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The effect of tax rates, profitability, leverage, ownership structure, and tunneling incentive on transfer pricing in multinational corporations listed on Indonesia stock exchange

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Abstract

This research aims to examine the effect of tax rates, profitability, leverage, ownership structure, and tunneling incentive on transfer pricing. Using data from listed multinational corporations on Indonesia Stock Exchange (IDX) for the period of 2014-2017, therefore 170 corporates were chosen as the samples of this research. The analysis method used in this research was multiple linear regression analysis, this research found that tax rates, profitability, ownership structure, and tunneling incentive have positive and significant effect on transfer pricing, while leverage has negative and significant effect on transfer pricing.

Keywords: transfer pricing, tax rates, profitability, leverage, ownership structure, tunneling incentive

1. Introduction

The rapid growth of world economy supports the emergence of international scale firms known as multinational corporations. The emergence of multinational corporations also supported by World Trade Organization (WTO) with the presence of international trade. One of the business activities carried out by multinational corporations is the occurrence of sale or purchase transaction of goods and services between divisions, branches/subsidiaries, as well corporations that have special relationships within and outside the country. Transactions carried out by multinational corporations cause the emergence of pricing that must be set on the transaction made where the determination price is known as transfer pricing (Utari *et al*., 2016: 251) [53].

Currently transfer pricing is a common issue in the business world and government environment. Therefore many regulations were made regarding the practice of transfer pricing including Tax General Directotare Regulation No *32 years 2011 and* Tax General Directotare Regulation No.*7 years 2015. However, there are still many corporations involved in transfer pricing abuse such as Google, Amazon, and Starbucks in the UK (BBC News, 2012), and the largest uranium corporate in the world, Cameco, which is in Canada, involved their corporate in Switzerland (DDTC News, 2016). Meanwhile in Indonesia, around 2000 foreign corporates have been carrying out tax evasion for 10 years, one of them is by doing transfer pricing practices, and these were revealed by* Tax Directorate General during a press conference on tax audit training (Aryanti, 2016) [6]. Several studies have been conducted to determine the factors that will effect transfer pricing, including tax (Lo *et al*, 2010: Borkowski, 2010; Tiwa *et al*, 2017; Santosa dan Suzan, 2018) [30, 9, 51], profitability (Richadson *et al*, 2013; Cahyadi & Noviari, 2018) [10], leverage (Richadson *et al*, 2013; Shodiq *et al*, 2017; Cahyadi & Noviari, 2018) [10], ownership structure (Chan & Lo, 2015; Cristea & Nguyen, 2016; Tiwa *et al*, 2017; dan Shodiq *et al*, 2017) [11, 51, 17], and tunneling incentive (Lo *et al*, 2010; Saraswati & Sujana, 2017; Santosa dan Suzan, 2018) [30, 45].

Tax rate is one of the factors that has major effect on transfer pricing practice. However, previous studies have different results such as Borkowski (2010) [9] stated that tax has no relation with transfer pricing, while Lo *et al* (2010) stated that tax has significant and negative effect on transfer pricing. Meanwhile Cristea & Nguyen (2016) [17] stated that tax rate has significant effect on transfer pricing.

The effect of tax rate on transfer pricing is due to differences in tax rates and the presence of tax haven countries therefore corporates try to avoid high taxes by conducting transfer pricing practices in countries with low tax rates. Profitability is the corporate's ability to earn profit (Sartono 2010, 122). The higher the profit earned by the corporates, the higher the taxes that corporates have to pay. Therefore, corporate that earned high profit tend to be involved in schemes designed to avoid taxes (Rego, 2003) [40]. One of the methods used is by implementing transfer pricing. This statement is in line with the research conducted by Richardson (2013) [42] that stated profitability has positive and significant effect on transfer pricing.

Leverage is a ratio that can be used to measure the extent to which the corporate's assets can be financed with debt (Kasmir 2013, 113). Corporates that have higher leverage ratio will be more likely to take advantage of the main characteristics of debt capital in order to avoid paying corporate's taxes (Rego: 2003; Dyrang *et al*: 2008) [40]. These was done by acquiring debt from a division or subsidiary located in a country with a lower tax rate. Other way to reduce taxable profit was by doing transfer pricing practices, namely debt that can increase interest expense. This statement is in line with study conducted by Richardson (2013) [42] that stated leverage has positive and significant effect on transfer pricing. This happened since corporate with high debt-to-equity ratio were more aggressive in conducting transfer pricing.

Ownership structure can also influence corporates to carry out transfer pricing practices. Gul *et al*. (2012) [21] stated that ownership structure is the proportion of managerial ownership, institutional ownership, and foreign ownership in a corporate. Ownership structure able to show the distribution of power and influence of the shares owned on corporate's operational activities (Geutama: 2018, Filzah, 2023). Shodiq *et al*. (2017) and Chan & Lo (2015) [11] stated that ownership structure has effect on the decision of transfer pricing. However, this research is in contrast to research conducted by Cristea & Nguyen (2016) [17]; Tiwa *et al*. (2017) [51] stated that foreign ownership does not have significant effect on transfer pricing.

In addition to conducting transactions between corporates with special relations, the majority of shareholders can also transfer assets and profits in order to achieve personal gain known as tunneling incentive (Hartati et al., 2015). Tunneling incentive is one of the factors that might affect transfer pricing. Lo et al. (2010) [30] *stated that corporates can consider tunneling when making decisions in determining transfer pricing. Saraswati & Sujana (2017)* [45] *and Santosa & Suzan (2018) also stated that tunneling incentive have effect on transfer pricing. Since tunneling incentive were carried out by majority shareholders who make use of decision-making rights that instruct management to conduct transactions with parties that have special relations by utilizing transfer pricing practices, where management and majority shareholders transfer assets or profits through transactions with subsidiaries or related parties using transfer pricing.*

Transfer pricing is closely related to large and extensive corporates. Therefore, this research was conducted on multinational corporations listed on IDX, since multinational corporations carry out their activities in several countries that are likely to obtain their income from abroad (foreign parties) which provide opportunities for corporates to engage in tax evasion (Hanlon, 2005). Multinational corporations will take advantage of their extensive operations by conducting transactions between corporates or corporates with special relation. Opportunities of transfer pricing are greater for multinational corporations. Based on the background and previous researches, the writer was interested in conducting research regarding The Effect of Tax Rates, Profitability, Leverage, Ownership Structure, and Tunneling Incentive on Transfer Pricing in Multinational Corporations listed on Indonesia Stock Exchange.

2. Theoretical Framework and Hypothesis Development

Agency Theory

Jensen and Meckling (1976) [26] explain that agency theory is the relationship between corporate's managers (agents) and shareholders (principals). In agency theory (agency relations) there is a contract in which the principal authorizes the agent to make decisions that can improve the welfare of the corporate. Agency theory also explains the existence of agency conflicts that occur between principals and agency due to differences in interests (Syafriadi *et al*., 2024). Colgan (2001) states that the emergence of agency conflict is caused by moral hazard, time horizons, and avoidance of management risk.

Agency theory predicts that there are differences in the interests between management and shareholders which cause a problem, where managers prioritize profits for the corporate compared to profits for shareholders, resulting in an imbalance of informations between managers and shareholders (Chen *et al*., 2012).

Positive Accounting Theory

Watt and Zimmerman (1986) describe positive accounting theory (PAT), which is an accounting theory that explains and predicts the consequences that will occur when managers make a decision. Positive accounting theory is based on the contractual process, namely agency relations, that is, the relationship between managers and investors, creditors, auditors, capital market management and government institutions. Positive accounting theory basically explains the factors that will influence management in making the decision to choose the optimal accounting procedure for certain reasons with the aim of improving the corporate's welfare (Nasution *et al*., 2020).

Watts and Zimmerman (1986) describe that positive accounting theory explains management's motives for increasing corporate's profits, namely obtaining high bonuses (the bonus plan hypothesis) and protecting debt contracts that have been violated (the debt covenant hypothesis) and avoiding political costs (the political cost hypothesis). In this motive, corporate's managers will try to increase corporate's profits with the aim that managers get high bonuses and can protect debt contracts that have been violated in order to protect the corporate from losses and reduce profits to avoid paying high tax rates. This is done by using policies based on accounting profit by choosing accounting procedures that can increase and decrease profits in certain years. One of the ways that can be done in manipulating profits is by practicing transfer pricing.

Signaling Theory

Signaling theory explains the reasons for the importance of corporates presenting information to the public (Morris: 1987). This information can be in the form of financial reports, corporate's policy information, and other informations that are voluntarily disclosed by corporate management. Information published as an announcement will give a signal to market participants who will interpret and analyze the information as a reference for trading stocks (Ananta *ET AL*., 2023). In other words, this theory focuses on the effect of information on changes in information usage. Signaling theory is based on the assumption that the informations received by each party were different (Akerlof: 1970).

The relationship between signaling theory and transfer pricing is that multinational corporates will try to allocate corporate's income from countries with high tax rates to countries with lower tax rates with the aim of minimizing cost burdens and maximizing corporate's profit (Muhammad *et al*., 2015). This is one of the signals where the issue of the corporate shows the good news that the corporate has high profits, which is shown in the corporate's income statement, therefore it gives the impression that the corporate will last long in the future. The strategy that can be done to achieve this is by carrying out accounting policies, one of which is by doing transfer pricing practices.

Transfer Pricing

OECD defines transfer pricing as a price that is determined in transactions between groups in multinational corporations, where the price determined can deviate from market prices and fair prices as long as it has been agreed by each party. Meanwhile, the definition of transfer pricing as stated in the regulation of the Tax Directorate General (PER-32/PJ/2011) article 1 paragraph 8 describes the process of determining the transfer price between parties who have a special relations. Therefore transfer pricing can be concluded as a policy carried out by corporates that refer to the determination of the price of goods or services transactions conducted between corporate divisions, between parent and subsidiary companies, and companies that have special relations. According to PSAK No. 7 (Revised 2010) related parties were previously referred to as parties who have special relations.

Hansen and Mowen (2005: 135) stated that the determination of transfer pricing in general must be able to meet three objectives, namely an accurate performance evaluation, conformity of objectives and maintenance of autonomy. Meanwhile, in the multinational scope, transfer pricing is implemented with the aim of minimizing the imposition of tax, excise and tariff. In addition, to reduce the risk of international trade, to get a better competitive position, and to get a better relationship with local government (Samryn: 276).

Transfer pricing can only be done between a subsidiary and a parent company as well as a corporate that has special relations (Rutskiy *et al*., 2023). The definition of a special relations is stated in PSAK No. 7 (revised 2009) and has been revised back to PSAK No. 7 (revised 2010) where the special relations is changed with related parties. In addition, an explanation of the special relations is contained in UU No. 36 Year 2008 article 18 paragraph 4. Transfer pricing can be measured using the proxy value ratio of Related Party Transaction (RPT). In PSAK No. 7 revision of 2010, Related Party Transaction is a transfer of resources or obligations between parties who have a special relations regardless of price calculations.

Conceptual Framework

Based on the objectives, theory and previous researches, the conceptual framework in this research are as follow:

The Effect of Tax Rates on Treansfer Pricing

Every country has different tax rates, some have high tax rates and some have low tax rates. The difference in tax rates is what motivates corporates to avoid taxes, especially multinational corporations in countries with high tax rates. Positive accounting theory shortly explain that corporate with high profit tend to receive more attention from customers, media, government and regulators that could increase the political cost. The higher the corporate's profit, the higher the political costs borne by the corporate. This can motivate the corporate to use the freedom in determining alternative procedures to minimize the cost burden. One of the accounting procedures that can be used to avoid high tax rates is transfer pricing.

In multinational corporations, the practice of transfer pricing is used to reduce the tax burden (Klassen *et al*., 2016) [29]. This is done with the aim of reducing the tax burden and maximizing the profitability of the parent company. Swenson (2001) found that rates and taxes have an effect on incentives to perform transfer pricing. Bernard *et al*., (2006) [8] found that arm's-length transaction prices are related to the country's import tax rates and tariffs. Lo *et al*. (2010) [30] and Criste & Nguyen (2016) [17] who found that taxes have significant effect on transfer pricing. The higher the tax rate that applies in a country where the parent company is located and there are branch companies at a lower tax rate, it will encourage the company to carry out transfer pricing in order to avoid paying high tax rates. Because for corporates, tax is a burden that can reduce corporate's profits. Thus the first hypothesis in this research is as follows:

H_1: Tax rates has positive and significant effect on transfer pricing.

The Effect of Profitability on Transfer Pricing

Profitability is an overview of the corporate to earn profit through all existing capabilities and resources (Sofyan, 2008: 305). According to Charles *et al*. (2018), profitability can be described as a measure of how well a corporate uses its assets to generate profits. The higher the profit, the higher the corporate tax burden, especially corporates in countries with high tax rates. One of the accounting procedures that managers can use to reduce taxes is by trying to make a low income report. The accounting procedure that can be used is the practice of transfer pricing which can occur only because of transactions between corporate's divisions and corporates that have special relations.

This statement is in line with positive accounting theory that explains the higher the profit of a corporate, the higher the political costs borne by the corporate, therefore corporate tends to use freedom in determining alternative procedure in order to minimize costs. One of the accounting procedures that can be used to avoid high tax rates is transfer pricing. Richardson (2013) [42] finds that profitability has positive and significant effect on transfer pricing, because the higher the profitability, it can motivate corporate to carry out transfer pricing with the aim of being able to suppress high tax rates. Cahyadi and Noviari (2018) [10] state that profitability has significant effect on transfer pricing, this happens when profitability is low, the company will carry out transfer pricing to improve the corporate's operational performance. Therefore, second hypothesis in this research is as follows:

H_2: Profitability has positive and significant effect on transfer pricing.

The Effect of Leverage on Transfer Pricing

Leverage is defined as the total book value of long-term debt divided by assets. Harahap (2016) explains that leverage is the relationship between a corporate's debt to capital and assets. The greater the leverage of a corporate, the greater the obligation to pay in the long term (Cahyadi & Noviari: 2018) [10]. Shodiq *et al*. (2017) [46] stated that the higher the level of leverage of a corporate, the expected profit will be able to cover interest and principal payments. Therefore, if the corporate's debt increases, management will try to adjust the accounting figures to agree on restrictions, such as debt covenants (Jensen & Meckling: 1976) [26].

Richardson *et al*. (2013) [42], Cahyadi & Noviari (2017) state that leverage has positive and significant effect on transfer pricing. In other words, the higher the level of leverage of a corporate, the closer the corporate's decision to do transfer pricing. Kalay (1982) [27] explains that the higher the level of corporate's debt, the closer the corporate is to the credit or agreement limit. However, this is not in line with research conducted by Shodiq *et al* (2017) [46] which states that leverage has an effect but was not significant on transfer pricing. Thus the third hypothesis in this research is as follows:

H_3: Leverage has positive and significant effect on transfer pricing.

The Effect of Ownership Structure on Transfer Pricing

Most corporations in Asia have a concentrated ownership structure. A concentrated ownership structure tends to create a conflict of interest between controlling shareholders and management with non-controlling shareholders. These could happened due to the asymmetry of informations between shareholders and management as explained in the agency theory (Jensen and Meckling: 1976) [26]. Non-controlling shareholders entrust the controlling shareholder to oversee management because the controlling shareholder has a better position and have better access to information, therefore it is possible for controlling shareholders to abuse their control rights for their own welfare, one of which is by doing transfer pricing (Claessen *et al*.: 2000).

Ownership structure consist of proportion of shares owned by management, institutions, as well as foreign ownership which has more shares, therefore becomes the controlling shareholder, the controlling shareholder will take advantage of their rights as majority shareholder to gain profit. When the shares owned by the controlling shareholder is greater, the controlling shareholder has a greater influence in determining various decisions in the corporate, including pricing policies and transfer pricing transactions . This is in line with research conducted by Shodiq *et al*. (2017) [46] which states that ownership structure has significant effect on transfer pricing. Thus the fourth hypothesis in this research is as follows:

H_4: Ownership structure has positive and significant effect on transfer pricing.

The Effect of Tunneling Incentive on Transfer Pricing

Tunneling incentive is a behavior of majority shareholders who transfer corporate's assets and profits for their own benefit, but minority shareholders share the costs incurred (Klassen *et al*: 2016) [29]. Lo *et al*., (2010) [30] found that the concentration of ownership by the government affects transfer pricing decisions. Aharony *et al*. (2010) [1] found that tunneling incentives after the initial public offering (IPO) were associated with selling special relations before the IPO. It can be concluded that the majority shareholders will resort to ways that can generate high profits and sacrifice the rights of minority shareholders. One of the alternative way is through transfer pricing .

This is in line with research conducted by Saraswati and Sujana (2017) [45], Santosa and Suzana (2018), and Nuradila and Wibowo (2018) [35] who found that tunneling incentive has significant effect on transfer pricing. Lo *et al*. (2016) found that corporate will consider taxes and tunneling when the corporate makes a decision to carry out transfer pricing. The higher the tunneling incentives carried out by the majority shareholder, the higher the motivation to carry out transfer pricing. Thus the fifth hypothesis in this research is as follows:

H_5: Tunneling incentive has positive and significant effect on transfer pricing.

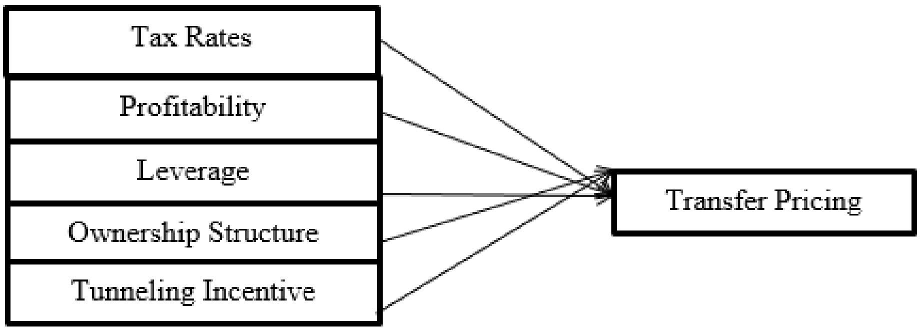

Fig 1: Conceptual Framework

3. Research Methods

Sample and Data

Population of this research is listed multinational corporations in Indonesia Stock Exchange (IDX) for the period of 2014-2017 which their annual reports were available on their website and www.idx.co.id. The sample was chosen by using purposive sampling method. Therefore, total of 170 observations were chosen as the samples of this research.

Operational Variables

The dependent variable of this study is transfer pricing, while the independent variables are tax rates, profitability, leverage, ownership structure, and tunneling incentive. The operational variables will be described on Tabel 1 below:

Tabel 1: Operational Variables

No	Research Variable	Measurement	Scale
1	Transfer Pricing	$TP = \frac{(RPTGP)}{(NRPTGP)}$ RPTGP: Gross Profit Ratio of Related Party Sales NRPTGP: Gross Profit Ratio of Non-Related Party Sales Source: Lo *et al.* (2010) and Susanti & Firmansyah (2018)	Ratio
2	Tax Rates	$ETR = \frac{\text{Tax Expense} - \text{Deferred Tax Expense}}{\text{Profit before Corporate Tax}}$ Source: Jhonatan and Tendean (2016), Amidu *et al* (2019).	Ratio
3	Profitability	$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$ Source: Recardson (2013) and Kasmir (2016)	Ratio
4	Leverage	$DAR = \frac{\text{Long Term Debt}}{\text{Total Assets}}$ Source: Recardson (2013) and Kasmir (2016: 155).	Ratio
5	Ownership Structure	$Foreign\ Ownership = \frac{\text{Total of Foreign Ownership}}{\text{Total of Outstanding Shares}}$ Source: Farooque *et al.* (2007)	Ratio
6	Tunneling Incentive	$TI = \frac{RPTL - RPTP}{\text{Total Assets}}$ Source: Nurazi *et al.* (2015) and Susanti & Firmansyah (2018)	Ratio

Analysis Method

The data analysis method used in this research is multiple linear regression with the help of computer technology in the form of SPSS version 24. The regression model is formulated with the following equation:

$$TP_{it} = \alpha + \beta_1 ETR_{it} + \beta_2 PROF_{it} + \beta_3 LEV_{it} + \beta_4 SK_{it} + \beta_5 TI_{it} + \varepsilon$$

Descriptions:

TP = Transfer Pricing
α = Constants
β = Regression coefficients
ETR_{it} = Tax rate
$PROF_{it}$ = Profitability
LEV_{it} = Leverage
SK_{it} = Ownership structure
TI_{it} = Tunneling Incentive
ε = error term

4. Results and Discussions

Descriptive Statistics

Descriptive statistics aim to display a general description of the samples from the research that can be seen in Table 2.

Table 2: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. deviation
Transfer Pricing (TP)	170	-0.2390	0.4780	0.101312	0.1382931
Tax Rates (ETR)	170	-0.0254	0.5824	0.261865	0.1383637
Profitability (ROA)	170	0.0049	0.3097	0.075621	0.0536252
Leverage (DAR)	170	0.1884	0.8631	0.493164	0.1512747
Ownership Structure (Foreign Ownership)	170	0.0000	0.7318	0.177008	0.2093167
Tunneling Incentive (TI)	170	-0.0975	0.0829	-0.000406	0.0224303

***Source*:** Data processing SPSS ver.24

The minimum value of transfer pricing in negative state indicates that there are corporates that carry out *transfer pricing* with related parties or subsidiaries located abroad. Minimum value of tax rate in negative state indicates that there are corporates that have a very low tax rate of -2.54%, while the average value of the tax rate is 26.18% which indicates that most corporates in this research pay taxes by 26.18%. Then the profitability as measured with ROA indicates that 0.49% of corporates earn profits by utilizing their assets, while the average value of ROA is 0.0756 which indicates that some of the samples in this research were able to generate profit of 7.56% by utilizing assets. Next, the minimum value of leverage is 0.1884 which indicates that at least 18.84% of the corporates is financed by debt, while the average value of leverage is 0.4931 indicates that 49.31% of the assets owned by most corporates in this research are financed by debt. The minimum value of ownership structure that measured using foreign ownership is 0% which indicates that there are corporates in this research that do not have foreign ownership, meanwhile the average value of ownership structure is 17.70%, which means that most corporate in this research owned by foreign ownership by 17.70%. Then the last one is *tunneling incentives* in negative state which indicates that the corporate has a bigger receivables on related parties than debt with related parties. The average value of this variable is -0.0004 which indicates that most corporates in this research have more receivables than debt.

Classical Assumption Tests

In this research, classical assumption tests consists of normality test, heteroscedasticity test, multicollinearity test, and autocorrelation test, where the regression can be performed after the model of this research has passed the classical assumption tests.

Multiple Linear Regression Analysis

If the significance value (p) > 0.05 then H_0 is accepted and H_a is not accepted, and if significance value (p) ≤ 0.05 then H_0 is not accepted and H_a is accepted. The result of hypothesis testing in this research are shown in Table 3 below:

Table 3: Summary of Regression Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.033	.038		.851	.396
	Tax Rates	.221	.072	.221	3.072	.002
	Profitability	.853	.179	.331	4.770	.000
	Leverage	-.153	.066	-.167	-2.306	.022
	Ownership Structure	.125	.046	.190	2.753	.007
	Tunneling Incentive	1.277	.428	.207	2.987	.003

***Source*:** Results of SPSS ver.24

Based on Table 3, Hypothesis 1 stated that "Tax rate has positive and significant effect on transfer pricing" with the coefficient value of 0.221 and significance value 0.002. Therefore it can be concluded that tax rates (ETR) has positive and significant effect on transfer pricing, hence the first hypothesis is accepted.

Hypothesis 2 stated that "Profitability has positive and significant effect on transfer pricing. Based on Table 3, the coefficient value = 0.853 and significance value = 0.000. Therefore it can be concluded that profitability has positive and significant effect on transfer pricing, hence the second hypothesis is accepted.

Hypothesis 3 stated that "Leverage has positive and significant effect on transfer pricing. Based on Table 3, the coefficient value = -0.153 and significance value = 0.022. Therefore it can be concluded that leverage has negative and significant effect on transfer pricing, hence the third hypothesis is not accepted.

Hypothesis 4 stated that "Ownership structure has positive and significant effect on transfer pricing. Based on Table 3, the coefficient value = 0.125 and significance value = 0.007. Therefore it can be concluded that ownership structure has positive and significant effect on transfer pricing, hence the fourth hypothesis is accepted.

Hypothesis 5 stated that "Tunneling incentive has positive and significant effect on transfer pricing. Based on Table 3, the coefficient value = 1.227 and significance value = 0.003. Therefore it can be concluded that tunneling incentive has positive and significant effect on transfer pricing, hence the fifth hypothesis is accepted.

Coefficient of Determination Test

In order to elaborate on the relationship and effect of tax rates, profitability, leverage, ownersip structure, and tunneling incentive on transfer pricing in listed multinational corporations on IDX, the coefficient of determination can be seen in Table 4.

Table 4: Coeffient of Determination (R^2)

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.478[a]	.229	.205	.1232836

***Source*:** Results of SPSS ver.24

Based on Table 4, the value of coefficient of determination (R^2) is 0.229 or 22.9%. This means that the dependent variable, namely transfer pricing, can be explained by the five independent variables, namely tax rates, profitability, leverage, ownership structure, and tunneling incentives by only 22.9%. While the remaining 77.1% is explained by other variables not included in this research.

The Effect of Tax Rates on Transfer Pricing

Based on the regression results, it shows that tax rate has positive and significant effect on transfer pricing . The tax charged to corporates is in accordance with the tax rates set by the government. The higher the profit and tax rate obtained by the corporates, the higher the tax burden borne by the corporate (Mukiyidin, 2021) [31]. Multinational corporations choose to perform tax management by conducting transactions with subsidiaries or related parties that are located abroad. This is done with the aim of reducing the corporate's tax burden by utilizing transfer pricing practices (Klassen *et al*.: 2016) [29].

These results are consistent with the research conducted by Cristea & Nguyen (2016) [17]; Indrasti (2016); Tiwa *et al.* (2017) [51] who found that tax rates has positive and significant effect on transfer pricing, these results indicate that the higher the tax rate of a corporate, the higher the motivation of the corporate to practice transfer pricing to avoid high tax burdens due to differences in rates.

The Effect of Profitability on Transfer Pricing

The results showed that profitability has positive and significant effect on transfer pricing at multinational corporations listed on Indonesia Stock Exchange in 2014-2017. This means that the higher the profitability of a corporate, the higher the transfer pricing that the corporate does. Such in corporate with good profitability will get high profits. The higher the profit obtained by a corporate, the higher the taxes that must be paid by the corporate in accordance with the applicable tax rates. This causes corporates with high profits will try to avoid high tax burdens by utilizing transfer pricing practices.

The results of this research are consistent with the research conducted by Richardson (2013) [42]; Cahyadi & Noviari who found that profitability has positive and significant effect on transfer pricing . This explains that high profitability can be used to adjust transfer pricing to avoid a high tax burden. In corporates with low profitability, transfer pricing can be used to improve the corporate's operational performance (Cahyadi & Noviari: 2018) [10].

The Effect of Leverage on Transfer Pricing

The results showed that leverage has negative and significant effect on transfer pricing. This means that the higher the leverage of a corporate then it shows a decrease in transactions using transfer pricing practices. These might happened since the higher the leverage of a corporate, the higher the third party funding the corporate uses, which results in higher interest costs. This statement is in accordance with research conducted by Swingly & Sukartha (2015) [49] where high interest costs will affect the value of the corporate's debt, therefore transfer pricing practice will be difficult to be done.

These results are in line with the research conducted by Shodiq *et al*. (2017) [46] who found that leverage has an effect but not significant on transfer pricing . This might happened due to the many transfer pricing regulations that are owned by Indonesia, one of which is the Income Tax Law which regulates the ratio between debt and capital of Tax payers Article 18 paragraph 1 of the Income Tax Law, therefore it reduces the corporate's motivation to carry out transfer pricing to avoid debt burdens, since the higher the debt of a corporate, the higher the supervision will be carried out by both the creditor and the government.

The Effect of Ownership Structure on Transfer Pricing

The results showed that the ownership structure has positive and significant effect on transfer pricing . The ownership structure of corporates owned by institutions both domestic and foreign (foreign ownership) tends to conduct transactions with related parties through transfer pricing practices for the benefit of the corporate, shareholders, besides that it can also be used for tax planning and earnings management.. When the share ownership owned by the controlling shareholder gets bigger, the controlling shareholder will have greater control rights in determining the corporate's decision making. Therefore, the higher the ownership structure of an institution, the higher the influence of the ownership structure, especially foreign ownership, on the number of transfer pricing transactions carried out. The results of this research are consistent with research conducted by Chan & Lo (2015); indrasti (2016); Tiwa *et al* (2017) [51] which states that foreign ownership affects transfer pricing. In addition, the results of the research are also in line with research conducted by Dynanty (2011) and Shodiq *et al*. (2017) [46] which found that ownership structure has a positive effect on transfer pricing.

The Effect of Tunneling Incentive on Transfer Pricing

The results showed that tunneling incentive has positive and significant effect on transfer pricing . This shows that the higher the tunneling incentive in a corporate, the higher the transfer pricing that occurs in a corporate. The results of this research are not in line with research conducted by lo *et al* (2010); Susanti & Firmansyah (2018) who found that tunneling incentives has a negative effect on transfer pricing . However, this study is in line with research conducted by Saraswati & Sujana (2017) [45]; Nuradila & Wibowo (2018) [35] who found that tunneling incentives has a positive and significant effect on transfer pricing. These might happen due to the difference proxy used to measure transfer pricing such as sales transactions with related parties (RPTS), or only viewed by the presence or absence of transfer pricing transactions by the corporate.

5. Conclusions, Limitations, and Suggestions

This research aims to examine the effect of tax rates, profitability, leverage, ownership structure, and tunneling incentives on transfer pricing . The results showed that tax rates, profitability, ownership structure, and tunneling incentives have positive and significant effect on transfer pricing. However, this research found that leverage has negative and significant effect on transfer pricing .

This research only used multinational corporations listed on the Indonesia Stock Exchange as the research object and the observation period in this research was only 4 years, for the period of 2014-2017. Therefore, the researcher want to gives suggestions for further research to expand the object of research, not only on multinational corporations, and make observations in different time periods. In addition, further research to add or examine other variables that might affect transfer pricing such as the mechanism bonus, debt covenants, exchange rates , intangible assets and others.

6. References

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