

# Factors That Influence Companies to Transfer Pricing

Rina Tjandrakirana  
*Accounting, Faculty of Economics*  
*Sriwijaya University*  
 Sumatera Selatan, Indonesia  
 rinatjandrakiranadp@fe.unsri.ac.id

Ermadiani  
*Accounting, Faculty of Economics*  
*Sriwijaya University*  
 Sumatera Selatan, Indonesia  
 ermadiani@fe.unsri.ac.id

**Abstract**—Nowadays transfer pricing decisions can affect the company's profit and loss. Division managers or subsidiaries are usually involved in transfer pricing decisions, they have control over overall profitability. By manipulating transfer pricing, the company has also manipulated revenue / cost of goods sold under the anti-division division or subsidiary. Exchange rates are measured by the difference in foreign exchange gains / losses against profit / loss before tax. This research was conducted on all manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2013 - 2018. This study was a descriptive quantitative research that reveals the size of an influence between the variables are expressed in numbers. This research was conducted to reveal the size of the effect of taxes, debt covenants, and exchange rates on the company's decision to apply transfer pricing. From the results of data analysis obtained through this study, we can find out that there are three independent variables (tax, debt covenant, and exchange rate) that significantly influence the dependent variable (transfer pricing), both in positive and negative.

**Keywords:** *debt covenant, exchange rate, tax, transfer pricing*

## I. INTRODUCTION

In a company there are divisions that supply goods or services to other divisions in the same company. Division - This division is evaluated based on earnings, return on investment (ROI), or its residual income, so there is a price to be determined for the transfer of goods or services (supply of goods or services from one division to another). The price is intended as a form of appreciation to the division that produces the goods or services transferred. This price is called the transfer price, which is the price that is charged when one segment of a company delivers goods or services to another segment of the same company (Garrison et al., 2012).

Basically, the basic purpose of transfer pricing is to motivate managers so that all managerial actions or decisions always prioritize the interests of the company as a whole, but the purpose of transfer pricing is increasingly distorted along with the transactions made by multinational companies that transfer goods or services by crossing a country's borders. Such transfers give rise to the interests of companies in matters relating to tax burdens, liabilities, and exchange rate risks, and increase the company's competitive position (Garrison et al., 2012).

The problem of transfer pricing led to costly and take a long time to deal with, not to mention full of traps for the unwary, which often result in double taxation on the income of a company.

The results of research conducted by Grubert & Mutti (1991) show that import taxes and tariffs have a strong influence on the operations of multinational companies. From their research, it can be seen that a disproportionate transfer of profits to countries with low taxes also applies in explaining the allocation of FDI in the manufacturing sector. Clausing (2003), through his research, managed to prove that there is a significant relationship between tax rates in the United States (US) and the application of transfer pricing. Similar results were obtained by Lo et al. (2010), which concluded that taxes can influence transfer pricing decisions for companies registered in China.

A Debt Covenant is an agreement between a creditor (lender) and a debtor (borrower) that provides a financial ratio limit that the debtor may not violate. Companies that have debt covenants with their creditors, will choose accounting methods that can avoid companies from defaulting on debt or default (DeFond & Jiambalvo, 1994). Usually companies approaching debt covenant violations will use accounting methods that support to be able to transfer profits to a company. The reason is that creditors will see the company's profit as a reference to assess the company's ability to pay its debts. Transfer pricing is one way that can save a company from default on debt, by transferring profits from owned companies to companies involved in debt covenants (Rosa et al., 2017). Thus, companies can avoid debt covenant violations. The effect of a debt covenant on a company's decision to implement transfer pricing is usually measured by using a Debt to Equity Ratio (DER), which is by calculating the company's total debt to the total equity owned by the company.

Exchange Rate is the value of one country's currency against another country's currency. Exchange rates can fluctuate (Chan et al., 2004). This is influenced by various things. Exchange rate fluctuations can affect companies in terms of foreign currency transactions, foreign currency translation, and exchange rate risk. Company managers can indirectly affect the overall profitability of a company in terms of foreign currency translation. The profit / loss statement makes foreign currency translation complex so that transfer pricing decisions can affect the company's profit and loss. Division managers or subsidiaries are usually involved in transfer pricing decisions, they have control over overall profitability. By manipulating transfer pricing, the company has also manipulated revenue / cost of goods sold under the anti-division division or subsidiary. Exchange rates are measured by the difference in

foreign exchange gains / losses against profit / loss before tax.

Several studies have been conducted to prove the effect of debt covenants and exchange rates on the company's decision to apply transfer pricing. Watts & Zimmerman (1990) explain the debt / equity hypothesis that predicts that a high debt / equity ratio will cause managers to tend to use accounting methods that increase company profits. One such method is transfer pricing (Sundari & Susanti, 2016). In addition, research was also conducted by Chan et al. (2004), which shows that managers consider the effect of exchange rates on their transfer pricing decisions. Research Chan et al. This is inversely proportional to Marfuah & Azizah (2014), which shows that the exchange rate does not affect the company's consideration of the decision to implement transfer pricing.

Sector manufaktur dip Invert Selection as the research object because the majority of the capital companies listed on the Stock Exchange Indonesia (BEI) are from overseas so it has nothing to do internal substantial with parent companies located abroad (Yuniasih et al., 2012).

In previous studies, the effect of tax on the company's decision to implement transfer pricing was measured by the Effective Tax Rate (ETR). ETR is the company's total tax burden on income before tax (Serocki & Callaghan, 2011). The total tax burden is obtained by reducing the tax burden and deferred tax expense. ETR-based measurement can be compared with tax rates based on laws - laws that apply. If the measurement is below the tax rate ETR by laws - laws, then there is a possibility that the company tax evasion (Gebhart, 2017). The actual ETR can be calculated based on various measurements of a company's tax liability (total tax burden, current income tax expense, or cash paid for taxes) and profit before tax. If the previous study used GAAP ETR as a proxy for tax variables, in this study the tax variable was proxied by Cash Effective Tax Rate (Cash ETR). Cash ETR is a measurement of cash paid for taxes on earnings before taxes (Salihu et al., 2013). Unlike the GAAP ETR, Cash ETR is not affected by changes in estimates such as valuation allowance or tax cushion. Cash ETR also takes into account the tax benefits of employee stock options (Dyrenget al., 2008). The problems in this research are as follows:

1. Do taxes affect the decision of the company to do transfer pricing ?
2. Does debt covenants influence on to the decision of the company to do transfer pricing ?
3. Is the exchange rate effect on to the decision of the company to do transfer pricing ?

The purpose of this study is to empirically examine the effect of taxes, debt covenants and exchange rates on the company's decision to transfer pricing. It is hoped that from the results of this study the following benefits will be obtained :

1. For researchers interested in the field of financial accounting that is related to transfer pricing.
2. Research is expected to add and support agency theory

## II. LITERATURE REVIEW

### A. Agency Theory (Agency Theory)

Jenson & Meckling (1976) defines an agency relationship as a contract in which one principal involves the other party ( the agent ) to carry out service activities on behalf of the main party. The main party, or in the business world often associated with shareholders, will delegate decision making authority to the agent. Agency problems then arise as a result of the difference in interests between the main party and the agent indicated by the actions of an agent whose decision is only to improve welfare for himself and without regard to the interests of the main party a. Then, the question arises as to how the main party can motivate the agent to act in the interests of the main party.

### B. Positive Accounting Theory

Accounting standards are the result of complex interactions between many parties, both the accounting standards governing body and company management. Many people who have tried to spend their resources to influence the determination of accounting standards and this continues to this day. Previous research has proven that there is a great deal of pressure received by the accounting standards regulatory body. This pressure has led to a reorganization of the standard setting board (Watts & Zimmerman, 1978).

### C. Transfer Pricing

According to Garrison et al. (2012), transfer prices are prices charged when a company segment provides goods or services for other segments of the same company. There are three common approaches used to determine transfer prices, namely by letting managers engage in transfers to negotiate transfer prices, determine transfer prices at the base price used either variable or full costs ( full / absorption cost ), or determine transfer prices at market price. Schuster (2015) defines transfer prices as internal prices of products made in companies that have two main functions, namely the allocation of profits (in order to assess division profits and measure performance) and coordination (to reach decisions that favor the interests of the company as a whole). Yuniasih et al. (2012) also explains that transfer pricing is the price contained in each product or service from one division that is transferred to another division in the same company or between companies that have a special relationship.

### D. Tax

According to the Law - Law No. 28 Year 2008 Article 1 (1), the tax is a mandatory contribution to the state owed by individuals or entities that are forced by legislation - legislation, by not getting the rewards directly and used for the purposes of state for for - the magnitude prosperity of the people.

### E. Debt Covenant

Debt covenants (debt agreements) are intended to restrict managers from engaging in investment and financing decisions that reduce the value of debt holders' claims (DeFond & Jiambalvo, 1994). According to DeFond &

Jiambalvo, covenants are often written in accounting numbers and violations of covenants are so detrimental that company managers, who almost violate debt covenants, make accounting choices that reduce the possibility of default.

**III. METHODOLOGY**

**A. The scope of research**

This research was conducted on all manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2013 - 2018. The manufacturing sector on the IDX was chosen as the research population because the manufacturing companies listed on the IDX are mostly from foreign capital so that they have substantial internal company links with the parent company abroad (Yuniasih et al., 2012). Observations performed for a time of six years from the year 2013 to 2018. This period is the most recent period listed on the IDX and is the period in which there are new regulations regarding transfer pricing.

**B. Research design**

This study was a descriptive quantitative research that reveals the size of an influence or relationship between the variables are expressed in numbers - numbers. This research was conducted to reveal the size of the effect of taxes, debt covenants, and exchange rates on the company's decision to apply transfer pricing.

**C. Data source**

The type of data used in this research is sequential data under. Secondary data in this study a year-end financial statements and annual reports (annual report) each - each company sample from the year 2013 to 2018 obtained from the official website of the Stock Exchange (www.idx.co.id). Data collection method used in this study is the documentation method. This method is done by collecting a record of events that have been then, in this case the year-end financial statements and annual reports of companies from the year 2013 to 2018 as well as other supporting data in the form of literature - literature related prior to this study.

**D. Population and Sample**

The population used in this study is manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2013 to 2018. The sampling technique used in this study was purposive sampling with the following criteria:

- a. The company is listed on the IDX publish year-end financial statements, respectively - participated during the observation period (2013, 2014, 2015, 2016, 2017, and 2018).
- b. The sample company enters into transactions with related parties as reflected in the company's financial statements.
- c. Sample companies are under the control of foreign companies (both foreign companies and domestic companies affiliated with foreign companies) with a percentage of ownership equal to or more than 20%, in accordance with PSAK 15 provisions which state that

the controlling shareholder is a party own shares or equity securities of 20% or more.

- d. The sample company did not experience a loss during the observation period. This is because if the company suffers losses, then there is no obligation to pay taxes for the company so that tax motivation becomes irrelevant. Therefore, manufacturing companies that suffered losses during the observation period were excluded from the sample.
- e. The sample company has a foreign exchange gain / loss data. This is intended to obtain the information needed to test the exchange rate variable on the company's decision to apply transfer pricing.
- f. The sample company uses the rupiah currency in the presentation of its financial statements because it considers fluctuating exchange rate changes.

**Table 1. Purposive Sampling**

No.	Criteria	amount
1	Manufacturing companies listed on the IDX that publish year-end financial statements in the 2013-2018 period	134
2	Companies that do not conduct transactions with related parties	(4)
3	Companies not owned by foreign companies (both foreign companies and domestic companies affiliated with foreign companies) with a minimum percentage of ownership of 20%	(63)
4	Companies that experienced losses in 2013-2018	(39)
5	Companies that do not have profit / loss data on foreign exchange differences	(2)
6	Companies that use currencies other than rupiah	(4)
Number of Research Samples		22

Source: Processed data

Based on the table above, the sample used in this study amounted to 22 companies, with a year of observation for 6 years, namely 2013 to 2018. Thus, the number of observations made was 132 (22 samples x 6 years of observation).

**E. Independent Variable**

**Tax**

According to the Law - Law No. 28 Year 2008 Article 1 (1), the tax is a mandatory contribution to the state owed by individuals or entities that are forced by legislation - legislation, by not getting the rewards directly and used for the purposes of state for the magnitude prosperity of the people. Tax in this study was proxied by Cash Effective Tax Rate (Cash ETR) as a measurement tool for tax variables. Cash ETR is a measurement of cash paid for taxes on earnings before taxes (Salihu et al., 2013).

$$Cash\ ETR = \frac{\text{cash that has been paid for tax}}{\text{retained before tax}}$$

### Debt Covenant

A debt covenant is a debt agreement between a creditor (lender) and a debtor (borrower) that states a limit for certain financial ratios that the debtor may not violate. Debt covenants are intended to limit managers from engaging in investment and financing decisions that reduce the value of debt holders' claims (DeFond & Jambalvo, 1994). Generally, company managers who approach this debt covenant violation, will make a decision to apply accounting methods that can avoid defaulting. The accounting method that allows this is transfer pricing.

With transfer pricing implemented, it will be possible for the transfer of profits between companies that have a special relationship (the parent company with a subsidiary or one subsidiary with another subsidiary). Debt covenant is proxied by using Debt to Equity Ratio (DER) by comparing the total debt with shareholders' equity.

$$DER = \frac{\text{total debt}}{\text{total shareholder equity}}$$

### Exchange Rate

An exchange rate is the value of one country's currency against another country's currency. Thus, the exchange rate has two components, namely domestic currency and foreign currency. Fluctuations experienced by the exchange rate pose a risk for the company. According to Chan et al. (2004), exchange rate fluctuations have three effects, two of which affect the company's financial statements. The first effect arises from foreign currency transactions. The second effect is due to foreign currency translation. The third effect occurs because of exchange rate risk. This economic risk is avoided by companies by utilizing supporting accounting methods, one of which is transfer pricing. The exchange rate variable is measured by the value of the foreign exchange gain / loss against the profit / loss before tax of a company.

$$Exchange\ Rate = \frac{\text{foreign exchange gain/loss}}{\text{profit(loss) before tax}}$$

### F. Data analysis method

In this study, quantitative analysis is done by quantifying the data - the research data to produce information needed for analysis. The analytical tool used in this research is the logistic regression analysis (logistic regression) with the help of the program IBM Statistical Package for Social Sciences (SPSS) version 20. The use of logistic regression analysis is due to the dependent variable which is dichotomous (right or not right). The analysis technique in processing this data does not require a normality test and a classic assumption test on the independent variables because there is an Overall Model Fit and Hosmer and Lemeshow's Goodness of Fit Test (Ghozali, 2011).

### G. Descriptive statistics

#### Descriptive Test

Descriptive analysis is intended to provide a description or data description of the dependent variable in the form of transactions with related parties that are abroad which is a

proxy of the transfer pricing variable and the independent variables in the form of taxes, debt covenants, and exchange rates. Statistical data can be presented using descriptive statistics table to give an idea of the maximum value, minimum value, the average value - average (mean) and standard deviation (standard deviation). Descriptive statistics were serving size - the numerical measure which is essential for the sample data so that more easily understood by the reader contextually.

#### Frequency Test

Descriptive frequency is the data set according to class - specific class or grouping data into categories that indicate the number of data in each category, and each data can not be put into two or more categories.

#### Logistic Regression Test

Logistic regression analysis is an analysis tool used to measure how far the influence of independent variables on the dependent variable, in this case the dependent variable uses the form of a dummy variable (between 0 or 1). Tests carried out in logistic regression analysis are as follows (Ghozali, 2011):

#### Overall Model Fit Test ( Overall Model Fit )

This test is used to assess whether the hypothesized model is fit or not with the data. The hypothesis for assessing model fit is:

$H_0$  : Model hypothesized fit with data

$H_1$  : Model hypothesized does not fit with the data

Testing is done by comparing the value of -2 log likelihood at the beginning ( block 0 ) with the value of -2 log likelihood at the end ( block 1 ). The decline in value between the initial -2LogL ( initial -2LogL) and the value of -2LogL in the next step (the final -2LogL) indicates that the model hypothesized is fit with the data.

#### Determination Coefficient Test

Testing the coefficient of determination in logistic regression is to use Nagelkerke's R square. The purpose of this test is to find out how much the combination of independent variables, namely a combination of taxes, bonus mechanisms, tunneling incentives, debt covenants, and exchange rates are able to explain the variation of the dependent variable, namely transfer pricing. Nagelkerke's R square is a modification of the Cox and Snell coefficients to ensure that the values vary from 0 (zero) to 1 (one).

This is done by dividing the value of Cox and Snell's R square with the maximum value. Value Nagelkerke's R square little significance that the ability variabel independent variables in explaining the dependent variable are very limited. A value close to 1 meaning that variabel independenly provide almost all the information needed to predict the variation of the dependent variable.

#### Feasibility Regression Model

Testing the feasibility of a logistic regression model was assessed using the Hosmer and Lemeshow's Goodness of Fit

Test which was measured by Chi-square values. Hosmer and Lemeshow's Goodness of Fit Test tests the null hypothesis that empirical data matches or 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 Hosmer and Lemeshow's Goodness of Fit Test is equal to or less than 0.05 then rejecting  $H_0$ , which means there is a significant difference between the model and its observation value so that hypothesis testing cannot be done. If the statistical value of Hosmer and Lemeshow's Goodness of Fit Test is greater than 0.05, then accepting  $H_0$ , which means the model can be accepted because it matches the value of the observation so that hypothesis testing can be done.

#### Matrix Classification Test

The classification matrix test shows the predictive power of the regression model to predict the likelihood of a company making a decision to apply transfer pricing. The predictive power of the regression model is useful for predicting the occurrence of the dependent variable expressed in percent.

#### Hypothesis testing

Parameter estimation using Maximum Likelihood Estimation (MLE).

$$H_0 = b_1 = b_2 = b_3 = \dots = b_i = 0$$

$$H_0 \neq b_1 \neq b_2 \neq b_3 \neq \dots \neq b_i \neq 0$$

$H_0$  states that the independent variable (X) has no effect on the response variable observed in the population. Testing the hypothesis is done by comparing the probability value (sig) with the level of significance ( $\alpha$ ). To determine the acceptance or rejection of  $H_0$  based on a significance level ( $\alpha$ ) of 5% with the following criteria:

1.  $H_0$  accepted if the Wald statistic < Chi-square distribution, and the value probability (sig) > level of significance ( $\alpha$ ). This means that the alternative hypothesis is rejected or the hypothesis that the independent variable influences the dependent variable is rejected.
2.  $H_0$  is rejected if the Wald statistic > Chi-square distribution, and the value probability (sig) < level of significance ( $\alpha$ ). This means that alternative hypotheses are accepted or hypotheses which state that independent variables influence the dependent variable are accepted.

The logistic regression model is formulated with then following equation:

$$TP = \alpha + \beta_1 P + \beta_2 DC + \beta_3 ER + \varepsilon$$

information:

TP = Transfer Pricing. A value of 1 is given if there are transactions with related parties who are abroad and a value of 0 for vice versa.

$\alpha$  = Constant

$\beta$  = Regression coefficient

P = Tax

DC = Debt Covenant

ER = Exchange Rate

$\varepsilon$  = Exchange Rate

## IV. RESULTS AND DISCUSSION

### Data analysis

The analytical method used in processing data in this study is a descriptive statistical method, logistic regression test, and hypothesis testing which will be explained in the following data processing results.

### Descriptive statistics

#### Descriptive Test

Descriptive statistical analysis gives an overview of how the minimum, maximum, average - average, and standard deviation of each - each study variable.

Average value - average tax variables that proxy with cash effective tax rate (Cash ETR) is equal to 0, 31.74042 million with a minimum value of 0, 047 045 and a maximum value of 2.698684. The standard deviation of taxes shows the numbers 0, 278874529.

Average value - average variable debt covenants proxied by debt to equity ratio (DER) is at 0, 77,048,939 with a minimum value of 0, 153 500 and a maximum value of 2.654600. Debt covenant standard deviation shows the number 0, 552334302.

Average value - average variable exchange rate as measured by the ratio of profit / loss on foreign exchange on profit / loss before tax was at - 0, 01.10903 million with a minimum value of - 0, 686 604 and a maximum value of 0, 256 623. The standard deviation of the exchange rate shows the number 0, 112730151.

### Frequency Test

Descriptive frequency is the data set according to class - specific class or grouping data into categories that indicate the number of data in each category, and each data can not be put into two or more categories.

### Logistic Regression Test

Logistic regression analysis is an analytical tool used to measure how far the influence of independent variables on the dependent variable, in this case the dependent variable uses the form of dummy variables, namely the presence or absence of transactions with foreign related parties (foreign companies). Tests carried out in logistic regression analysis are as follows (Ghozali, 2011).

### Overall Model Fit Test

Testing is done by comparing the value of -2 log likelihood at the beginning (block 0) with the value of -2 log likelihood at the end (block 1). The decline in value between the initial -2LogL (initial -2LogL) and the value of -2LogL in the next step (the final -2LogL) indicates that the model hypothesized is fit with the data.

**Table 2. Overall Capital Suitability Test Results**

Information	-2LogL
-2 Log Likelihood (-2LogL) in block 0	21,046
-2 Log Likelihood (-2LogL) in block 1	20,862

*Source: Data processing results*

Table 2. above shows that the Log Likelihood value before entering the independent variable (block 0) in the logistic regression equation is 21.046. Then, after the independent variable is entered (block 1) into the logistic regression equation the Log Likelihood value is 20,862. There is an impairment -2 Log Likelihood from 21,046 to 20,862 shows that empirical data is in accordance with the model so that the model can be said to be fit.

**Determination Coefficient Test**

Testing the coefficient of determination is intended to find out how much the combination of independent variables (tax, bonus mechanisms, tunneling incentives, debt covenants, and exchange rates) is able to explain variations in the dependent variable (transfer pricing). The coefficient of determination test uses the Nagelkerke's R square value which is a modification of the Cox and Snell coefficients to ensure that the value varies from 0 (zero) to 1 (one). The results of the coefficient of determination test are presented in Table 2. following.

**Table 3. Determination Coefficient Test Results Summary Model**

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	14,656 <sup>a</sup>	, 246	, 401

a. Estimation terminated at iteration number 6 because parameter estimates changed by less than, 001.

*Source: Data processing results*

Table 3 above shows that the value of Nagelkerke's R Square is 0.401 and Cox & Snell R Square is 0.246. This means that the ability of independent variables (tax, debt covenant, and exchange rate) in explaining the dependent variable (transfer pricing) is 0.401 or 40.1% and there are 59.9% other factors outside this research model that can explain the transfer pricing variable.

**Feasibility Test Regression Model**

Testing the feasibility of a logistic regression model was assessed using the Hosmer and Lemeshow's Goodness of Fit Test which was measured by Chi-square values. Hosmer and Lemeshow's Goodness of Fit Test to test H<sub>0</sub> that the empirical data fit the models (there is no difference between the models with the data so that the model can be said to fit). The results of the feasibility test of this regression model can be seen in table 3. following.

**Table 4. Regression Model Feasibility Test Results Hosmer and Lemeshow Test**

Step	Chi-square	df	Sig.
1	7,673	8	, 466

*Source: Data processing results*

Table 4 above shows that the Chi-square value for degree of freedom (Df) 8 at the 0.05 significance level was 7.673. Thus, the Chi-square Hosmer and Lemeshow value of 7.673 is smaller than the Chi-square distribution table of 15.50731 or the significance value of 0.466 is greater than the 0.05 significance level. This means that there is no difference between the model and data so that it accepts H<sub>0</sub>, which shows that the model can be accepted and hypothesis testing can be done.

**Matrix Classification Test**

The classification matrix test shows the predictive power of the regression model to predict the likelihood of a company making a decision to apply transfer pricing. The predictive power of the regression model is useful for predicting the occurrence of the dependent variable expressed in percent.

**Hypothesis testing**

Parameter estimation using Maximum Likelihood Estimation (MLE). H<sub>0</sub> states that the independent variable (X) has no effect on the response variable observed in the population. Testing the hypothesis is done by comparing the probability value (sig) with the level of significance (α).

The results of hypothesis testing of logistic regression coefficients produce the following models:

$$TP = 3,146 + 0,172P - 0,302DC - 5,298ER + \epsilon$$

**Discussion**

From the results of data analysis obtained through this study, we can find out that there are three independent variables (tax, debt covenant, and exchange rate) that significantly influence the dependent variable (transfer pricing), both in positive and negative forms. The following explains how the effect of each independent variable (tax, bonus mechanism, tunneling incentive, debt covenant, and exchange rate) on the transfer pricing variable.

**The Effect of Tax on Company Decisions to Implement Transfer Pricing**

The first hypothesis (H<sub>1</sub>) is that tax affects the company's decision to apply transfer pricing. This means that if the company has a tax obligation in an increasingly large amount, then it will make the company decide to implement transfer pricing. Based on the logistic regression hypothesis test, obtained a tax coefficient of 0.172 with a wald statistic value of 0.025 which is smaller than the chi-square distribution value of 3.841459 (1.414 < 3.841459) and a probability value of 0.191 which is greater than the significance level of 0.05 (p > 0.05). Thus, it can be concluded that the tax does not affect the company's

decision to implement transfer pricing or in other words **H<sub>1</sub> rejected**.

#### The Effect of Debt Covenant on Company Decisions to Implement Transfer Pricing

The second hypothesis (H<sub>2</sub>) is debt covenants influence the company's decision to implement transfer pricing. This means that if a company's debt to equity ratio (DER) shows a large value, then it will make the company decide to implement transfer pricing. Based on the logistic regression hypothesis test, obtained a debt covenant coefficient of -0.302 with a wald statistic value of 1.897 which is smaller than the value of the chi-square distribution 3.841459 and a probability value of -0.302 which is smaller than the significance level 0.05 ( $p < 0.05$ ). Thus, it can be concluded that the debt covenant negatively affect the company's decision to implement transfer pricing or in other words **H<sub>2</sub> is accepted**.

#### Effect of Exchange Rate on Company Decisions to Implement Transfer Pricing

The third hypothesis (H<sub>3</sub>) is that the exchange rate influences the company's decision to apply transfer pricing. This means that if the ratio of profit / loss on foreign exchange to profit / loss before tax of a company has a large value, then it will make the company decide to apply transfer pricing. Based on the logistic regression hypothesis test, an exchange rate coefficient of -5.298 with a wald statistic value of 2.997 is smaller than the chi-square distribution value of 3.841459 and a probability value of 0.083 which is greater than the significance level of 0.05. Thus, it can be concluded that the exchange rate negatively affect the company's decision to implement transfer pricing or in other words **H<sub>3</sub> accepted**.

### V. CONCLUSIONS

Based on the formulation of the problem, objectives, literature review, hypotheses, and data analysis that has been done in this study, the following conclusions can be drawn:

1. Tax does not affect the company's decision to apply transfer pricing. This shows that the existence of a large tax burden will not make the company decide to implement transfer pricing.
2. Debt covenant has a significant negative effect on the company's decision to apply transfer pricing. This shows that the lower debt to equity ratio (DER) will make the company decide to implement transfer pricing.
3. Exchange rate has a significant negative effect on the company's decision to implement transfer pricing. This shows that the lower exchange rate will make the company decide to implement transfer pricing.

In this study there are still limitations, both in terms of the research sample, the variables entered and the measurement of each variable. Therefore, the authors intend to provide advice in accordance with the limitations contained in this research so that it can be used as a reference for further research. The following are limitations and suggestions related to the research that has been done:

1. This study only used 22 research samples from manufacturing companies listed on the IDX. This happens because many companies do not present the required data related variables - variables studied. For further research it is suggested that expanding the research population not only in the manufacturing sector, but also other sectors, such as finance, services and services, and so on.
2. The data used in this study only uses secondary data taken from financial statements, thus providing inaccurate results to prove the existence of fraud in the company. For further research is recommended to add to the primary data in his research, namely by direct interviews with sources or distribution of questionnaires to the companies - companies included in the study sample.
3. Based on Nagelkerke's R Square value of 0.401 or 40.1 percent, it shows that the independent variables (tax, debt covenant, and exchange rate) in explaining the dependent variable (transfer pricing) are 0.401 or 40.1%, so that there are 59.9% other factors outside this research model that can explain the transfer pricing variable.

Future studies are expected to add variables other than those contained in this study.

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