Tunneling Incentive, Mechanism Bonus Againts Transfer Pricing Decision

(Study on Manufacturing Companies in Indonesia Stock Exchange Period 2012-2018)

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Abstract—**This study aims to examine whether tunneling incentives and bonus mechanisms affect the company's decision to transfer pricing. This study uses a qualitative approach and the research sample used in this study is manufacturing companies listed on the Indonesia Stock Exchange (BEI) in 2012 until 2018, amounting to 210 companies where the determination of the use of these companies is determined by the purposive sampling method. The data used in this study are secondary data and logistic regression analyzed with software Eviews 9. The results of this study indicate that tunneling incentives have a positive effect on the company's decision to transfer pricing, and the bonus mechanism has a negative effect on the company's decision to transfer pricing. The coefficient of determination is 0.332. This result shows that 33.2% of transfer pricing is influenced by tunneling incentives and bonus mechanisms. While the rest is influenced by variables outside of tunneling incentives and bonus mechanisms).**

Keywords: tunneling incentive, mechanism bonus, transfer pricing

I. INTRODUCTION

The Taxation Law said transfer pricing in terms of transactions between parties that have a special relationship. This is stated in Law Number 36 Year 2008 regarding Income Taxes, special relationship of taxpayers of the Agency may occur due to ownership or control of capital stock of one entity by other entities as> 25% (more than 25%), or some entities that are> 25% (more than 25%) of the shares owned by an entity. Special relationships can result in improper prices, costs or other rewards realized in a business transaction. The law was also strengthened by the issuance of the Minister of Finance Regulation No. 213 / PMK.03 / 2016 ("PMK-213") in the context of implementing the new provisions concerning transfer pricing documents. Universally, transactions between taxpayers who have a special relationship are recognized in terms of transfer prices. The tax base (tax base) or fees of one taxpayer for another taxpayer is engineered for the full negotiation of the tax payable on the tax needed for the recipients of assistance [1].

In the field of taxation, transfer prices have become a problem that often occurs in transactions carried out by multinational companies. From the government, the transfer price is agreed to reduce or accept the potential of state revenue because multinational companies can be moved from countries that have high tax rates (high tax countries) to countries that request low tax rates (low tax countries). Tax minimization. While on the business side, companies need to incur costs - efficiency (including cost efficiency) including minimizing corporate tax payments. For multinational companies, transfer pricing is one effective strategy to win the competition for limited resources [2].

In addition to Tax Minimization motivation, the decision to transfer pricing is also influenced by share ownership. The structure of corporate ownership in Indonesia is concentrated in a small number of owners resulting in agency conflicts between the majority shareholders and minority shareholders. This has led to the emergence of controlling and minority shareholders [1]. The emergence of problems regarding this agency according to one of which is caused by the weak protection of the rights of minority shareholders. Thus encouraging majority shareholders to do tunnelling which harms minority shareholders [3].

Tunnelling can be in the form of transfers to the parent company which are carried out through related party transactions or dividend distribution. Related party transactions are more commonly used for this purpose than dividend payments because companies listed on the Indonesia Stock Exchange must distribute dividends to the parent company and its minority shareholders.

Furthermore, the decision to transfer pricing is also influenced by the bonus mechanism, the bonus is an award given by the GMS to members of the Board of Directors if the company makes a profit. This bonus system will have an influence on management in manipulating profits [4]. Managers will tend to take actions that regulate net income to be able to maximize the bonuses they will receive by way of transfer pricing.

II. THEORETICAL FRAMEWORK

A. Tunneling Incentive

Tunnelling comes in two forms. First a controlling shareholder can simply transfer resources from firm for its own benefit trough self dealing transaction. Such transaction include outright theft or fraud, which are illegal everywhere trough often go undetected or unfurnishes, but also asset, sales contract such a transfer pricing advantageous to the controlling shareholder, excessive executive" [1].

The term "tunnelling" was originally used to describe the takeover of minority shareholders in the Czech Republic such as the transfer of assets through an underground tunnel (tunnel). Ownership structure reflects the type of agency conflict that occurs. There are 2 types of ownership structures, namely the structure of scattered ownership and concentrated ownership structure [5]. The scattered ownership structure has the characteristics of a Manager giving priority to his interests over those of the shareholders.

The emergence of agency problems between majority shareholders and minority shareholders is caused by the following factors. First, the majority shareholders are involved in management as directors or commissioners who are most likely to carry out expositions of minority shareholders. Second, the voting rights owned by majority shareholders exceed the limits of cash flow, because of the ownership of shares in the form of cross, pyramid and classy. This form of ownership will encourage majority shareholders to prioritize their own interests which are very different from the interests of investors and other stakeholders. Third, majority shareholders have the power to influence management in making decisions that only maximize their interests and harm the interests of minority shareholders [3].

B. Theories That Support Tunneling Incentive

The theory that supports tunnelling incentives is agency theory, this theory is the theoretical basis that underlies the company's business practices used so far [6]. The theory is rooted in the synergy of economic theory, decision theory, sociology, and organizational theory. The main principle of this theory states that there is a working relationship between the party that gives authority, namely the investor and the party who receives the authority (agency), namely the manager.

C. Bonus Mechanism

The way bonus is given is interpreted as an assistance in the form of imbalance payments to the company the work done by looking at the work performance of the directors themselves. Work performance can be determined and determined based on what has been determined by the company [1]. The directors' bonus relationship is a component of calculating the amount of bonuses given by company owners or shareholders through a GMS to members of the board of directors relating to the needs of each year and increasing the company's profitability [7].

Considering bonuses based on profits, which are the most popular way of rewarding managers or managers, it is logistical that directors whose remuneration is based on profit levels will manipulate the profits needed to obtain bonus revenue and remuneration.

So, it can be concluded that the bonus is one of the strategies or calculation motives in accounting that is approved to give awards to directors or management by looking at the company's overall profit. Because it is a result of the transfer, the price will not be returned to one of the divisions or sub-units.

D. Theories That Support the Bonus Mechanism

The theory supporting the bonus mechanism is positive accounting theory, where this theory only began to develop around the 1960s which was pioneered by Watt and Zimmerman focusing on economic and behavioural approaches with the emergence of efficient market hypotheses and agency theory. Positive accounting theory seeks to explain a process, which uses the ability, understanding, and knowledge of accounting and the use of accounting policies that are most suitable for dealing with certain conditions in the future.

Positive accounting theory in principle assumes that the purpose of accounting theory is to explain and predict accounting practices. While normative theory is considered a subjective personal opinion, so it cannot be taken for granted and must be empirically tested in order to have a strong theoretical basis. In practice, accounting professionals have fully realized that positive accounting theory is more likely to be applied than normative accounting theory.

E. Transfer Pricing

Transfer pricing is defined as the value or special selling price used in inter-regional exchanges to record the income of the selling division and the costs of the buying division. Transfer pricing is only done by the company solely to assess the performance among members or divisions of the company, which is to increase the competitiveness of subsidiary companies by improving the access of subsidiary companies to the local capital market, profit and financial position can be increased by setting prices low for transfer of inputs to the subsidiary company and high transfer prices for outputs [8].

The purpose of transfer pricing for internal companies is:

- An accurate performance evaluation means that none of the division managers will benefit from the burden of other division managers.

- Conformity goals, means that division managers choose actions that can maximize overall company profits.

- Maintaining division autonomy, means that central management must not interfere with the division manager's independence in making decisions.

The practice of transfer pricing is often also used for tax management of an attempt to minimize the amount of tax that must be paid. Transfer pricing is a company policy in determining the transfer price of a good transaction, goods, services, intangible assets, or financial transactions carried out by the company. There are two groups in financial transactions carried out by companies. There are two groups of transactions in transfer pricing, namely intra-company and inter-company

transfer pricing. Intra-Company transfer pricing is transfer pricing between divisions within a company. Whereas inter-company transfer pricing is transfer pricing between two companies that have a special relationship. The transaction itself can be done in one country (domestic transfer pricing), or with different countries (International transfer pricing) [8].

F. Theories That Support Transfer Pricing

Signalling Theory (Signalling Theory) is a theory that supports the practice of transfer pricing, where this theory emphasizes the importance of information issued by the company to the investment decisions of parties outside the company. Information is an important element for investors and business people because the information essentially presents information, notes or pictures both for past, current and future conditions for the survival of a company and how it markets its effects. Complete, relevant, accurate and timely information is needed by investors in the capital market as an analytical tool for making decisions [9].

Information published as an announcement will provide a signal for investors in making investment decisions [9]. If the announcement contains a positive value, then the market is expected to react when the announcement is announced by the market.

When the information is announced and all markets have received the information, market participants first interpret and analyse the information as a good signal or bad news. If the announcement of this information is a good signal for investors, there will be a change in trading volume [9].

III. METHODS

A. Data Analysis Method

Data analysis method used in this study is to use logistic regression analysis. The reason for using logistic regression (logistic regression) is because the dependent variable is dummy. The data used are categorical (non metric) on the dependent variable. Whereas the independent variable data used is a mixture of scales that causes changes in function to be logistical and does not require the assumption of normality of data on the independent variable. This analysis examines whether the occurrence of the dependent variable can be predicted by the independent variable [10].

B. Panel Data Regression Analysis

Panel data is data that is collected in a cross section and followed at a certain time period. Panel data technique is by combining cross section and times series data types [10]. The advantages of using panel data are as follows:

- Panel data provides more informative, more varied data, the level of colinearity between variables is lower, the degree of freedom (freedom) is greater, and more between variables is low.

- By analysing cross section data in several periods, the panel data is appropriate in studying the dynamics of the data. That is, it can be used to obtain information on the condition of individuals at any given time compared to other times.

- Panel data is able to detect and measure effects that cannot be observed through pure time's series data or pure cross sections.

- Panel data allows to build and test models that are more complicated than pure cross section data or pure time series data.

- Panel data can minimize the bias generated by individual aggregations because there are too many observation units.

C. Test the Feasibility of the Regression Model

Testing the feasibility of the regression model assessed using the Hosmer and Lameshow's Goodness of Fit Test. Hosmer and Lameshow's Goodness of Fit Test tests the null hypothesis that empirical data matches and matches the model (there is no difference between the model and the data so the model can be said to be fit). If the statistical value of the Hosmer and Lameshow's Goodness of Fit Test is equal to or less than 0.05, then the null hypothesis is rejected, which means there is a significant difference between the model and its observation value so that the Goodness of Fit model is not good because the model cannot predict the value of the observation. If the statistical value of Hosmer and Lameshow's Goodness of Fit Test is greater than 0.05, then the null hypothesis cannot be rejected and means that the model is able to predict its observational value or it can be said that the model can be accepted according to its observational data [10].

IV. RESULTS AND DISCUSSION

A. Description of Research Object

The data presented in this study are secondary data from companies listed on the Indonesia Stock Exchange (IDX). The object of research used in this study is the annual report (annual report) of manufacturing companies in 2012 - 2018. The number of companies engaged in the manufacturing sector that are listed on the Indonesia Stock Exchange in 2012 to 2018 are 143 companies. Based on the purposive sampling technique, a sample of 30 companies was obtained that could be considered suitable as research objects.

B. Hypothesis Testing Model

This study uses multiple linear analysis (multiple linear regression). The aim is to answer the research problem of the relationship between two or more independent variables with the dependent variable. Normality test and classic assumption test are used before data regression. It is intended that the regression model is free from bias. The formulation of the equation model for a systematic regression analysis is as follows:

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

Information:

Y = Transfer Pricing

α = Constant coefficient

$\beta_1 X_1$ - $\beta_2 X_{s2}$ = Regression Coefficient

X_1 = Tunnelling Incentive

X_2 = Bonus Mechanism

e = Error, Interference variable

C. Descriptive Statistical Results

Descriptive statistical analysis is used to determine the level of Manufacturing Company Profitability. Measurements in this study by calculating the minimum, maximum, mean and standard deviation of each variable in the study. The results of the analysis will be shown in the following table 1:

TABLE I.   DESCRIPTIVE STATISTICAL ANALYSIS

	Transfer Pricing	Tunnelling Incentive	Mechanism Bonus
Mean	0.933333	0.472267	0.380952
Maximum	1.000000	0.447500	1,000000
Minimum	0.000000	0.051000	0.000000
Std. Dev.	0.250040	0,360211	0,490290
Observations	210	210	210

Source: Eviews Output Results 10.

Table 1 above shows that the amount of data used in this study is known as 210 samples of research data taken from the annual financial statements of manufacturing companies listed on the Indonesia Stock Exchange which are available at www.idx.co.id in the 2012-2018 period. The number of samples taken from 30 manufacturing companies is multiplied by a 7-year period, so the total data becomes 210 and the results obtained are as follows:

- Tunnelling incentive variable has a minimum value of 0.051000 which indicates that foreign ownership in the researched sample company is 5.1% (Indocement Tunggal Prakasa Tbk) and a maximum value of 0.447500 which indicates that foreign ownership of the sample company is studied by 44.75% (Darya Varia Labolatoria Tbk). For the standard deviation the tunnelling incentive variable has 0.360211 and the mean value is 0.472267. Tuning incentive standard deviation value is smaller than the average value (mean) which shows that the standard deviation of tunnelling incentive is relatively good.

- The bonus mechanism variable is due to using a dummy variable so that it has a minimum value of 0 and a maximum of 1. For the standard deviation value of the bonus mechanism variable has 0.490290 and an average value of 0.380952. The standard deviation value of the bonus mechanism is greater than the mean value which indicates that the standard deviation of the bonus mechanism is relatively unfavourable.

D. Test the Feasibility of the Regression Model

The feasibility of the regression model was assessed using the Hosmer and Lemeshow's Goodness-of-fit Test. Hypotheses for assessing the feasibility of a regression model are:

H0: There is no difference between the model and the data

Ha: There is a difference between the model and the data

If the statistical value of Hosmer and Lemeshow Goodness of Fit is less than 0.05, then the null hypothesis is rejected, which means there is a significant difference between the model and its observation value so that the Goodness of Fit model is not good because the model cannot predict the value of the observation. If the value of Hosmer and Lemeshow Goodness of Fit is greater than 0.05 then the null hypothesis cannot be rejected and means the model is able to predict the value of its observations or the model can be said to be acceptable because it matches the observational data [10]. To see the feasibility of the regression model can be seen in table 2:

TABLE II.   FEASIBILITY TEST REGRESSION MODEL

Variable	Coefficient	Std. Error	z-Statistic	Prob.
TUNELLING_INCENTIVE	14.9558	4.208509	3.553704	0.0004
MEKANISME_BONUS	-3.92743	1.092964	-3.59338	0.0003
C	-0.48895	0.794198	-0.61566	0.5381
McFadden R-squared	0.331435	Mean dependent var		0.933333
S.D. dependent var	0.25004	S.E. of regression		0.217176
Akaike info criterion	0.356075	Sum squared resid		9.763249
Schwarz criterion	0.40389	Log likelihood		-34.3878
Hannan-Quinn criter.	0.375405	Deviance		68.77565
Restr. deviance	102.8706	Restr. log likelihood		-51.4353
LR statistic	34.09496	Avg. log likelihood		-0.16375
Prob(LR statistic)	0			
Obs with Dep=0	14	Total obs		210
Obs with Dep=1	196			

Source: Eviews Output Results 10.

Table 2 shows Prob chi square (8) obtained is 0.1083, the value is greater than 0.05, then H0 is accepted, which means that there is no difference between the model and the data. Then the regression model is feasible to be used in further analysis because the model is suitable.

Based on Table 2 above, the regression equations obtained in this study are:

Transfer Pricing = -0.488953 + 14.95580 TI - 3.927432 MB

From the regression equation above can be interpreted as follows:

- From the regression equation above, it can be explained that the constant value is - 0.488953, which means that when the independent variables (Tunnelling Incentive

and bonus mechanism are zero), the Company Value is -0.48953.

- Tunnelling Incentive regression coefficient value of 14.94480 it explains if each Tunnelling Incentive has increased by 1%, then Transfer Pricing will increase by 14.94480 with the assumption that the other independent variables of the regression model are fixed.

- The Bonus Mechanism regression coefficient value of -3.927432, it explains that if each Bonus Mechanism has increased by 1%, then Transfer Pricing will decrease by -3.927432 assuming that the other independent variables of the regression model are fixed.

E. Hypothesis Testing

Hypothesis testing in this study there are three stages namely, partial test (t-test), simultaneous test (F-test) and determination test (R2) and the following is a table of the results of the hypothesis test:

TABLE III.   HYPOTHESIS TEST RESULTS

Variable	Coefficient	Std. Error	z-Statistic	Prob.
TUNELLING_INCENTIVE	14.39558	4.208509	3.553704	0.0004
MEKANISME_BONUS	-3.92743	1.092964	-3.59338	0.0003
C	-4.8895	0.794198	-0.61556	0.5381
McFadden R-Square	0.331435	Mean dependent var		0.933333
S.D. dependent var	0.25004	S.E. of regression		0.217176
Akaike info criterion	0.356075	Sum squared resid		9.763249
Schwarz criterion	0.40389	Log likelihood		-34.3878
Hannan-Quinn criter.	0.375405	Deviance		68.77565
Restr. Deviance	102.8706	Restr. log likelihood		-51.4353
LR statistic	34.09496	Avg. log likelihood		-0.16375
Prob(LR statistic)	**0**	Total obs		210
Obs with Dep=0	14			
Obs with Dep=1	196			

Source: Eviews Output Results 10.

F. Partial Test (T-Test)

T-test is used to determine the effect of independent variables on the dependent variable individually (partial). T-test can be done by comparing t arithmetic with t table [10]. At a significant level of 5% with the test criteria used as follows:

- If the probability value is <0.05 then H0 is accepted and H1 is rejected, the independent variable (partial) the independent variable influences the dependent variable.

- If the probability value> 0.05 then H0 is rejected and H1 is accepted, the free independent variable (independent) partial has no independent effect (dependent) variable.

Based on the results of the t-test hypothesis test, the following decisions can be made:

1) First hypothesis (H1): The output results from the above table data using a partial regression test (t-test) shows the value of Probability (Tunneling Incentive) of 0,0004 <0.05

then H0 is accepted. It is expected to be denied that the Tunneling Incentive variable is fully partial to the "accepted" Transfer Price.

2) Second hypothesis (H2): The output results from the table data based on partial regression tests (t-test) show a probability value (Bonus) of 0,0003 <0.05, then H0 is accepted. Bonus transfers "accepted".

G. Simultaneous Test (F-Test)

The F test is used to test the ability of all the independent variables together in explaining the dependent variable. At a significant level of <0.05 with the following test criteria [10].

- If the F-statistic probability value <0.05 then H0 is rejected and H1 is accepted, which means that the independent variables jointly influence the dependent variables.

- If the F-statistic probability value> 0.05 then H0 is rejected and H0 is accepted, which means that the independent variables together do not affect the dependent variables.

Based on the results of the simultaneous test output (F-test) in table 3 above shows the probability value of 0.000000 <0.05, meaning that simultaneously (simultaneous) Tunnelling Incentive and Bonus Mechanisms affect the Transfer Pricing, the hypothesis "accepted".

H. Determination Coefficient Test (R2)

The coefficient of determination test is used to measure how far the ability of the model to explain the variation of the dependent variable. The coefficient of determination is between zero and one (0 <R2 <1). If the adjusted R2 value approaches one (1), the better the ability of the model to explain the dependent variable [10].

Based on the results of the test coefficient of determination in table 3 above shows that the value of R-Squared (R2) of 0.331435 or 33.1435% means that Transfer Pricing is influenced by two independent variables (Tunnelling Incentive and Bonus Mechanisms), while the remaining 66.8565% influenced by other factors outside the independent variable of the study.

V. CONCLUSION

This study provides empirical evidence about the effect of tunnelling incentives and bonus mechanisms on transfer pricing decisions. Data analysis was performed using logistic regression analysis through the Eviews 10. Total sample data were 210 observations from all companies that were delisted on the Indonesia Stock Exchange in 2012 - 2018.

Based on the results of research on this research, the following conclusions can be drawn:

- Tunnelling Incentive Variable shows that the tunnelling incentive variable influences the company's decision to transfer pricing.

- Bonus Mechanism Variable shows that the Bon Mechanism variable does not influence the company's decision to transfer pricing.

- The Tunnelling Incentive variable and the bonus mechanism simultaneously influence the company's decision to transfer pricing.

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