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The Effect of Tax, Tunneling Incentive, and Firm Size on Corporate Transfer Pricing Decisions: Evidence from Manufacturing Companies Listed on the Indonesia Stock Exchange (IDX) in 2021–2023

Nindhi Lita Astri[1)*], Andi Auliya Ramadhany[2)] and Nur Isra Laili[3)]

[1)2)3)] Ibnu Sina University, Batam, Indonesia

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Corresponding author
E-mail: astril353@gmail.com

ABSTRACT

This study aims to examine the effect of tax, tunneling incentive, and firm size on corporate transfer pricing decisions in manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2021 to 2023. Transfer pricing is a strategy used by multinational companies to minimize tax liabilities through transactions with related parties. Various factors may influence such decisions, including tax policy, the interests of controlling shareholders, and company size.This study adopts a quantitative method with a multiple linear regression approach. Secondary data were collected from the financial statements of manufacturing firms listed on the IDX. The independent variables are tax, tunneling incentive, and firm size, while the dependent variable is the decision to engage in transfer pricing.The findings reveal that tax has a positive but statistically insignificant effect on transfer pricing, suggesting that tax may influence decisions, but its impact not strong. Tunneling incentive has a negative and significant significant effect, indicating that higher incentives lead to less transfer pricing activity, possibly due to other profit-shifting mechanisms. Firm size shows a negative but insignificant effect, meaning it does not play a major role in transfer pricing decisions in this context.

INTRODUCTION

The manufacturing sector is widely recognized as one of the main pillars of Indonesia's economic structure. Its substantial contribution to the Gross Domestic Product (GDP), employment creation, and export growth positions it as an essential driver of national economic stability. Manufacturing companies listed on the Indonesia Stock Exchange (IDX) encompass diverse subsectors such as automotive, textiles, pharmaceuticals, electronics, and basic metals. However, the outbreak of the COVID-19 pandemic in 2020 severely disrupted the performance of the sector. The enforcement of Large-Scale

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Social Restrictions (PSBB) hampered supply chains, reduced consumer demand, and placed significant financial pressure on numerous manufacturing firms (Smeru Research Institute, 2022).

In times of economic downturn and uncertainty, many corporations adopt cost-efficiency measures, one of which is tax planning to minimize tax burdens. Among various tax planning tools, transfer pricing has emerged as one of the most frequently used strategies. Transfer pricing refers to the determination of prices for goods, services, or intangible assets exchanged between affiliated entities within the same corporate group. While in principle it is a neutral business practice, in reality transfer pricing is often exploited to shift profits from high-tax jurisdictions to low-tax countries, commonly referred to as tax havens. By doing so, corporations significantly reduce their overall tax liabilities, which in turn diminishes state tax revenues (Hardiyanto, 2019). Consequently, transfer pricing practices represent a major challenge for tax authorities, particularly in developing countries such as Indonesia, where regulatory enforcement and monitoring capacities are often constrained.

The Indonesian government has sought to address this issue through regulations on transfer pricing as stipulated in Article 18 of Law Number 36 of 2008 on Income Tax. Additionally, the government has introduced the Anti-Avoidance Rule (AAR) to prevent abuse of transfer pricing schemes. Nevertheless, these regulatory instruments remain insufficient in practice. Ambiguities in enforcement mechanisms and legal certainty hinder the effectiveness of existing rules, allowing corporations to continue engaging in aggressive tax planning. This regulatory gap underscores the need for further research to understand the internal determinants of transfer pricing decisions in Indonesian corporations.

Empirical literature suggests that corporate transfer pricing is influenced by a number of internal factors. Among the most widely studied determinants are tax rates, tunneling incentives, and firm size. Tax remains a central driver of transfer pricing, as differences in cross-border tax rates create strong incentives for multinational corporations to engage in profit shifting. Tunneling incentive refers to the motive of controlling shareholders, particularly in concentrated ownership structures, to transfer assets or profits to related parties for personal benefit, often at the expense of minority shareholders. Firm size, on the other hand, is considered a proxy for the availability of resources, the complexity of operations, and the scale of intra-group transactions, all of which may facilitate transfer pricing practices (Makenta Evan, 2017; Patriandari & Cahya, 2020).

At the global level, cases such as IKEA illustrate how multinational corporations utilize subsidiaries in low-tax countries to erode the tax base of other jurisdictions. Such practices have drawn global attention, as they contribute not only to the reduction of tax revenues but also to the creation of fiscal inequalities among nations. Within Indonesia, high-profile cases such as PT Asia Pulp & Paper and PT Toyota Motor Manufacturing Indonesia highlight the domestic relevance of transfer pricing issues. These examples reveal that transfer pricing is not merely a theoretical or international concern, but a pressing domestic challenge with significant fiscal implications.

Despite the importance of this issue, empirical studies in Indonesia have reported inconsistent findings. For instance, (Saifudin & Putri, 2018) documented a positive and significant influence of tax on transfer pricing decisions, whereas, (Mineri & Paramitha, 2021) found no significant effect of taxation. Similarly, research on tunneling incentives has produced divergent outcomes, with some studies supporting their relevance while others finding no statistical evidence of an effect. Firm size, too, has been linked to both positive and insignificant impacts depending on the sample and methodology used.

Another gap lies in the contextual setting of Indonesian manufacturing firms. Much of the existing literature on transfer pricing in Indonesia has either focused on multinational corporations in general or examined earlier periods prior to the pandemic. The unique circumstances faced by manufacturing firms in the aftermath of COVID-19—marked by financial distress, supply chain disruptions, and heightened pressure to cut costs—may have altered corporate decision-making, particularly in relation to tax

avoidance strategies. Yet, few studies have specifically investigated how taxation, tunneling incentives, and firm size jointly affect transfer pricing decisions in the manufacturing sector during this critical period. Addressing this gap is important, as manufacturing remains one of the largest contributors to Indonesia's GDP and state tax revenue.

Furthermore, while studies have frequently analyzed the influence of each factor in isolation, limited research has systematically examined the interaction of tax, tunneling incentives, and firm size within a single framework. This creates a need to explore how these determinants may jointly shape transfer pricing decisions, offering a more holistic understanding of corporate behavior. Such an approach can enrich the theoretical discourse and provide policymakers with nuanced insights for designing more effective regulatory responses.

Given these considerations, this study aims to analyze the effect of tax, tunneling incentive, and firm size on transfer pricing decisions among manufacturing companies listed on the Indonesia Stock Exchange during the 2021–2023 period. By situating the research within the specific context of post- pandemic Indonesia, the study seeks to capture the evolving dynamics of corporate behavior under conditions of financial strain and regulatory scrutiny.

The contribution of this research is threefold. First, it provides empirical evidence to address the inconsistencies in prior findings regarding the determinants of transfer pricing. Second, it fills the contextual gap by focusing on the Indonesian manufacturing sector in the post-COVID-19 period, a setting that has received limited scholarly attention. Third, it offers practical implications for policymakers and regulators, particularly the Indonesian Directorate General of Taxes, by providing insights that can strengthen monitoring and control mechanisms over transfer pricing practices. Ultimately, this research aspires to enhance the understanding of transfer pricing determinants in emerging economies and to support efforts to protect national tax bases in the face of increasingly sophisticated corporate tax avoidance strategies.

MATERIALS AND METHODS

This research was conducted over a three-month period, from August to October**,** and made use of secondary data that were carefully collected from reliable and publicly accessible sources. The primary source of data was the official website of the Indonesia Stock Exchange (IDX) at www.idx.co.id supplemented by additional information retrieved from the respective official websites of the selected manufacturing companies. By focusing on these credible data sources, the study ensures the accuracy, transparency, and authenticity of the information analyzed. The main objective of this research is to examine in depth the influence of tax obligations, tunneling incentives, and firm size on the decision- making process related to transfer pricing practices among manufacturing companies listed on the IDX during the 2021–2023 observation period**.**

The research approach adopted is quantitative in nature, employing a causal associative method to investigate the relationship between the independent variables—tax, tunneling incentive, and firm size—and the dependent variable, transfer pricing. This methodological choice allows the study not only to measure correlations but also to test the direction and magnitude of causal relationships among the variables. The population of the study encompasses all manufacturing firms consistently listed on the IDX between 2021 and 2023. To ensure that the sample accurately reflects the research objectives, the study employed a purposive sampling technique with several stringent selection criteria. The criteria were as follows: (1) the company must have consistently published its annual financial statements throughout the observation period, ensuring data continuity; (2) the company must report its financial information in rupiah, thereby avoiding currency translation distortions; (3) the company must not report

losses or negative tax expenses, as these conditions could bias the measurement of effective tax rates and transfer pricing behavior; and (4) the company must engage in related-party transactions and demonstrate a minimum of 20% ownership by affiliated entities, ensuring the relevance of tunneling incentives and intra-group relationships to the study.

Based on these carefully established selection criteria, the final sample comprised 24 manufacturing companies, which, when observed over the three-year study period, resulted in a total of 72 firm-year observations. This sample size is considered adequate to provide a representative overview of the transfer pricing practices in the Indonesian manufacturing sector. The data analyzed in this study are secondary in nature, specifically audited financial statements published by the respective companies, thereby ensuring both reliability and compliance with standard accounting and auditing practices. By relying on audited reports, the study minimizes the risk of data manipulation and enhances the credibility of its findings.

Variable Operational Definitions

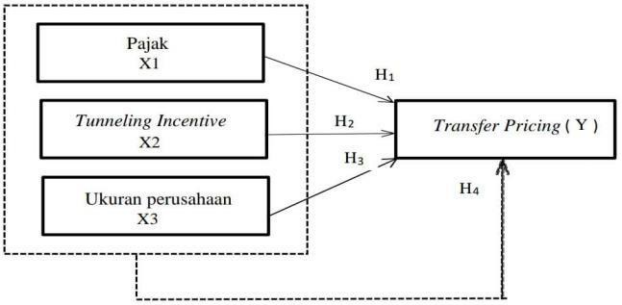

Figure 1. Frame of Mind

The dependent variable in this study is Transfer Pricing (TP), while the independent variables are Tax (X1), Tunneling Incentive (X2), and Firm Size (X3). The operational definitions and measurement formulas are as follows:

1. Transfer Pricing (Dependent Variable – Y)
   Transfer pricing is measured using the proportion of accounts receivable from related parties to total company receivables:

$$\text{Transfer Pricing} = \frac{\text{Receivables from Related Parties}}{\text{Total Company Receivables}} \times 100\%$$

2. Tax (Independent Variable – X_1)
   Tax is measured using the effective tax rate (ETR), calculated as:

$$\text{ETR} = \frac{\text{Income Tax Expense}}{\text{Earnings Before Tax}} \times 100\%$$

3. Tunneling Incentive (Independent Variable – X_2)
   Tunneling incentive is measured by the proportion of shares held by the ultimate controlling shareholder:

$$\text{Tunneling Incentive} = \frac{\text{Shares Owned by Controlling Shareholder}}{\text{Total Outstanding Shares}} \times 100\ \%$$

4. Firm Size (Independent Variable – X_3)
   Firm size is measured using the natural logarithm of total assets:

$$\text{Firm Size} = \log(\text{Total Assets})$$

Data Analysis Technique

The data analysis in this study was carried out using **SPSS version 20** in combination with Microsoft Excel 2010 as supporting software for data processing and tabulation. The main analytical technique employed was multiple linear regression analysis, which is considered appropriate for examining the effect of several independent variables simultaneously on a single dependent variable. This method allows researchers to determine whether tax obligations, ownership structures, and firm characteristics significantly influence transfer pricing decisions. To guarantee the reliability and robustness of the regression results, several classical assumption tests were conducted as prerequisites for regression analysis :

a) **Normality Test:** The normality of data distribution was examined using the Kolmogorov-Smirnov test. This test was applied to ensure that the residuals from the regression model follow a normal distribution, which is a fundamental assumption for parametric statistical analysis. A normally distributed error term is important to maintain the validity of the hypothesis testing and to avoid bias in the estimated regression coefficients.
b) **Multicollinearity Test:** Multicollinearity was assessed by calculating the Variance Inflation Factor (VIF) and Tolerance values for each independent variable. High multicollinearity can distort regression results by inflating the standard errors of the coefficients, making it difficult to determine the individual contribution of each predictor. By ensuring that VIF values remain below the accepted threshold and that Tolerance values are within the recommended range, the model can more accurately reflect the relationships among variables without redundancy.
c) **Heteroscedasticity Test:** To detect whether heteroscedasticity was present in the model, scatterplot analysis was employed. This step was crucial to verify whether the variance of residuals remained constant across levels of the independent variables. The presence of heteroscedasticity could indicate a violation of regression assumptions, potentially leading to inefficient estimates. A well-behaved scatterplot, where residuals are randomly distributed without a clear pattern, suggests that the assumption of homoscedasticity is met.
d) **Autocorrelation Test:** Finally, the possibility of autocorrelation was examined using the Run test. Autocorrelation refers to the correlation of residuals across different observations, which can compromise the independence assumption of regression analysis. By applying the Run test, this study ensured that the residuals were independent of one another, thereby strengthening the robustness and reliability of the regression model.

This methodological design aims to empirically assess how tax obligations, ownership structures, and firm characteristics impact the likelihood of engaging in transfer pricing practices among listed manufacturing companies in Indonesia.

RESULTS AND DISCUSSION

This study aims to analyze the effect of tax, tunneling incentive, and firm size on transfer pricing decisions in manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2021–2023. The data used is secondary data derived from annual financial reports of 24 manufacturing companies observed over three years, resulting in 72 firm-year observations. The regression model applied in this research is:
Equation:

$$TP = 1.732 + 1.086X_1 - 0.421X_2 - 0.46X_3 + e$$

Remarks: TP: Transfer Pricing, X1: Tax (ETR), X2: Tunneling Incentive, X3: Firm Size

Descriptive Statistics

Remark :

The descriptive statistical test was conducted on four variables: Tax, Tunneling Incentive, Firm Size, and Transfer Pricing. The analysis includes the number of observations (N), minimum and maximum values, mean, and standard deviation.

Table 1. Descriptive Statistics Results

Descriptive Statisfic					
	N	Minimum	Maximum	Mean	Std. Deviation
Tax	72	.0004	.3346	.207851	.0563427
Tunneling Incentive	72	.2577	.9250	.551671	.2092117
Corporate Size	72	27.3667	32.8599	29.677878	1.4936568
Transfer Pricing	72	.0002	.9867	.351285	.3508199
Valid N (listwise)	72				

The descriptive statistics show that the mean value of the transfer pricing variable is 0.3512, meaning that on average 35.12% of company receivables involve related-party transactions**,** reflecting a notable level of intra-group activities. The tax variable, measured by the Effective Tax Rate (ETR), has a mean of 0.2078, suggesting that firms in the sample are subject to a moderate tax burden, slightly below the statutory corporate rate, which may indicate the use of tax planning strategies. The tunneling incentive variable has a mean of 0.5516, implying that more than half of company ownership is controlled by affiliated parties**,** thus increasing the potential for tunneling activities. Meanwhile, firm size, measured as the natural logarithm of total assets, ranges between 27.37 and 32.86**,** with a mean of 29.68**,** indicating that most firms in the sample are medium to large-scale manufacturing companies with more complex operations that could facilitate transfer pricing practices.

Classical Assumption Tests

The following results summarize the classical assumption tests performed to validate the regression model.

Remark :

The Kolmogorov-Smirnov test was conducted to determine whether the residual data were normally distributed. Based on the Asymp. Sig. (2-tailed) value of 0.223 (> 0.05), it can be concluded that the data is normally distributed.

Table 2. Normality Test Result (Kolmogorov-Smirnov Test)

		Unstandardized Residual
N		72
Normal Parameters[a,b]	Mean	0E-7
	Std. Deviation	.32830892
Most Extreme Differences	Absolute	.123
	Positive	.123
	Negative	-.105
Kolmogorov-Smirnov Z		1.047
Asymp. Sig. (2-tailed)		.223

Remark :

The autocorrelation test was conducted using the Run Test. The significance value (Asymp. Sig. 2-tailed) is 0.097, which is greater than 0.05. Therefore, it can be concluded that there is no indication of autocorrelation in the regression model.

Table 5. Autocorrelation Test Results (Run Test)

	Unstandardized Residual
Test Value[a]	-.05913
Cases < Test Value	36
Cases >= Test Value	36
Total Cases	72
Number of Runs	30
Z	-1.662
Asymp. Sig. (2-tailed)	.097

Multiple Linear Regression Results

Figure 3. Regression Coefficients and Model Significance
The regression analysis output below displays the coefficients, t-statistics, and significance levels for each independent variable.

Remark :

Based on the multiple linear regression analysis, the regression equation is:

Transfer Pricing = 1.732 + 1.086(Tax) – 0.421(Tunneling Incentive) – 0.046(Firm Size)

1) The Tax variable has a positive but not statistically significant effect on transfer pricing (Sig. = 0.133 > 0.05).
2) The Tunneling Incentive variable has a negative and significant effect on transfer pricing (Sig. = 0.032 < 0.05).
3) The Firm Size variable has a negative and not significant effect on transfer pricing (Sig. = 0.089 > 0.05).
4) The constant value is 1.732 with a significance level of 0.033, indicating the regression model is feasible to estimate transfer pricing when all independent variables are constant.

Table 6. Results of Multiple Linear Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.732	.796		2.176	.033
	Tax	1.086	.715	.174	1.520	.133
	Tunneling Incentive	-.421	.193	-.251	-2.188	.032
	Corporate Size	-.046	.027	-.197	-1.724	.089

Remark :

1) H1: The tax variable (ETR) has a coefficient of 1.086 and a significance value of 0.133 (> 0.05), indicating that tax has a positive but not significant effect on transfer pricing decisions. Thus, H1 is rejected.
2) H2: The tunneling incentive variable has a coefficient of -0.421 and a significance value of 0.032 (< 0.05), showing a negative and significant effect on transfer pricing. Hence, H2 is accepted.
3) H3: The firm size variable has a coefficient of -0.046 and a significance value of 0.089 (> 0.05), suggesting a negative but not significant effect on transfer pricing. Accordingly, H3 is rejected.

Table 7. Results of Partial Hypothesis Testing (t-Test)

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.732	.796		2.176	.033
	Pajak	1.086	.715	.174	1.520	.133
	Tunneling Incentive	-.421	.193	-.251	-2.188	.032
	Ukuran Perusahaan	-.046	.027	-.197	-1.724	.089

Remark:

The F-test results indicate that Tax, Tunneling Incentive, and Firm Size jointly have a significant effect on transfer pricing decisions. This supports the assumption that these factors are important determinants in explaining transfer pricing practices among manufacturing firms listed on the Indonesia Stock Exchange.

Table 7. Results of Simultaneous Test (F-Test)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.085	3	.362	3.215	.028[b]
	Residual	7.653	68	.113		
	Total	8.738	71			

Above, the calculated F-value (Fcount) is 3.215. Since Fcount > Ftable (3.215 > 2.740), the null hypothesis (H0) is rejected. This indicates that the regression model significantly influences the dependent variable simultaneously, as Fcount > Ftable and the significance value is 0.028. If the Sig. value < 0.05, the null hypothesis is rejected, which means that the independent variables have a simultaneous significant effect on the dependent variable. In this case, the p-value = 0.028 < 0.05, which implies that the regression model has a significant simultaneous effect on the dependent variable at a 5% significance level. Therefore, it can be concluded that Tax, Tunneling Incentive, and Firm Size simultaneously influence the company's decision in Transfer Pricing.

Coefficient of Determination (R^2 Test)

Remark:

The low Adjusted R Square value suggests that while Tax, Tunneling Incentive, and Firm Size have a statistically significant effect, their combined contribution to explaining transfer pricing decisions is relatively small. This implies the existence of other influential factors outside the scope of this study that should be explored in future research

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Table 8. Results of Coefficient of Determination (R^2 Test)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.352[a]	.124	.086	.3354729

Based on Table 8, the Adjusted R Square value is 0.086. This means that 8.6% of the variation in transfer pricing decisions can be explained by the independent variables: Tax, Tunneling Incentive, and Firm Size. The remaining 91.4% is influenced by other variables not included in this regression model.

DISCUSSION

The Effect of Tax on Transfer Pricing Decisions

Transfer pricing refers to the pricing strategy employed by companies when conducting transactions of goods, services, or intangible assets with affiliated entities, particularly those operating across multiple jurisdictions. One of the principal motivations underlying transfer pricing practices is tax planning, as firms aim to minimize their overall global tax burden while still complying with legal frameworks. By shifting profits from high-tax to low-tax jurisdictions, companies can strategically reduce their effective tax obligations. However, the findings of this study indicate that the tax variable, measured using the Effective Tax Rate (ETR), demonstrates a positive but statistically insignificant influence on transfer pricing decisions. This suggests that although a higher effective tax rate may create incentives for firms to engage in profit-shifting through transfer pricing, the strength of this relationship is insufficient to reach statistical significance within the examined sample of Indonesian manufacturing companies.

Several possible explanations can account for this statistically insignificant result. First, the growing intensity of transfer pricing regulations—both at the global and national levels—has placed stricter boundaries on aggressive tax avoidance strategies. Internationally, the OECD Transfer Pricing Guidelines and the Base Erosion and Profit Shifting (BEPS) initiatives have provided comprehensive frameworks to regulate intercompany transactions, limiting the degree of discretion firms can exercise in manipulating prices. At the national level, the Indonesian Directorate General of Taxes has also strengthened its monitoring systems, including the mandatory submission of transfer pricing documentation and more rigorous audits, thereby reducing the space for manipulation.

Second, larger companies, which form a significant proportion of the sample, generally demonstrate higher levels of tax compliance. They tend to invest in sophisticated accounting systems and employ
professional tax advisors, enabling them to maintain proper documentation in line with regulatory requirements. This increased compliance reduces both the incentive and opportunity for such firms to manipulate transfer prices solely for tax advantages. In addition, the reputational risk associated with being penalized for tax avoidance may further discourage large corporations from pursuing aggressive transfer pricing strategies.

Third, companies often have access to alternative tax planning mechanisms beyond transfer pricing. These include the utilization of government-provided fiscal incentives such as tax holidays, investment allowances, and tax credits, which can effectively lower tax obligations without resorting to controversial practices. Furthermore, some firms may restructure their operations by relocating production or establishing subsidiaries in low-tax jurisdictions, thereby achieving tax efficiency through legitimate business models rather than manipulative transfer pricing. Such alternatives reduce the extent to which effective tax rates directly influence transfer pricing decisions.

Taken together, these factors help explain why the relationship between taxation and transfer pricing, while positive in direction, does not manifest as statistically significant in this study. This finding underscores the complexity of transfer pricing behavior and suggests that taxation, though important, is not the sole determinant of transfer pricing practices. Instead, regulatory environments, firm-level governance mechanisms, and the availability of alternative tax planning opportunities collectively shape corporate decision-making. Consequently, policymakers should not assume that high tax rates alone will drive companies toward transfer pricing. Rather, effective regulatory enforcement and the provision of balanced fiscal incentives may play a more decisive role in curbing manipulative practices while still encouraging firms to operate within the legal tax framework.

These findings are consistent with previous studies by (Agustina, 2019; Marfuah & Azizah, 2014), (Saputra et al., 2020), and (Novira et al., 2020), which also found no significant effect of tax on transfer pricing practices. Therefore, although tax is a factor considered in transfer pricing decisions, it is not a dominant factor on a partial basis.

The Effect of Tunneling Incentive on Transfer Pricing

Tunneling incentive refers to the motivation of controlling shareholders to transfer company assets, earnings, or other valuable resources to entities under their control, often at the expense of minority shareholders, with the ultimate goal of obtaining personal or group benefits. Such practices can manifest in a variety of forms, including related-party transactions, asset sales at below-market prices, excessive dividend payouts, or intercompany loans. Within the context of corporate governance, tunneling is often regarded as a form of expropriation of minority shareholder rights, thereby raising concerns about agency problems and weakening the overall transparency and accountability of firms.

The findings of this study indicate that tunneling incentive exerts a negative and statistically significant influence on transfer pricing decisions. In other words, as the incentives for tunneling increase, the likelihood of companies engaging in transfer pricing practices decreases. This result is particularly noteworthy, as it contradicts the common assumption that tunneling incentives would naturally encourage greater reliance on transfer pricing as a vehicle for profit shifting. Instead, the evidence suggests that companies with higher tunneling incentives may deliberately avoid transfer pricing due to the heightened risks and costs associated with such practices.

Several explanations can account for this phenomenon. First, companies facing strong tunneling incentives may already achieve their objectives of asset diversion or profit redistribution through alternative channels, thereby reducing their dependence on transfer pricing as a primary mechanism. For example, controlling shareholders might prefer direct tunneling practices—such as special dividend policies, resource reallocation, or intercompany loans—over complex transfer pricing arrangements, which are more likely to attract regulatory scrutiny.

Second, the increased vigilance of tax authorities, combined with the implementation of international standards such as the OECD Transfer Pricing Guidelines and anti–Base Erosion and Profit Shifting (BEPS) measures, has significantly raised the legal and compliance risks associated with transfer pricing practices. In Indonesia, the Directorate General of Taxes requires detailed documentation and closely monitors related-party transactions, making it more difficult for firms to manipulate prices between affiliated entities without detection. Consequently, firms with strong tunneling incentives may strategically avoid transfer pricing in order to reduce the probability of audits, penalties, or legal disputes.

Third, controlling shareholders must also weigh the reputational risks and potential conflicts with minority shareholders that may arise from excessive tunneling practices. Engaging in aggressive transfer pricing may not only harm the company's public image but also undermine investor confidence, potentially leading to a decline in share value or even legal challenges from minority stakeholders. Therefore, in order to maintain legitimacy and protect long-term firm value, controlling shareholders may refrain from combining tunneling incentives with manipulative transfer pricing. Taken together, these findings suggest that the relationship between tunneling incentives and transfer pricing is not straightforward but rather nuanced and context-dependent. While tunneling reflects the inherent agency conflict between controlling and minority shareholders, its interaction with transfer pricing decisions appears to be shaped by regulatory pressures, alternative avenues of asset diversion, and reputational considerations. This highlights the importance of strong governance mechanisms, robust monitoring by tax authorities, and transparent reporting practices in mitigating opportunistic behaviors by controlling shareholders. From a policy perspective, the result emphasizes that curbing tunneling and transfer pricing requires not only stricter enforcement but also the promotion of corporate governance reforms that align the interests of controlling and minority shareholders.

This result is in line with findings by(Afifah & Agustina, 2020), (Fauziah & Saebani, 2018), (Setyorini & Nurhayati, 2022), (Wafiroh & Hapsari, 2016), and (Marfuah & Azizah, 2014), who concluded that despite the motivation to conduct tunneling through transfer pricing, regulatory pressure and legal risks prevent companies from pursuing this strategy explicitly.

The Effect of Firm Size on Transfer Pricing

The results of this study show that firm size has a negative but statistically insignificant effect on transfer pricing decisions. This suggests that although larger firms possess greater resources and more complex operational structures, they do not consistently engage in transfer pricing as a strategy for aggressive tax planning. One possible explanation is that large firms are subject to closer monitoring and stricter supervision from tax authorities, making them more cautious in conducting transactions that could be interpreted as tax avoidance. In addition, larger firms carry greater reputational responsibilities toward investors, regulators, and the public, which incentivizes them to uphold transparency and compliance rather than risk their credibility through questionable transfer pricing practices.

Another explanation is that large firms generally have stronger internal controls, more sophisticated accounting systems, and greater access to professional advisors, which collectively enhance compliance with regulatory requirements and reduce the incentive to exploit regulatory gaps. Furthermore, these firms often have alternative means of tax planning—such as the use of tax incentives, investment structuring, or international financing strategies—that can be more efficient and less risky compared to transfer pricing manipulation. Taken together, these factors provide a plausible rationale for why firm size is negatively associated with transfer pricing, even though the effect is not statistically significant in this study.

This finding aligns with studies by (Kiswanto, 2014), (Naili et al., 2024), (Yanti & Pratiwi, 2021), (Refgia et al., 2017), (Melmusi, 2016), and (Putra, 2025), which also concluded that firm size does not significantly influence transfer pricing practices. Therefore, firm size cannot be considered a primary indicator for predicting the likelihood of transfer pricing. in formulating optimal and regulatory-compliant transfer pricing policies.

CONCLUSIONS AND SUGGESTION

Based on the results of the statistical tests that have been carried out, this study finds that for manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period, the impact of the independent variables on transfer pricing decisions varies across different dimensions. Specifically, the analysis concludes that tax and firm size exhibit an insignificant effect on transfer pricing decisions, suggesting that neither a company's effective tax rate nor its overall scale of operations consistently determines the likelihood of engaging in transfer pricing practices. In contrast, the tunneling incentive variable shows a significant influence, which highlights the important role of ownership structures and the motivations of controlling shareholders in shaping transfer pricing behavior. Moreover, when examined simultaneously, the three variables—tax, tunneling incentive, and firm size—collectively exert a significant impact, indicating that their combined interaction produces a stronger explanatory power than when analyzed individually.Nevertheless, it is important to recognize that transfer pricing decisions are inherently complex and may also be affected by a range of external factors that were not explicitly included in this study. Elements such as corporate governance practices, political and economic stability, international market pressures, and the broader regulatory environment could also play critical roles in influencing managerial choices regarding transfer pricing. Therefore, future research should expand its scope beyond the manufacturing sector by incorporating other industries, cross-country comparisons, and additional explanatory variables—such as corporate governance mechanisms, ownership concentration, or political risk—in order to provide a more holistic and comprehensive understanding of transfer pricing practices in both domestic and international contexts.

From a practical perspective, the findings of this research offer several important implications. For companies, there is a strong need to enhance transparency and accountability in transactions involving related parties, particularly in order to mitigate the risks associated with regulatory violations and reputational damage. Strengthening internal controls and adopting international best practices in transfer pricing documentation can further support corporate compliance. For tax authorities, the results emphasize the necessity of tightening regulations, improving enforcement mechanisms, and strengthening oversight capabilities to effectively prevent the misuse of transfer pricing for unethical or improper tax avoidance purposes. Such efforts would not only safeguard tax revenues but also ensure a fairer competitive environment for businesses operating in Indonesia.

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