonesia Stock Exchange (IDX) from 2021 to 2023. The sample includes companies in the oil, gas, coal and supporting sub-sectors listed on the IDX during the 2021–2023 period. The sampling technique employed in this study is non-probability sampling using purposive sampling, which involves selecting samples based on specific criteria and considerations aligned with the research objectives. The criteria for determining the sample include companies in the oil, gas, coal, and

supporting subsectors listed on the IDX during the 2021–2023 period and companies that did not incur losses during the observation period (2021–2023). Companies experiencing losses are not obligated to pay taxes, making them irrelevant for this study. Another requirement is that all necessary data related to the research variables must be available in the company's financial statements. The data collection technique used in this study involves secondary data obtained from the OSIRIS database, the official website of the Indonesia Stock Exchange, and the respective companies' official websites. The data is processed using Microsoft Excel, and hypothesis testing is conducted using EViews version 12 software.

4. Results and Discussion

Descriptive statistics are one of researchers' most commonly used data analysis techniques. Descriptive statistics involve analyzing data using minimum and maximum values, mean, standard deviation, sum, range, kurtosis, and skewness of the data distribution. Based on the EViews output shown in Figure 2, the tax burden variable (X1) has a mean value of 0.196319, a median of 0.219796, a maximum value of 0.969454, and a minimum value of -1.952381, with a standard deviation of 0.293097. This variable exhibits a skewness of -3.860137 and a kurtosis of 32.93802. For the tunnelling incentives variable (X2), the mean value is 0.030026, the median is 0.010438, the maximum value is 0.356732, and the minimum value is 0, with a standard deviation of 0.061268. This variable has a skewness of 4.252982 and a kurtosis of 21.77632. Next, the foreign ownership variable (X3) has a mean value of 0.229559, a median of 0.149077, a maximum value of 0.974577, a minimum value of 0.00003, and a standard deviation of 0.232606. The skewness for this variable is 1.194286, with a kurtosis of 3.522011. The bonus mechanism variable (X4) has a mean value of 2.531713, a median of 1.350072, a maximum value of 112.3606, a minimum value of -65.58995, and a standard deviation of 14.07858. The skewness for this variable is 4.037680, and the kurtosis is 46.92452. Meanwhile, the dependent variable (Y) has a mean of 0.285290, a median of 0.118831, a maximum value of 1.554593, a minimum value of 0, and a standard deviation of 0.372182. The skewness of this variable is 1.455871, and the kurtosis is 4.199167. All variables consist of a total of 93 observations.

	X1	X2	X3	X4	Y
Mean	0.196319	0.030026	0.229559	2.531713	0.285290
Median	0.219796	0.010438	0.149077	1.350072	0.111831
Maximum	0.964954	0.356732	0.974577	112.3606	1.554592
Minimum	-1.952381	0.000000	3.00E-06	-65.58995	0.000000
Std. Dev.	0.293097	0.061268	0.232606	14.07858	0.372182
Skewness	-3.860137	4.252982	1.194286	4.037680	1.455871
Kurtosis	32.93802	21.77632	3.522011	46.92452	4.199167
Jarque-Bera	3704.065	1646.494	23.16385	7728.979	38.42542
Probability	0.000000	0.000000	0.000009	0.000000	0.000000
Sum	18.25768	2.792463	21.34897	235.4493	26.53200
Sum Sq. Dev.	7.903327	0.345351	4.977702	18234.99	12.74378
Observations	93	93	93	93	93

Figure 2
Descriptive Statistic

Source: Processed by the author, 2024

Model Testing

The author conducted the Chow and Hausman tests to determine the best model for estimating panel data. Based on the results of the Chow test displayed in Figure 3, the Cross-section F statistic is 10.630290 with a probability value of 0.0000 (< 0.05). Additionally, the Cross-section Chi-square statistic is 174.055074 with a probability value of 0.0000 (< 0.05). This indicates that the appropriate model to use in this panel data analysis is the Fixed Effect Model (FEM).

Effects Test	Statistic	d.f.	Prob.
Cross-section F	10.630290	(30,58)	0.0000
Cross-section Chi-square	174.055074	30	0.0000

Figure 3
Chow Test

Source: Processed by the author, 2024

Furthermore, the results of the Hausman test in Figure 4 show a Cross-section random statistic of 14.774972 with a probability of 0.0052 (< 0.05). Based on these results, the appropriate model to use in this panel data analysis is the Fixed Effect Model (FEM).

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	14.774972	4	0.0052

Figure 4
Hausman Test

Source: Processed by the author, 2024

Classical Assumption Testing

In the EViews software, the normality test is conducted by observing the value of the Jarque-Bera statistic. Based on the graphical output in Figure 5, the probability value of the Jarque-Bera test is 0.00000, which is less than 0.05, indicating that the data do not meet the normality assumption. However, since the best-fitting model selected is the Fixed Effect Model (FEM), the normality assumption is not a mandatory requirement (Nikmah, 2023). Moreover, other sources state that normality is not a requirement for achieving BLUE (Best Linear Unbiased Estimator), and several scholars argue that this assumption is not necessarily essential to fulfil (Basuki & Prawoto, 2019). Although the normality test is not satisfied, referring to the Central Limit Theorem (CLT), a sample size greater than 30 ($n > 30$) is assumed to be normally distributed. Therefore, the violation of the normality assumption can be disregarded, as the number of observations in this study exceeds 30 (Dielman, 1961).

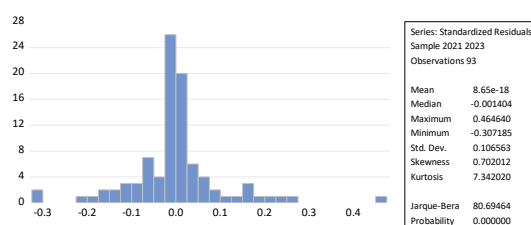


Figure 5
Normality Test

Source: Processed by the author, 2024

The graphical output in Figure 6 shows no particular pattern between the two graphs, indicating that the data under study is free from heteroskedasticity.



Figure 6
Heteroskedasticity Test

Source: Processed by the author, 2024

Based on the data processing output shown in Figure 7, the Durbin-Watson (DW) value is 2.504230. According to the applied criteria, this DW value does not fall between du and $4-du$ (i.e., 1.7772 and 2.2228) and is greater than $4 - dl$ (i.e., 2.4487), indicating the presence of negative autocorrelation. However, as stated by Basuki & Prawoto (2019), the autocorrelation test is not mandatory in panel data analysis because panel data are cross-sectional, while

autocorrelation typically occurs in time-series data. Therefore, the autocorrelation test can be disregarded in this study.

Root MSE	0.105989	R-squared	0.918021
Mean dependent var	0.285290	Adjusted R-squared	0.869964
S.D. dependent var	0.372182	S.E. of regression	0.134211
Akaike info criterion	-0.898282	Sum squared resid	1.044723
Schwarz criterion	0.054846	Log likelihood	76.77013
Hannan-Quinn criter.	-0.513436	F-statistic	19.10287
Durbin-Watson stat	2.504230	Prob(F-statistic)	0.000000

Figure 7

Autocorrelation Test

Source: Processed by the author, 2024

Based on the data processing results, it can be concluded that there is no multicollinearity. Multicollinearity is indicated if the correlation coefficient between each independent variable is greater than 0.8. Conversely, if the coefficient is less than 0.8, it suggests that multicollinearity is not present.

	X1	X2	X3	X4	Y
X1	1.000000	-0.047950	0.136636	-0.155731	-0.251106
X2	-0.047950	1.000000	-0.156904	-0.000581	0.614320
X3	0.136636	-0.156904	1.000000	0.069458	0.045999
X4	-0.155731	-0.000581	0.069458	1.000000	-0.048658
Y	-0.251106	0.614320	0.045999	-0.048658	1.000000

Figure 8

Multicollinearity Test

Source: Processed by the author, 2024

Hypothesis Testing

Based on the test results in Figure 9, it is shown that the variables tax burden (X1) and tunnelling incentives (X2) have probability (p-value) values less than 0.05, indicating that these variables have a significant effect on transfer pricing (Y). Meanwhile, the variables foreign ownership (X3) and bonus mechanism (X4) have probability values greater than 0.05, suggesting that these variables do not have a significant effect on transfer pricing (Y).

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.055254	0.067569	0.817747	0.4168
X1	-0.342903	0.075013	-4.571219	0.0000
X2	9.616562	1.663634	5.780455	0.0000
X3	0.042012	0.155752	0.269739	0.7883
X4	-0.000411	0.001280	-0.321427	0.7490

Figure 9. t Test

Source: Processed by the author, 2024

The test results in Figure 10 show that the Prob F-Statistic value is $0.00000 < 0.05$, indicating that the independent variables, collectively, have a significant effect on the dependent variable. The coefficient of determination test determines how much all independent variables influence the dependent variable. Based on the test results, the R-Square value in Figure 10 is 0.918021, meaning that the variation in all independent variables can influence the dependent variable, transfer pricing, by 91.80%. In comparison, the remaining 8.20% is influenced by other variables not covered in this study.

Root MSE	0.105989	R-squared	0.918021
Mean dependent var	0.285290	Adjusted R-squared	0.869964
S.D. dependent var	0.372182	S.E. of regression	0.134211
Akaike info criterion	-0.898282	Sum squared resid	1.044723
Schwarz criterion	0.054846	Log likelihood	76.77013
Hannan-Quinn criter.	-0.513436	F-statistic	19.10287
Durbin-Watson stat	2.504230	Prob(F-statistic)	0.000000

Figure 10
F Test and Coefficient of Determination
 Source: Processed by the author, 2024

After conducting data processing related to hypothesis testing between the independent variables and the dependent variable, the results of the hypothesis testing can be summarized as presented in the table below.

Table 2
Hypothesis Testing Results

	Hypothesis	Prob.	Result
H ₁	Tax burden has a significant effect on transfer pricing	0,0000	Accepted
H ₂	Tunnelling incentives have a significant effect on transfer pricing	0,0000	Accepted
H ₃	Foreign ownership has a significant effect on transfer pricing	0,7883	Rejected
H ₄	The bonus mechanism has a significant effect on transfer pricing	0,7490	Rejected

Source: Processed by the author (2025)

Tax burden has a significant effect on transfer pricing.

Based on the hypothesis testing results in Table 2, it can be concluded that H1 is accepted. The high tax rates and complicated tax regulations are among the main reasons why many multinational companies engage in transfer pricing practices, where the amount of tax payable becomes a burden for the company, prompting them to minimize their tax payments. In addition, the fluctuating commodity prices during this period have made companies more flexible in developing their transfer pricing strategies, as profits can vary depending on the global market. Transfer pricing is used to avoid tax issues in Indonesia and establish a competitive advantage for the company.

Based on the political cost hypothesis, government policies determining tax rates greatly influence the company's tax obligations. Such policies create social pressure, especially for

companies with extensive profit-generating capabilities, which tend to be subjected to higher taxes. Therefore, managers of these companies are inclined to engage in transfer pricing within their corporate groups located in countries with lower tax rates. One method to achieve this is by adjusting pricing, such as lowering the selling price, so that the company's profit appears smaller or even shows a loss in the financial statements. Indirectly, this reduces the tax the company must pay to the government.

Based on the political cost hypothesis, companies operating in strategic sub-sectors such as oil, gas, and coal and supporting industries tend to attract more government and public attention. In Indonesia, especially after the COVID-19 pandemic from 2021 to 2023, these sub-sectors became a focal point due to their significant contribution to national revenue. With high corporate tax rates and the government's increasingly stringent efforts to optimize tax collection, many companies have become more cautious in reporting their profits. One strategy employed is the implementation of transfer pricing practices, where a portion of the profits is shifted to affiliate entities in countries with lower tax rates through intercompany transactions. In doing so, the company can reduce the profits recorded in Indonesia and, ultimately, lower its tax burden.

The significant influence of tax burden on transfer pricing practices is also evident in the efforts of companies to manage their cost structure efficiently and remain competitive. The instability of global commodity prices and the complex tax regulations in Indonesia lead companies to develop more aggressive yet compliant transfer pricing strategies. According to the political cost hypothesis, the larger and more profitable a company appears, the greater the political pressure it faces, such as increased taxes, additional regulations, or public criticism. Therefore, to reduce these political costs, companies may intentionally design internal transactions to minimize the profits reported domestically. Consequently, transfer pricing becomes not only a financial strategy but also a tool for managing political and regulatory risks.

This result is consistent with the research of Indriaswari and Aprilia (2018), Azzura and Pratama (2019) and Abbas and Eksandy (2020) which states that the tax burden significantly affects transfer pricing. Therefore, it can be concluded that the higher a company's tax burden, the greater its tendency to engage in transfer pricing.

As evidence supporting the hypothesis test result, which states that the higher the company's tax burden, the greater the tendency for the company to engage in transfer pricing, data from PT Dana Brata Luhur Tbk. shows a consistent pattern. 2021 the company recorded a tax burden of 0.18373, with a transfer pricing value of 0.7707. Then, in 2022, the tax burden increased to 0.22517, followed by an increase in the transfer pricing value to 0.7803. This trend reinforces the statistical test results in the study, indicating that a higher tax burden encourages companies to intensify transfer pricing practices as a tax avoidance strategy.

Tunnelling incentives have a significant effect on transfer pricing.

Based on the hypothesis testing results in Table 2, it is concluded that H2 is accepted. The dominance of controlling shareholders and weak corporate governance drives many multinational companies to use transfer pricing practices. The oil, gas, coal and supporting sub-sectors, which are capital-intensive and characterised by concentrated ownership, provide an opportunity for controlling parties to use transfer pricing practices to shift profits or assets to affiliated companies for personal gain. The lack of transparency and limited oversight allows these transfer pricing practices to occur without direct detection, making tunnelling one of companies' primary motives behind profit-shifting strategies.

Based on agency theory, there is a relationship between the agent and the principal. In this study, controlling shareholders act as the principal who seeks to maximize returns on their ownership capital by directing management to engage in transactions with related parties that may disadvantage minority shareholders as agents. One form of such transactions is the application of transfer pricing. Many multinational companies in Indonesia have a concentrated ownership structure, where controlling shareholders have significant power in decision-making. This situation opens up the possibility of tunnelling, which occurs when controlling shareholders use their authority to engage in transactions with affiliated parties—in this case, transfer pricing practices—not for the company's benefit, but for personal gain. Tunnelling can be done by selling products to affiliated companies at lower prices, reducing profits. However, when profits increase, controlling shareholders tend to use transfer pricing to shift profits for personal interests rather than distributing them as dividends. Agency theory also explains that asymmetry or information gaps can exacerbate this issue, as minority shareholders and external parties cannot access detailed internal transaction data. Weak corporate governance and the lack of transparency in intercompany transactions make it easier for controlling shareholders to use transfer pricing as a tool for tunnelling without being directly detected.

This result is consistent with the research conducted by Azzura and Pratama (2019), Solikhah et al. (2021), Sujana et al. (2022) as well as Indriaswari and Aprilia (2018) which states that tunnelling incentives affect transfer pricing and explains that companies with majority-owned shares by controlling shareholders tend to sell to affiliated parties at unfair prices for the benefit of the shareholders, primarily if the affiliated parties are located in countries with lower tax rates compared to Indonesia. Therefore, it can be concluded that the larger the ownership of the controlling shareholder, the greater the influence to engage in tunnelling the company's assets, including implementing transfer pricing.

This is a good illustration of how the data supports the hypothesis that the greater the ownership of the controlling shareholder, the greater their influence to engage in tunnelling of the company's assets, including through transfer pricing. The data from PT Bumi Resources Tbk, a

company in the Oil, gas, coal and supporting sub-sectors industries, clearly reflects this trend. In 2021, the tunnelling incentives value was 0.0297, followed by a transfer pricing value of 0.6629. In 2022, tunnelling incentives rose to 0.0437, and the transfer pricing value jumped to 1.2650. By 2023, tunnelling incentives increased to 0.0463, with transfer pricing remaining high at 1.2048. This pattern demonstrates that as the potential influence of the controlling shareholder on the company's assets increases, the tendency to engage in transfer pricing also rises, thereby reinforcing the hypothesis that tunnelling incentives significantly affect transfer pricing.

Foreign ownership does not have a significant effect on transfer pricing.

Based on the results of the hypothesis testing in Table 2, it is concluded that H3 is rejected. This finding contradicts the theory, which suggests that the greater the foreign share ownership, the stronger the position of foreign controlling shareholders in managing the company, including in decision-making related to transfer pricing. Foreign ownership does not significantly influence transfer pricing because most foreign investors focus on compliance and long-term investment stability. Strict regulations, high public and governmental oversight, and the strategic importance of this sector lead foreign owners to be more cautious in engaging in aggressive transfer pricing practices. Furthermore, many companies with foreign ownership adopt international standards of corporate governance, which reduces the likelihood of using transfer pricing practices for profit shifting. Therefore, foreign ownership is not a primary factor driving transfer pricing decisions. Foreign ownership does not significantly affect transfer pricing practices because foreign investors prioritise compliance and reputation maintenance. These sectors are strategically important to the Indonesian government and are subject to strict oversight and regulations. Companies with foreign ownership, especially multinational corporations, tend to adhere to international accounting and tax standards to avoid legal disputes or sanctions, making it less likely for such companies to engage in aggressive transfer pricing strategies. They focus more on long-term investment returns and maintaining good relations with government authorities and regulatory bodies.

Foreign ownership is often associated with better corporate governance practices, emphasizing transparency, accountability, and ethical financial reporting. Companies with foreign ownership also comply with internal and external audits based on global standards, making it more challenging to manipulate transfer pricing in ways that would benefit foreign investors themselves. These practices help minimize the role of foreign ownership in influencing transfer pricing decisions. Thus, foreign ownership is not a determining factor in implementing transfer pricing practices within the Oil, gas, coal and supporting sub-sectors industries. This result is consistent with the study conducted by Evi et al. (2023) which previously found that foreign ownership does not significantly affect transfer pricing.

To support the findings of the hypothesis test indicating that foreign ownership does not significantly influence transfer pricing, data from one of the companies in the oil, gas, coal and supporting sub-sectors (PT Mitrabara Adiperdana Tbk.) shows a consistent pattern. In 2021, the level of foreign ownership was recorded at 0.3454, with a transfer pricing value of 0.0295. Although foreign ownership significantly decreased in 2022 and 2023 to 0.0463 and 0.0479, respectively, the transfer pricing value did not follow a consistent trend, being 0.0195 in 2022 and increasing to 0.2012 in 2023. This pattern reinforces the conclusion that foreign ownership is not a key factor influencing transfer pricing practices. It aligns with the view that companies with foreign ownership tend to implement better corporate governance, rigorous audits, and principles of transparency and accountability, which reduce the likelihood of manipulation in transfer pricing policies.

The bonus mechanism does not have a significant effect on transfer pricing

Based on the results of hypothesis testing in Table 2, it is concluded that H4 is rejected. This finding is not in line with the study conducted by Herlina and Murniati (2023) which stated that the bonus mechanism has a significant effect on transfer pricing. According to agency theory, bonus mechanisms are generally designed to align the interests of agents (managers) with those of principals (owners) by linking compensation to company performance. However, the bonus scheme does not substantially influence transfer pricing practices because bonuses are typically based on operational and long-term performance indicators, such as production targets, rather than short-term financial results like reported profits. Given the industry's capital-intensive and heavily regulated nature, managers have limited flexibility and low incentive to manipulate transfer pricing for personal gain through bonus schemes.

Additionally, company owners and directors may have distinct business goals. Owners expect optimal performance from directors to increase company profitability. Meanwhile, directors aim to achieve similar objectives—earning bonuses as a reward for their contributions. However, although directors may strive to maximize their bonuses, it does not necessarily imply that they will engage in inappropriate actions, such as manipulating financial statements through transfer pricing transactions with affiliated parties to inflate profits and thus their bonuses. From an agency theory perspective, this reduces the likelihood of opportunistic behaviour by managers, as the risks involved outweigh the potential benefits.

This finding is consistent with previous studies by Hikmatin and Suryarini, (2019), Sujana et al. (2022) and Susanti and Firmansyah (2018) which found that the bonus mechanism does not significantly impact transfer pricing. Moreover, Indriaswari and Aprilia (2018) argued that a well-implemented bonus policy can reduce the potential for directors to engage in transfer pricing solely to meet bonus targets. Therefore, company profits do not automatically motivate directors

to undertake transfer pricing, as management has implemented innovative strategies to achieve bonus targets, thereby minimizing the risk of transfer pricing practices.

To further support the hypothesis testing results showing that the bonus mechanism does not significantly affect transfer pricing, data from PT Adaro Energy Indonesia Tbk. provides reinforcing evidence. From 2021 to 2023, the number of bonuses awarded to management experienced a significant decline, from 6.5648 to 3.0344 and further to 0.6421. However, the transfer pricing value increased from 0.0718 to 0.1250 and rose to 0.1783. This inverse movement between the two variables indicates that changes in the bonus mechanism are not directly correlated with the intensity of transfer pricing practices in the company. This reflects that the bonus mechanism is not a key driver in transfer pricing decision-making, as management focuses more on achieving long-term operational targets and maintaining compliance with stringent industry regulations, thereby reducing the potential misuse of transfer pricing policies for personal gain.

5. Conclusions

This study aims to explain the influence of tax burden, tunnelling incentives, foreign ownership, and bonus mechanisms on transfer pricing. The sample data was obtained from 31 companies in the oil, gas, coal, and supporting subsector industries listed on the Indonesia Stock Exchange during the 2021-2023 period. In addition, this study aims to provide insights for regulators or the government to design more effective policies in monitoring and reducing the risk of transfer pricing abuse and helping companies improve compliance with tax regulations.

Based on the research results, it can be concluded that tax burden and tunnelling incentives significantly affect transfer pricing. Meanwhile, foreign ownership and bonus mechanisms do not considerably affect transfer pricing. The simultaneous testing results show that tax burden, tunnelling incentives, foreign ownership, and bonus mechanisms, when considered together, significantly influence transfer pricing.

This study has a limitation in that it does not include control variables, which may influence transfer pricing behavior, such as firm size, profitability, or leverage. Future research is encouraged to incorporate these control variables to provide more robust and comprehensive results. For future researchers, it is recommended to expand the scope of the study by adding other relevant variables such as corporate governance or industry competition level to obtain a more comprehensive understanding of the factors influencing transfer pricing. Additionally, more complex research methods can provide deeper insights, such as panel data analysis with a longer or shorter period, or a case study approach on specific companies. The sample representation should also be improved by including various industry sectors or companies from other countries to test the generalization of the research results.

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