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ANALYSIS OF TAX BURDEN AND COMPANY SIZE AS DETERMINANTS OF TRANSFER PRICING DECISIONS

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Abstract

Multinational companies often use transfer pricing to reduce their tax burden. This study examines the effect of tax burden and company size on the decision to engage in transfer pricing among manufacturing companies listed on the Indonesia Stock Exchange from 2018 to 2021. The study uses secondary data from financial reports with a multiple linear regression method. The results show that tax burden and company size influence transfer pricing. The larger the tax burden, the higher the tendency for companies to use transfer pricing to reduce taxes. Similarly, larger companies have more opportunities to engage in transfer pricing. The implications of this research support improvements in tax policies and stricter corporate governance to prevent the misuse of transfer pricing.

Keywords : *Company Size, Manufacturing Companies, Tax Burden, Transfer Pricing.*

1. INTRODUCTION

Transfer pricing is a practice often used by multinational companies to manage tax obligations between different jurisdictions. Through this practice, companies can shift profits or losses between subsidiaries with the main aim of reducing the tax burden (Kalra & Afzal, 2023). This phenomenon is of great concern in many countries, including Indonesia, because it has the potential to reduce state tax revenues. The main factor driving transfer prices is a high tax burden, which makes companies look for ways to reduce their liabilities (Karkinsky & Riedel, 2012). Large companies with many subsidiaries in different countries have a greater opportunity to shift profits to countries with lower tax rates. The larger the company, the more complex its operational and financial structure, so the opportunities for transfer pricing also increase.

Research shows that company size is an important determinant in the decision to carry out transfer pricing. Large companies usually have more resources to carry out aggressive tax management (Flamini et al., 2021), companies with large assets and increasing sales are categorized as large companies, which tend to manage profits through transfer pricing to maintain shareholder trust.

On a global scale, transfer pricing practices are coming under increasingly strict scrutiny. According to Baistrocchi & Roxan (2012), cases of transfer price disputes continue to increase. In 2018, there were 930 cases, which rose to 1,156 in 2019 and reached 1,178 cases in 2020. The decrease in cases to 1,051 in 2021 shows that tighter global tax controls have succeeded in limiting transfer pricing practices. In Indonesia, although cases of transfer pricing disputes have decreased, the COVID-19 pandemic has caused a spike in cases as changes in business patterns create opportunities for companies to move profits to low-tax jurisdictions.

Several transfer pricing cases in Indonesia involve large companies, such as PT Adaro Energy Tbk and PT Bentoel International Investama Tbk. PT Adaro is accused of evading taxes by selling coal to a subsidiary in Singapore at below market prices, thereby reducing taxes in Indonesia and shifting profits to Singapore. This scheme costs Indonesia up to USD 14 million per year in tax revenue. Meanwhile, PT Bentoel took advantage of tax agreements with the Netherlands and the UK to avoid tax obligations through intra-company loan schemes and royalty payments, which are estimated to cost Indonesia around USD 137 million per year.

Previous research by Hsu et al. (2019) found that tax burden has a significant influence on company decisions in carrying out transfer pricing. Wang et al. (2016) found similar results, where the tax burden encouraged companies to utilize transfer pricing. Wijaya & Widianingsih (2019) show that company size also has a significant influence on this decision, especially in large companies. Qomaria & Abbas, n.d. stated that the influence of company size may vary depending on the industry context and company structure.

Transfer pricing is an important topic in the global business world. This practice involves pricing transactions between affiliated companies, both within the country and across borders, with the aim of minimizing the tax burden (Oyelere & Emmanuel, 1998). Increasingly stringent tax regulations globally and in Indonesia require greater transparency in transfer price reporting. Tax authorities now have more tools to identify non-compliant practices, forcing companies to adapt their strategies.

Company size also plays an important role in transfer pricing practices. Large companies, with affiliates in multiple countries, have greater flexibility in implementing this strategy (Foss et al., 2008). They also have access to the resources and expertise necessary to exploit loopholes in cross-border tax regulations. In contrast, small companies may not have the same capabilities due to limited resources and knowledge.

In Indonesia, the level of tax evasion is still high, and the tax authorities are trying to reduce leakage of state revenue through stricter regulations (Tambunan, 2022). More detailed transfer price documentation and the adoption of BEPS standards by the OECD have further tightened oversight. Nevertheless, further research is still needed to study how large companies continue to develop tax avoidance strategies as international tax regulations change.

This research focuses on the transfer pricing phenomenon which is a major concern among multinational companies, especially in their efforts to reduce the tax burden through managing profits between subsidiaries in various countries. In Indonesia, this practice has attracted attention because of the potential loss for state revenue. With increasingly stringent tax regulations at both global and national levels, there is a need to understand the factors that influence companies' decisions in implementing transfer pricing strategies, especially in the context of large companies that have a greater ability to avoid tax.

This research aims to analyze the influence of tax burden and company size on company decisions in implementing transfer pricing, with a focus on large companies in Indonesia that have the potential to avoid taxes through this practice.

2. LITERATURE REVIEW

Transfer Price

Transfer pricing is the determination of prices in transactions between affiliated companies, whether in the form of goods, intangible property, or services (Shunko et al., 2014). According to the OECD (2009), transfer prices are used in transactions between related companies and are often influenced by the aim of

maximizing after-tax profits (Kalra & Afzal, 2023). Transfer prices are also known by other terms, such as intracompany pricing or internal pricing.

In general, transfer pricing can be neutral, where the aim is a business strategy, or pejorative, which aims to reduce taxes through shifting profits to countries with lower tax rates (Klassen et al., 2017). Article 1 paragraph (8) PER-32/PJ/2011 defines transfer prices as prices determined in transactions between parties with a special relationship, which can cause problems when used to avoid tax.

Several transfer pricing methods include according to Cristea & Nguyen (2016), namely (1) Comparable Uncontrolled Price, (2) Resale Price Method, (3) Cost Plus Method, (4) Profit Split Method, (5) Transactional Net Margin Method.

According to Sahay (2003), the main objective of transfer pricing is to optimize the achievement of company targets, align business unit managers' decisions, and maximize global income, including reducing tax burdens and import duties.

Tax Burden

According to Law of the Republic of Indonesia no. 28 of 2007 concerning General Provisions and Tax Procedures, tax is a mandatory contribution made by taxpayers to the state. Taxes are coercive based on law, without direct rewards, and are used for state needs for the prosperity of the people. According to Olokooba (2019) taxes are people's contributions to the state based on laws that are coercive, without direct contravention, and are used to finance general expenditure.

According to Dianov et al., (2022), the tax function is divided into four, namely: (1) revenue function (budgetair), as a source of funds for the government to finance its expenditure, (2) regulatory function (tegularend), as a tool for regulating social policy and economics, (3) stability function, taxes help the government manage inflation and maintain price stability, (4) income redistribution function, taxes are used to finance development and create jobs, increasing people's income.

Tax burden, according to PSAK No. 46 Revised 2014, is the combined amount of current and deferred taxes calculated in profit and loss. Tax burden is proxied through the effective tax rate or Effective Tax Rate (ETR), which is calculated by dividing the tax burden by profit before tax.

Company Size

Company size refers to the size of a business entity, which can be measured based on various factors such as total assets, number of sales, share price, and profit (Hashmi et al., 2020). In this research, company size is calculated using the natural logarithm of total assets. According to Hall & Weiss (1967), companies with large total assets have generally reached the maturity stage, which is characterized by positive cash flows and good long-term prospects. Large companies tend to be more stable and able to generate higher profits than companies with small assets.

Ojra et al. (2021) stated that the larger the company's assets, the more complex the management decisions taken. Large company size, characterized by increased sales and assets, indicates good performance in the long term (Cescon et al., 2019). Therefore, in this research, company size will be measured using the logarithm of total assets because assets are considered more stable than sales (Nalarreason et al., 2019). Based on Law No. 20 of 2008, company size is classified into four categories: micro, small, medium, and large businesses. This criterion is based on the number of assets and annual sales, which differentiates company classifications from micro to large scale.

Framework

Research on transfer prices and the factors that influence them, such as tax burden and company size (Sari & Johan, 2024), has been carried out by several researchers: Rohaeni et al. (2021); Belz et al. (2019); Haieb & Omri (2019); Thinh & An (2023); Barros & Sarmento (2020); Mensah (2021); Elexa et al. (2022). Based on previous studies, there are several similarities and differences in research related to this topic.

The similarities lie in the main focus of the research, namely transfer prices, as well as the use of secondary data such as financial reports and independent auditor reports (Diana et al., 2021). Apart from that, variables that often appear are tax burden, company size, and the transfer pricing mechanism itself. These

studies generally use similar methods in analyzing how companies determine transfer pricing strategies to reduce tax burdens.

However, there are some significant differences in these studies. This difference mainly lies in the independent variables used, for example, tax burden, bonus mechanism, foreign ownership, leverage, and company size (Nuryaman et al., 2019; Ramdhani et al., 2021). Apart from that, the population and samples used also vary, for example, manufacturing, mining companies, or multinational companies listed on the Indonesian Stock Exchange within a certain time period.

Based on existing research gaps, this research focuses on the influence of tax burden and company size on transfer pricing decisions, especially in Indonesia, using data on manufacturing companies listed on the Indonesia Stock Exchange in 2018-2021.

High tax burdens encourage companies to use transfer pricing as a strategy to reduce tax liabilities. Apart from that, company size also influences flexibility in managing transfer pricing policies. Large companies tend to be better able to face tax regulations and supervision because they have more adequate resources than small companies.

Research Hypothesis H1: There is an influence of tax burden on transfer pricing decisions. H2: There is an influence of company size on transfer price decisions. H3: Tax burden and company size simultaneously influence transfer pricing decisions.

3. RESEARCH METHODS

This research aims to examine the influence of tax burden and company size on a company's decision to carry out transfer pricing practices. The type of research used is causal explanatory, namely research that explains the cause-and-effect relationship between the variables studied and tests the hypotheses that have been formulated (Song et al., 2017).

The data used is secondary data, taken from financial reports and independent auditor reports of manufacturing companies listed on the Indonesia Stock Exchange (BEI) in the 2018-2021 period. The research population is all manufacturing companies listed on the IDX during that period, with samples selected using purposive sampling techniques. Samples that are not selected must meet the criteria, including manufacturing companies that experience losses, do not consistently publish financial reports, and financial reports that are not expressed in rupiah.

Data collection methods used in this research include literature study and documentation study. Literature studies are carried out by collecting and comparing various sources such as books, journals and other references that are relevant to the research topic. The documentation study was carried out by studying financial report documents and independent auditor reports of companies listed on the Indonesia Stock Exchange (BEI) in the 2018-2021 period. The research instrument is a quantitative instrument whose validity and reliability are tested, while the research variables consist of independent variables (tax burden and company size) and dependent variables (transfer pricing).

Multiple regression analysis is used to predict conditions by manipulating two or more independent variables, as well as analyzing a combination of time series data and cross-sectional data.

$$Y = \alpha + \beta 1X1 + \beta 2X2 + e$$

Description:

Y = Transfer Pricing
α = constant
β1β2 = Regression coefficient for each independent variable
X1 = Tax Burden
X2 = Company size
e = disturbance's error

Hypothesis testing involves t-tests and f-tests. The t-test assesses the influence of individual independent variables on the dependent variable with a significance level of 0.05. The hypothesis is accepted if the significant value is <0.05, which indicates a significant influence of the independent variable. Conversely, if the significant value is > 0.05, the hypothesis is rejected. The f-test tests the influence of all independent variables simultaneously. The model is considered valid if F-count > F-table or probability ≤ 0.05. The coefficient of determination (R^2) measures how well the independent variable explains the variation in the dependent variable.

4. RESULT AND DISCUSSION

Descriptive Statistics

Descriptive analysis is used to describe research variables, such as tax burden, company size, and transfer prices. Tax expense is the amount of current tax and deferred tax calculated in determining profit and loss for a period. This research measures the tax burden using a comparison between income tax burden and profit before tax. Based on data from manufacturing sector companies listed on the Indonesia Stock Exchange for the 2018-2021 period, the average value of the tax burden shows fluctuations.

In 2018 and 2021, the average value was 0.259, increased to 0.292 in 2019, and decreased to 0.283 in 2020. This fluctuation reflects changes in company income which have an impact on the amount of tax that must be paid. An increase in the tax burden is usually caused by an increase in company income and profits. The amount of the tax burden is related to the company's gross income minus other costs such as operations, interest and taxes. Overall, changes in the value of the tax burden reflect the dynamics of the company's financial performance during the research period.

Company size is a quantity determined by several factors such as number of assets, share price and sales. In this study, company size is measured using the natural logarithm of total assets. Based on data from manufacturing sector companies listed on the Indonesia Stock Exchange for the 2018-2021 period, the average value of company size has increased. In 2018, the average was 29,097, increasing to 29,175 in 2019, and continuing to rise to 29,283 in 2021. This increase reflects the growth of company assets, which has the potential to attract more investors. Investors tend to be more interested in investing in companies that have large assets because they reflect stability and good company performance. The size of assets also reflects the company's ability to generate greater income through sales and capital turnover. Overall, the growth in company size indicates an increase in business scale in the manufacturing sector during the research period.

Transfer pricing is the determination of prices in transactions between parties who have a special relationship. In this research, the transfer price is measured based on the ratio between receivable party transactions and the amount of receivables. Based on data from manufacturing companies on the Indonesia Stock Exchange for the 2018-2021 period, the average value of transfer pricing has increased. In 2018, the average value was 0.207, increasing to 0.219 in 2019, and continuing to rise to 0.278 in 2021. This increase reflects the company's increasing efforts to reduce the tax burden through the transfer pricing mechanism. A high transfer price value indicates greater intensity in minimizing the tax burden, while a low value reflects less effort. The increase in transfer prices is influenced by the high tax burden, high state tax rates, and management's desire to maximize profits.

Panel Data Regression Analysis

Panel data regression analysis is used to see the relationship between tax burden and company size on transfer prices. The regression model shows that if the tax burden increases by one unit, the transfer price increases by 0.725. An increase in one unit of company size also increases the transfer price by 0.070. The positive regression coefficient indicates that the greater the tax burden and company size, the higher the transfer price. If the two independent variables are constant, the transfer price will remain at -2.010, indicating that without change, the transfer price value tends to be stable. The regression equation model formed based on the research results is as follows:

$$Y = -2{,}010027 + 0{,}725116\ X1 + 0{,}070307\ X2 + e$$

Partial hypothesis testing, Table 1, shows that tax burden and company size influence transfer prices. The t-test result for the tax burden is 7.141, greater than the t-table of 1.980, so H1 is accepted. Likewise, the t-count for company size is 5.290, also greater than the t-table, so H2 is accepted. Thus, both influence the transfer price.

Table 1. Partial Hypothesis Testing

Dependent Variable: TRANSFER_PRICING		
Method: Panel EGLS (Cross-section random effects)		
Date: 12/08/23 Time: 23:22		
Sample: 2018 2021		
Periods included: 4		
Cross-sections included: 31		
Total panel (balanced) observations: 124		

Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.010027	0.378916	-5.304680	0.0000
BEBAN_PAJAK	0.725116	0.101537	7.141369	0.0000
UKURAN_PERUSAHAAN	0.070307	0.013290	5.290136	0.0000

Source: Output Eviews 10

The results of partial hypothesis testing show several important findings. First, for the tax burden variable, the test results produce a probability value of 0.000 which is smaller than 0.05. Apart from that, a comparison between the t-count and t-table values shows that the t-count of 7.141 is greater than the t-table of 1.980. Based on these results, it can be concluded that the first hypothesis (H1) is accepted, which means that partially, the tax burden variable has an effect on the transfer price variable.

Second, the results of hypothesis testing for the company size variable also show a probability value of 0.000 which is smaller than 0.05. A comparison between the t-count value of 5.290 and the t-table of 1.980 shows that the t-count is greater than the t-table. Thus, the second hypothesis (H2) is accepted, which means that partially, the company size variable has a significant influence on the transfer price variable.

The simultaneous test is used, as can be seen from Table 2, to find out whether the independent variables influence the dependent variable simultaneously. The test results show a probability value of 0.000, smaller than 0.05, and an F-calculated value of 59.240 which is greater than the F-table of 3.07 (59.240 > 3.07), so H3 is accepted. Thus, the tax burden variable and company size simultaneously influence the transfer price variable.

Table 2. Simultaneous Hypothesis Testing

R-squared	0.494742	Mean dependent var	0.065518
Adjusted R-squared	0.486390	S.D. dependent var	0.140387
S.E. of regression	0.100610	Sum squared resid	1.224812
F-statistic	59.24074	Durbin-Watson stat	1.812686
Prob(F-statistic)	0.000000		

Source : Output Eviews 10

The coefficient of determination test measures the extent to which the model is able to explain variations in the dependent variable based on the independent variables. The R^2 value in a regression model shows how much variability in the dependent variable can be explained by the independent variables, with the higher the R^2 value, the better the explanation. The coefficient of determination (R2) of 0.494 means that transfer price variability can be explained by the tax burden and company size variables of 49.4%, while the remaining 50.6% is explained by other variables outside the research model.

The Effect of Tax Burden on Transfer Pricing

The research results show that the tax burden has an effect on transfer pricing. This is in line with the theory which states that companies use transfer pricing as an alternative to avoid taxes, by manipulating financial reports and engineering transfer prices between companies that have special relationships. The higher the tax burden that must be paid, the greater the company's tendency to utilize transfer pricing to reduce expenses.

Differences in tax rates between countries provide opportunities for multinational companies to move profits to countries with low taxes, so that the tax burden is reduced and profits increase. The bonus plan hypothesis also states that management tends to choose methods that maximize profits, including through transfer pricing.

The Influence of Company Size on Transfer Pricing

The research results show that company size influences transfer pricing. Company size reflects the size of a company, where large companies tend to have more product or segment diversification. This encourages the use of transfer pricing policies in the transfer of goods or services between segments, divisions or subsidiaries.

The company's main goal is to maximize overall profits, so decisions regarding transfer pricing are very important. Large companies that have more subsidiaries in various countries face complexity in transfer pricing management, but they have more flexibility in setting transfer prices and can exploit the scale of their

operations for tax advantages. or operational efficiency. In contrast, small companies are more vulnerable to tax risks due to limited resources.

The research results show that the tax burden and company size influence transfer pricing practices. This research supports the previous discussion which states that the two together influence the company's decision to carry out transfer pricing. High tax burdens encourage companies to look for ways to reduce the burden through tax avoidance mechanisms, while company size can influence the complexity and number of internal transactions, which ultimately has an impact on transfer pricing decisions.

5. CONCLUSION

This research shows that tax burden and company size influence transfer pricing practices in manufacturing sector companies listed on the Indonesia Stock Exchange. The higher the tax burden, the greater the company's tendency to use transfer pricing as a strategy to reduce the tax burden. Company size also influences transfer prices, where larger companies have more flexibility in setting transfer prices between related entities. This research makes an important theoretical contribution in deepening understanding of the factors that influence transfer prices in the manufacturing sector.

Empirically, these findings provide benefits for management accounting, especially in understanding the influence of tax burden and company size on transfer pricing decisions. The results of this research can be a basis for developing more effective and fair tax policies. However, this research has limitations, especially in the limited data coverage in the manufacturing sector.

Future research is recommended to expand the industrial sector so that the findings produced are more general and can be applied to various types of companies, not just limited to the manufacturing sector. By including other sectors, such as the services or financial sectors, the analysis of transfer prices will be more comprehensive, because each sector has unique characteristics in terms of tax regulations and business practices.

Apart from that, variables such as corporate governance are also important to include, because good governance can influence a company's decision to carry out transfer pricing. For example, companies with strong governance may be more likely to comply with tax regulations and avoid aggressive tax avoidance practices. The addition of this variable will provide a deeper understanding of how internal company factors influence decisions in transfer pricing practices.

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