



THE INFLUENCE OF TAXES, COMPANY SIZE, AND FOREIGN OWNERSHIP ON THE DECISION OF COMPANIES TO CONSIDER TRANSFER PRICING ON MANUFACTURING COMPANIES LISTED IN THE IDX

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Abstract

Transfer pricing has long been a classic issue in the taxation field. From the government side, transfer pricing is supposed to reduce and eliminate the potential for state tax revenue, because multinational companies shift the tax obligations of countries that have high tax rates (high tax countries) to countries with low tax rates (low tax countries). The purpose of this study is to find out partially the effect of tax, company size, and foreign ownership on company decisions do transfer pricing. And to determine the effect of taxes, size foreign ownership in the company and simultaneously against the decision of the company do transfer pricing on manufacturing companies listed in Indonesia Stock Exchange period 2015-2019. The method used in this study is an associative method with a quantitative approach. The research population totals 183 companies with a sample of 11 companies, the financial report data attached 55 data using purposive sampling technique, the research was conducted at manufacturing companies in the Indonesia Stock Exchange period 2015-2019. The conclusion of the research is based on the above calculation partially, the results obtained by the tax and foreign ownership variable affect the company's decision to transfer pricing, while the variable company size does not affect the company's decision to transfer pricing. Simultaneously, the tax variables, company size, and foreign ownership affects the company's decision to transfer pricing to manufacturing companies in the Indonesia Stock Exchange period 2015-2019.

Keywords: Transfer Pricing, Taxes, Company Size, Foreign Ownership

INTRODUCTION

The development of the business world has encouraged many companies to carry out their activities not only in one country but in several countries. The rapid growth of international economic activity has also stimulated the development of multinational companies. International transactions between members of multinational companies occur in various aspects, one of which is the sale of goods or services. Most of these business transactions usually occur between related companies or between companies that have special relationships.

The practice of transfer pricing is usually done by increasing the purchase price or reducing the selling price between companies in one group and transferring the profits earned to the group domiciled in a country that applies a low tax rate. So that the higher the tax rate of a country, the more likely it is for companies to carry out transfer pricing.

Transfer pricing is the price contained in each product or service from one division that is transferred to another division within the same company or between companies that have a special relationship. Transfer pricing, especially international transfer pricing, can cause problems when used for tax avoidance purposes (Susanta and Suzan, 2018). The difference in tax rates that apply in each country allows multinational companies to move their profits to countries with low tax rates, so they can minimize the tax burden to maximize profits. This is known as transfer pricing (Kurniawan, 2015).

Transfer pricing practices can be carried out for non-tax reasons such as company size, foreign ownership, and others. Company size is the scale of how big or small the company is. Larger companies typically engage in more business activities and financial transactions than smaller companies, providing an additional opportunity to significantly evade corporate taxes. According to Putri (2016), company size can be defined as an effort to assess the size of a company, generally, research in Indonesia uses total assets as a proxy for company size.

Foreign ownership is the number of shares owned by foreign parties (overseas) either by individuals or institutions against company shares in Indonesia. Foreign ownership can be measured according to the proportion of ordinary shares owned by foreigners (Putri, 2016). Foreign entities that have shares of 20% or more are considered to have significant influence in controlling the company can be referred to as foreign controlling shareholders. This foreign controlling shareholder will allow the management to instruct the management to do what they want to benefit themselves, including the pricing policy and the number of transfer pricing transactions.

The purpose of this study was to determine the effect of taxes, company size, and foreign ownership on the company's decision to transfer pricing to manufacturing companies listed on the Indonesia Stock Exchange in 2015-2019 either partially or simultaneously.

METHOD

According to Sugiyono (2017), the research method is a scientific way to obtain data with certain goals and uses. The method used in this study is a descriptive quantitative method that discusses the variables of transfer pricing, taxes, company size, and foreign ownership by obtaining data from the financial statements of manufacturing companies listed on the Indonesia Stock Exchange.

The population in this study are manufacturing companies listed on the Indonesia Stock Exchange for the 2015-2019 period with a total population of 138 companies. The population is a generalization area consisting of objects/subjects that have certain qualities and characteristics determined by the researcher to be studied and then draw conclusions. (Sugiyono, 2019). The sample is part of the number and characteristics possessed by the population. (Sugiyono, 2019). The sampling technique used in this research is purposive sampling, which is a sampling technique using specific criteria to the required data. The criteria are set as follows: the company has a foreign ownership percentage of more than 20%, presents financial statements in rupiah currency, has receivables from related parties and the company does not suffer losses during the observation period. Based on the criteria that the authors set acquired the research sample obtained is 11 companies with 55 data.

RESULTS AND DISCUSSION

Multiple Linear Regression Analysis

Table 5 SPSS Processing Results of Multiple Linear Regression Test

Coefficients ^a							
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF

1	(Constant)	,054	,155		,349	,729		
	ETR	-,114	,044	-,335	-2,613	,012	,915	1,093
	SIZE	,052	,051	,129	1,015	,315	,934	1,070
	KA	-,986	,294	-,432	-3,353	,002	,906	1,104

a. Dependent Variable: TP

Based on table 5 above, it can be seen the coefficients for the regression equation from this study, which can be arranged in the regression equation as follows:

$$Y = 0.054 + (-0.114 X_1) + 0.052 X_2 + (-0.986 X_3)$$

From the alternating linear regression above, it can be concluded that:

- The constant-coefficient based on the regression calculation is 0.054 with a positive value, which means that with the assumption that all independent variables affect, the amount of transfer pricing is 0.054
- The regression coefficient for Tax (ETR) is -0.114 indicating that for every additional 1 logarithm of tax, the value of the natural logarithm of transfer pricing will decrease by 0.114.
- The regression coefficient for firm size is 0.052, indicating that for every additional 1 logarithmic unit of firm size, the value of the natural logarithm of transfer pricing will increase by 0.052.
- The regression coefficient for foreign ownership is -0.986, indicating that for every additional 1 logarithm of foreign ownership, the value of the natural logarithm of transfer pricing will decrease by 0.986.

Coefficient of Determination Test

Table 6 Processing Results of SPSS Coefficient of Determination Test

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,483 ^a	,234	,189	,18896

a. Predictors: (Constant), KA, SIZE, ETR

From the table above, it can be seen that the correlation coefficient (R) is 0.483. Furthermore, the calculation of the coefficient of determination (KD) is used to determine the percentage of the influence of tax variables, company size, foreign ownership, transfer pricing variables, as follows:

$$(KD = R^2 \times 100\%)$$

Information:

KD = Coefficient of Determination

R^2 = Correlation Coefficient

$$KD = (0.483)^2 \times 100\%$$

$$= 0.234 \times 100\%$$

$$= 23,4\%$$

Thus it can be concluded that tax (X_1), company size (X_2) and foreign ownership (X_3) contribute 23.4% to transfer pricing (Y). while the remaining 76.6% is explained by other factors or variables not examined in this study.

Partial Test (t-Test)

Table 7 Results of Partial Hypothesis Testing SPSS Processing (t-test)

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		

1	(Constant)	,054	,155		,349	,729
	ETR	-,114	,044	-,335	-2,613	,012
	SIZE	,052	,051	,129	1,015	,315
	KA	-,986	,294	-,432	-3,353	,002

a. Dependent Variable: TP

The t-test aims to see the effect of the tax variable on *transfer pricing*. The criteria for partially testing the hypothesis are as follows:

1. If $t_{\text{count}} < t_{\text{table}}$, or $-t_{\text{count}} > -t_{\text{table}}$ or $\text{sig} > 0.05$ (5%) then H_0 is accepted and H_a is rejected.
2. If $t_{\text{count}} > t_{\text{table}}$, or $-t_{\text{count}} < -t_{\text{table}}$ or $\text{sig} < 0.05$ (5%) then H_0 is rejected and H_a is accepted.

Simultaneous Test (F Test)

Table 8 Simultaneous Hypothesis Testing (F Test)

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,555	3	,185	5,183	,003 ^b
	Residual	1,821	51	,036		
	Total	2,376	54			

a. Dependent Variable: TP

b. Predictors: (Constant), KA, SIZE, ETR

From the table above, it can be seen that the calculated F value = 5.183 with a significance level of 5%, the value of degrees of freedom for the numerator ($df_1 = k - 1 = 4 - 1 = 3$) and ($df_2 = n - k = 55 - 4 = 51$), then the value of $F_{\text{table}} = 2.79$.

Effect of Tax (X_1) on Transfer Pricing (Y)

Based on the results of data processing with SPSS v.26 tools with multiple linear regression test results obtained t_{count} of -2,613 and t_{table} $df = nk-1 = (55-3-1 = 51)$ obtained t_{table} of -2.007 then tax (X_1) on *transfer pricing* (Y) in the t-test, the results of $-t_{\text{count}} < -t_{\text{table}}$ are $-2.613 < -2.007$ with a significant level of $0.012 < 0.05$ so it can be concluded that H_0 is rejected and H_1 is accepted, meaning that there is an influence between taxes on the company's decision to *transfer pricing* to manufacturing companies listed on the Indonesia Stock Exchange for the 2015-2019 period. This shows that the higher the tax rate paid by the company encourages multinational companies to minimize the tax burden that must be paid, one of which is transfer pricing. The results of this study are different from the results of research by Siti Khusnul Khotimah (2018) and Zerni Melmusi (2016) which state that the tax variable does not affect *transfer pricing* because companies can take other ways to minimize the company's tax burden, for example by using tax planning (*Tax Planning*). The results of this study are in line with the results of research by Evan Maxentia Tiwa et al. (2017) and Thesa Refgia (2017).

Effect of Firm Size (X_2) on Transfer Pricing (Y)

Based on the results of data processing with the SPSS v.26 tools with multiple linear regression test results obtained t_{count} of 1.015 and t_{table} $df = nk-1 = (55-3-1 = 51)$ obtained t_{table} of 2.007 then the size of the company (X_2) on *transfer pricing* (Y) in the t-test, the results of $t_{\text{count}} < t_{\text{table}}$ are $1.015 < 2.007$ with a significant level of $0.315 > 0.05$ so it can be concluded that H_0 is accepted and H_2 is rejected, meaning that there is no influence between company size on the company's decision to do business. *transfer pricing* in manufacturing companies listed on the Indonesia Stock Exchange for the 2015-2019 period. This shows that relatively large companies will not be interested in *transfer pricing*. The results of this study are in line with the results of research by Siti Khusnul Khotimah (2018), Thesa Refgia (2017), Dicky Suprianto, Raisa Pratiwi (2017), and Zerni Melmusi (2016).

Effect of Foreign Ownership (X_3) on Transfer Pricing (Y)

Based on the results of data processing with the SPSS v.26 tools with multiple linear regression test results obtained t_{count} of -3.353 and t_{table} $df = nk-1 = (55-3-1 = 51)$ obtained t_{table} of -2.007 then foreign ownership (X_3) on *transfer pricing* (Y) in the t-test, the results of $-t_{\text{count}} < -t_{\text{table}}$ are $-3.353 < -2.007$ with a significant level of $0.002 < 0.05$ so it can be concluded that H_0 is rejected and H_a is accepted, meaning that there is an influence between ownership foreign companies to the company's decision to *transfer pricing* to manufacturing companies listed on the Indonesia Stock Exchange for the 2015-2019 period. This shows that the greater the level of foreign ownership in the company, the greater the influence of foreign shareholders in determining various decisions in the company, including the pricing policy.

The results of this study are different from the results of research by Evan Maxentia Tiwa et al (2017), Dicky Suprianto, Raisa Pratiwi (2017), and Zerni Melmusi (2016) which state that foreign ownership does not affect *transfer pricing*. This indicates that the presentation of foreign ownership in a company is not a benchmark in the company's desire to apply transfer pricing. The results of this study are in line with the results of These Refgia's research (2017).

Effect of Tax (X_1), Company Size (X_2), and Foreign Ownership (X_3) on Transfer Pricing (Y)

*The results of research on tax, firm size, and foreign ownership on transfer pricing are based on the results of the calculated F test (simultaneous). For taxes, firm size and foreign ownership on transfer pricing (X_1 , X_2 , and X_3 against Y) using SPSS version 26 shows that $F_{\text{count}} > F_{\text{table}}$ that is $5.183 > 2.79$ with a significant value of $0.003 < 0.05$, meaning that taxes, company size, and foreign ownership have a simultaneous effect on transfer pricing. This shows that the higher the tax rate paid by the company encourages the company to minimize the tax burden to be paid, relatively large companies are usually involved in more business activities, thus providing an opportunity for *transfer pricing*, and the greater the level of foreign ownership in the company. the greater the influence of foreign shareholders in determining various decisions within the company, including *transfer pricing* policies*

CONCLUSION

Based on the results of research and discussion in the previous chapter, the authors can draw the following conclusions:

1. The results of the t-test (partial) for the tax variable on transfer pricing (X_1 to Y) using SPSS version 26 show $-t_{\text{count}} < t_{\text{table}}$, namely $-2.613 < -2.007$ with a significant level of $0.012 < 0.05$, meaning that taxes affect company decisions. perform transfer pricing on manufacturing companies for the 2015-2019 period.
2. The results of the t-test (partial) for the variable company size on *transfer pricing* (X_2 to Y) using SPSS version 26 shows $t_{\text{count}} < t_{\text{table}}$ that is $1.015 < 2.007$ with a significant level of $0.315 > 0.05$, meaning that company size does not affect company decisions. perform *transfer pricing* on manufacturing companies for the 2015-2019 period.
3. The results of the t-test (partial) for the variable of foreign ownership of *transfer pricing* (X_3 against Y) using SPSS version 26 shows $-t_{\text{count}} < -t_{\text{table}}$ is $-3.353 < -2.007$ with a significant level of $0.002 < 0.05$, meaning that foreign ownership affects the company's decision to *transfer pricing* in manufacturing companies for the 2015-2019 period.

The results of the f-count test (simultaneous) for tax variables, company size, and foreign ownership of *transfer pricing* (X_1 , X_2 , and X_3 against Y) using SPSS version 26 show that $f_{\text{count}} > f_{\text{table}}$ is 5.183

> 2.79, with a value of significant $0.003 < 0.05$ means that taxes, company size, and foreign ownership have a significant and significant effect on the company's decision to *transfer pricing* in manufacturing companies for the 2015-2019 period

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