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Tunneling Incentive, Debt Covenant and Bonus Mechanism: Transfer Pricing Practices with Tax Minimization as Moderating Variables

Andrianto Budiaji
Maria M. Ratna Sari
I Gusti Ayu Made Asri Dwija Putri
I Gde Ary Wirajaya
Faculty of Economics and Business, Udayana University, Bali, Indonesia
Email: budiaji.andrianto@gmail.com

Abstract
This study aims to examine several variables that affect transfer pricing, namely tunneling incentives, debt covenants, bonus mechanisms. This study also attempts to examine the role of tax minimization in moderating the relationship between these variables. The sample of this research is mining companies listed on the Indonesia Stock Exchange in 2016-2020. With the purposive sampling method, the data that were successfully processed were 175 observations. Data analysis method using Partial Least Square (PLS). The results of the study show that the variables of tunneling incentive, debt covenant and bonus mechanism affect transfer pricing transaction decisions. Tax minimization is not proven to moderate the relationship between the variables of tunneling incentive, debt covenant, bonus mechanism on transfer pricing transactions.
Keywords: Transfer Price, Bonus Mechanism, Tax Minimization, Tunneling Incentive
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INTRODUCTION

Most of the investment in the mining sector in source countries, such as Indonesia, is dominated by foreign capital. This fact causes the mineral and coal sectors produced to be export-oriented to the investors' home countries. This is due to the fact that most of the mining products are raw materials for the mining industry which require further processing. Based on Shay (2017), there are two major challenges in the mining sector related to transfer pricing by multinational companies, namely determining the selling price and efforts to minimize taxes in the source country through changes in the overall supply chain scheme.

Transfer pricing activity itself is permitted and is a legal tax planning scheme as long as it refers to the applicable regulations, both regulations set by the Organization for Economic Co-operation and Development (OECD) and each country concerned. In Indonesia, regulations related to transfer pricing are stipulated by the Directorate General of Taxes as stipulated in Article 18 of Law Number 36 of 2008 concerning Income Tax, in order to minimize losses in state revenues. In Article 18 paragraph (3) of the Income Tax Law, the Directorate General of Taxes as the fiscal authority of Indonesia is authorized to re-determine the amount of Taxable Income (PKP) for Taxpayers who have special relationships with other Taxpayers in accordance with the principles of fairness and business practice.

Transfer pricing practices in general can be influenced by factors such as differences in income tax rates and tax expenses that differ between countries, company control factors through share ownership (tunneling), debt management in company affiliates (Debt covenants), determination of transfer pricing through the bonus mechanism (Bonus Mechanism), differences in currency exchange rates (exchange rate) and minimizing activities (Tax minimization) that affect companies to reduce tax payments to the state through shifting profits to other affiliates.

One of the main issues faced by foreign investment is transfer pricing. This transfer pricing practice was initially carried out by the company solely to assess the performance between members or divisions of the company, but along with the times, the practice of transfer pricing is often also used for tax management, namely an effort to minimize the amount of taxes that must be paid (Harimurti 2007).). From the government side, transfer pricing is believed to result in a reduction or loss of a country's potential tax revenue because multi-national companies tend to shift their tax obligations from countries with high tax rates to countries that apply low tax rates. low-tax countries). On the other hand, from a business perspective, companies tend to try to minimize costs (cost efficiency) including minimizing corporate income tax payments. For multinational corporations, global-scale companies (multi-national corporations), transfer pricing is believed to be one of the effective strategies to win the competition for limited resources (Santoso 2004).

In transfer pricing, Shay's research (2017) suggests that in general, multinational companies that run their business in the mining sector face two main challenges, namely tax reduction by changing the supply chain

scheme in the country of origin and determining the selling price. To determine the selling price of mining products that meet the reasonable limit, basically it is very difficult to identify, especially sales transactions to parties who have special relationships who are abroad because each product has special characteristics and specifications for the quality and content of each.

These different characteristics include the content of calories, water, ash, and sulfur in coal. Because each type of product has an influence on the process and delivery, it is also difficult to determine other products which can affect the selling price directly. Within the scope of supply on a multinational scale, various other transactions also pose challenges, such as the provision of management services, marketing fees, or royalty fees for the use of technology, skills fees, and trademarks or reputations which also become difficulties in their efforts to avoid taxes, but on the other hand what mining business players do is actually related to efficiency, business synergy and focus, not only to minimize taxes (Novriansa, 2019).

The controlling company is determined by the majority shareholder, therefore the practice of tunneling incentive can be carried out more freely, the practice of tunneling incentive is, among others, by not distributing dividends, selling company assets to the majority shareholder or companies controlled by the controlling shareholder by providing a fixed selling price. lower (La Porta et al., 2000). Based on the results of research from Lo et al., (2010) found that tunneling incentives positively affect the decisions taken by companies to be able to carry out transfer pricing practices. In line with this research, Kurniawan (2018) also adds that transactions between parties that have a special relationship can lead to opportunistic goals of controlling shareholders to run tunneling incentives.

Tunneling incentives have an effect on transfer pricing (Gilson & Gordon, 2005) identify two possible ways that controlling shareholders can get private benefits over the control of company policies, namely through company operating policies and contractual policies with other parties. The forms of private benefits that can be obtained through the company's operating policies include high salaries and benefits, large bonuses and compensation, and dividends. Meanwhile, the way to obtain private benefits through contractual policies is, among others, through tunneling. Tunneling is the transfer of resources out of the company for the benefit of the controlling shareholder (Johnson et al., 2000).

Debt covenants are agreements between creditors (lenders) and debtors (borrowers) that provide financial ratio limits that the debtor must not violate. Transfer pricing is one way that can save companies from defaulting on debt payments, namely by transferring profits from owned companies to companies involved in debt covenants (Rosa et al., 2017). Thus, the company can avoid violating the debt covenant. The effect of debt covenants on a company's decision to apply transfer pricing is usually measured using the Debt to Equity Ratio (DER), namely by calculating the company's total debt to the company's total equity.

Debt covenants also influence the decision to transfer pricing. According to Verawaty (2011) debt covenants are contracts aimed at borrowers by creditors to limit activities that might damage the loan value and loan recovery. To avoid this violation, the tendency of one of the practices carried out by profit companies is to carry out transfer pricing. In accordance with The Debt Covenant Hypothesis in positive accounting theory, the more likely a company is to violate debt covenants, the manager will tend to choose accounting procedures that can transfer future period profits to the current period. (Pramana, 2014) who first added debt covenants and found that debt covenants had a significant positive effect on the decision to transfer pricing and this is in line with research (Rosa et al., 2017).

However, in Nurlita's research (2016) debt covenants do not affect the decision to transfer pricing in line with Eling Sari and Mubarok's research (2018) that debt covenants have a negative and insignificant effect on Transfer Pricing in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2012 -2016.

Bonus mechanism (bonus mechanism), the bonus mechanism is one of the strategies in accounting calculations whose purpose is to reward managers or directors of the company by looking at the profit each year. According to (Hartati, Desmiyawati, 2015) the bonus mechanism of directors can be interpreted as the provision of rewards outside of salary to company directors for the work done by looking at the work performance of the directors themselves. In accordance with the bonus plan hypothesis, company managers with certain bonuses prefer to use accounting methods that increase current period profits. Bonuses will be given to members of the board of directors if the company's profit target is achieved.

The bonus scheme applied by the company will have an impact on management behavior, where management will try to engineer profits to look good, so that the bonuses and remuneration they get will be high. The bonus mechanism is also considered as one of the company's decisions in determining transfer pricing (Sundari & Susanti, 2016).

Transfer pricing decisions are also influenced by the bonus mechanism. The bonus mechanism is usually used by companies to improve the performance of their employees, so that the profits generated each year are higher. There are also companies that want large bonuses by changing reported earnings. According to Purwanti (2010) Tantiem or production services (bonus) is an award given by the GMS to members of the board of

directors every year if the company earns a profit. Research from Hartanti, et al (2015) shows that the bonus mechanism has an effect on transfer pricing decisions. Then Hartati, et al (2014) stated that the bonus mechanism had an effect on transfer pricing decisions, but Mispiyanti's (2015) research examined that the bonus mechanism had no significant effect on transfer pricing decisions.

Tax minimization is a strategy taken by companies to minimize the company's tax burden. Research (Rahayu, 2010) found that the transfer pricing mode is carried out by manipulating the imposition of transaction prices between companies that have a special relationship, with the aim of minimizing the overall tax burden payable. Then (Mangoting, 2000) states that the practice of transfer pricing is often used by many companies as a tool to minimize the amount of tax that must be paid. Tax minimization is taken by the company in order to reduce the company's tax burden. Rahayu, (2010) found a way of transfer pricing by means of manipulating the burden of transaction costs between companies that hold special relationships with the aim of reducing the tax burden payable. Mangoting, (2000) argues that the practice of transfer pricing is mostly done by companies to reduce tax payments.

The thing that triggers companies to carry out transfer pricing is influenced by the increasing tax burden with the aim of reducing the tax burden (Yuniasih et al., 2012). If the company is tunneling, it will sacrifice the rights of minority shareholders by implementing transfer pricing, as evidenced by not distributing it to minority shareholders and transferring assets to companies that have majority ownership abroad so that domestic companies tend to become cost centers so that the tax burden to be low. With this practice, reducing the tax burden will strengthen the relationship between tunneling incentives and transfer pricing (Nuradila & Wibowo, 2018). The same study found that the increasing tax burden triggers companies to carry out transfer pricing in the hope of reducing the burden (Yuniasih, 2012).

Soaring debt figures can cause leaders to use a strategy to increase company profits by using transfer pricing. The occurrence of corporate debt is used by managers to reduce corporate tax costs by means of tax minimization, namely increasing the interest budget so that company profits can increase (Nuradila & Wibowo, 2018). Research by Prananda & Triyanto, (2020) states that the tax burden has a positive effect on transfer pricing. If a company has a higher tax burden, this will trigger the company to carry out transfer pricing which aims to reduce the burden borne.

Tax minimization can strengthen the positive influence in the bonus mechanism relationship on transfer pricing. Putra, (2018) states that in general, in business practice, companies identify tax payments as a burden that must be borne by the company, so the company will seek to minimize the tax burden with a view to maximizing profits. company. In a company, profit is a benchmark for giving bonuses to company directors. The bonus system is considered to be the most technical method used to compensate company directors. The company's directors get a good image in the eyes of company owners if they are able to generate higher company profits. The existence of a bonus mechanism that affects the company's strategy, supported by the existence of a scheme to minimize the tax burden borne by the company will encourage and strengthen managers to carry out transfer pricing.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Nuradila & Wibowo (2018) found a positive effect of tunneling incentives on the company's transfer pricing decisions. These results indicate that tunneling incentives have a significant effect on transfer pricing decisions in multinational companies with a significance level of 0.000 each.

Kurniawan & Sutjiatmo (2018) found a positive influence of tunneling incentive on transfer pricing decisions. Noviastika et al., (2016) found a positive effect of tunneling incentives on the company's transfer pricing decisions, so it can be concluded that tunneling incentives have a significant effect on the indications of companies doing transfer pricing.

By holding tunneling by the controlling shareholder, dividend payments are not made so that minority shareholders are not benefited. The controlling shareholder conducts tunneling activities with the aim of temporarily transferring their assets to members or subsidiaries by means of transfer pricing in order to reduce expenses which in turn can reduce the company's profit. If more tunneling activities are carried out, transfer pricing activities will also increase and vice versa.

H1: Tunneling Incentive has a positive effect on transfer pricing

Debt covenants are intended to limit managers from being involved 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 the form of accounting numbers and covenant violations are so detrimental that company managers, who violate debt covenants, make accounting choices that reduce the possibility of default. The debt covenant hypothesis is one of the main implications that can be tested from positive accounting theory. According to this hypothesis, managers are encouraged to make financial reporting decisions that reduce the likelihood that covenants in their corporate debt agreements will be violated. The strength of this drive depends on the costs of violating the firm's debt covenants, that is, on the costs of technical default (Dichev & Skinner,

2002).

Tjandrakirana & Ermadiani (2020) in the hypothesis related to debt covenants affect the company's decision to apply transfer pricing. This means that if a company's debt to equity ratio (DER) shows a large value, it will make the company decide to apply transfer pricing. Thus, it can be concluded that debt covenants affect the company's decision to apply transfer pricing. Nuradila & Wibowo (2018) found a positive influence of debt covenants on the company's transfer pricing decisions. These results indicate that debt covenants have a significant effect on transfer pricing decisions in multinational companies.

Junaidi & Yuniarti (2020) also found that there was a positive influence of debt covenants on the company's transfer pricing decisions. This means that debt covenants have a significant positive effect on transfer pricing.

The higher the company's debt or equity ratio, the greater the possibility for managers to choose accounting methods that can increase profits. One way that companies use to increase profits and avoid credit regulations is transfer pricing (Pramana, 2014) by shifting profits to companies that have a fairly high debt ratio. So that by using the transfer pricing method, the company will avoid violating the debt covenant.

H2: Debt covenants have a positive effect on the company's decision to transfer pricing

Given that the bonus mechanism based on the amount of profit is the most popular way of rewarding directors or managers, it is logical that directors whose remuneration is based on profit levels will manipulate these profits to maximize bonus receipts and their remuneration. As argued (Healy, 1985), bonus motivation can encourage managers to choose accounting procedures that can shift earnings from future periods to current periods. This is supported by (Hartati, Desmiyawati, 2015), the bonus mechanism is one of the strategies or calculation motives in accounting whose purpose is to maximize the receipt of compensation by the board of directors or management by increasing the company's overall profit.

Saifudin & Putri (2017) in their research based on logistic regression test shows that the bonus mechanism affects the company's decision to transfer pricing. In carrying out their duties, the directors tend to want to show good performance to the owners of the company. Research from Hartanti, et al (2015) shows that the bonus mechanism has an effect on transfer pricing decisions. Then Hartati, et al (2014) stated that the bonus mechanism had an effect on transfer pricing decisions, but Mispiyanti's (2015) research examined that the bonus mechanism had no significant effect on transfer pricing decisions.

H3: The bonus mechanism has an effect on transfer pricing decisions.

Tax minimization is a strategy taken by companies to minimize the company's tax burden. Research (Rahayu, 2010) found that the transfer pricing mode is carried out by manipulating the imposition of transaction prices between companies that have a special relationship, with the aim of minimizing the overall tax burden payable. Then (Mangoting, 2000) states that the practice of transfer pricing is often used by many companies as a tool to minimize the amount of tax that must be paid. Tunneling incentive is a behavior of the majority shareholder who transfers the company's assets and profits for their own benefit, but the cost holder is charged to the minority shareholder (Hartati, Desmiyawati, 2015). One form of tunneling is the role of controlling shareholders in transferring company resources through related transactions. Such transactions include sales contracts such as transfer pricing. By holding tunneling by the controlling shareholder, dividend payments are not made so that minority shareholders are not benefited.

The phenomenon of transfer pricing itself is a form of tax avoidance. If a company tunneling occurs, they will sacrifice the rights of minority shareholders by conducting transfer pricing, this will be strengthened by the motivation of tax minimization. The motivation to minimize the tax burden will strengthen the relationship between tunneling incentives and transfer pricing.

Nuradila & Wibowo (2018) in their research state that the Tax minimization variable significantly moderates the effect of tunneling incentives on transfer pricing decisions in multinational companies. The tendency of multinational companies to minimize the tax burden by minimizing profits through transfer pricing practices will greatly strengthen the goal of the majority shareholders, namely minimizing profits by transferring company assets and profits for their own interests through the transfer pricing practice, so that companies do not need to distribute dividends to shareholders. minority shares.

H4: Tax minimization moderates tunneling incentives in transfer pricing

Tax minimization is a strategy taken by companies to minimize the company's tax burden. Research (Rahayu, 2010) found that the transfer pricing mode is carried out by manipulating the imposition of transaction prices between companies that have a special relationship, with the aim of minimizing the overall tax burden payable. Then (Mangoting, 2000) states that the practice of transfer pricing is often used by many companies as a tool to minimize the amount of tax that must be paid. The high debt or equity ratio of the company will allow managers to choose strategies to increase company profits, one of which is by using transfer pricing. Companies tend to shift the profits of affiliated companies that do not default on debt to companies that will default on their debts. Transfer Pricing is carried out by means of the practice of generating income through sales commissions and management services at companies that have high DER ratios. The income received will be used for debt repayment (reducing the DER value).

Nuradila & Wibowo (2018); Amanah & Suyono (2020) and Yulianti & Rachmawati (2019) in their research stated that the test that the Tax minimization variable failed to moderate the effect of debt covenants on transfer pricing decisions in multinational companies.

H5: Tax minimization moderates debt covenants on transfer pricing

Tax minimization is a strategy taken by companies to minimize the company's tax burden. Research (Rahayu, 2010) found that the transfer pricing mode is carried out by manipulating the imposition of transaction prices between companies that have a special relationship, with the aim of minimizing the overall tax burden payable. Then (Mangoting, 2000) states that the practice of transfer pricing is often used by many companies as a tool to minimize the amount of tax that must be paid. In transfer pricing, the owner not only gives bonuses to directors who succeed in generating profits for their divisions or affiliates, but also to directors who are willing to cooperate for the good and benefit of the company as a whole. This is supported by the opinion of Horngren (2008) which states that the bonus of directors is seen from the performance of various divisions or teams in one organization. The greater the overall company profit generated, the better the image of the directors in the eyes of the company owner.

The results of research by Chan and Chow (1997) and Chan and Lo (2005) which state that management can take advantage of transfer pricing as a mechanism for transferring profits between companies in order to reduce taxes, increase management bonuses and transfer resources from one company to another. still one possession.

H6: Tax minimization moderates the bonus mechanism on transfer pricing

RESEARCH METHODS

The population used in this study are mining companies listed on the Indonesia Stock Exchange (IDX) from 2016 to 2020. The sampling technique used in this study is purposive sampling, namely the technique of determining the sample with certain considerations or criteria. The sample used is a company that meets the following criteria:

1) The company was consistently listed on the Indonesia Stock Exchange before 2016 and was not delisted;
2) The company issued audited financial statements as of December 31 for the period 2016 to 2020 in a row
3) The company uses the rupiah currency as the functional currency in the audited annual financial statements.

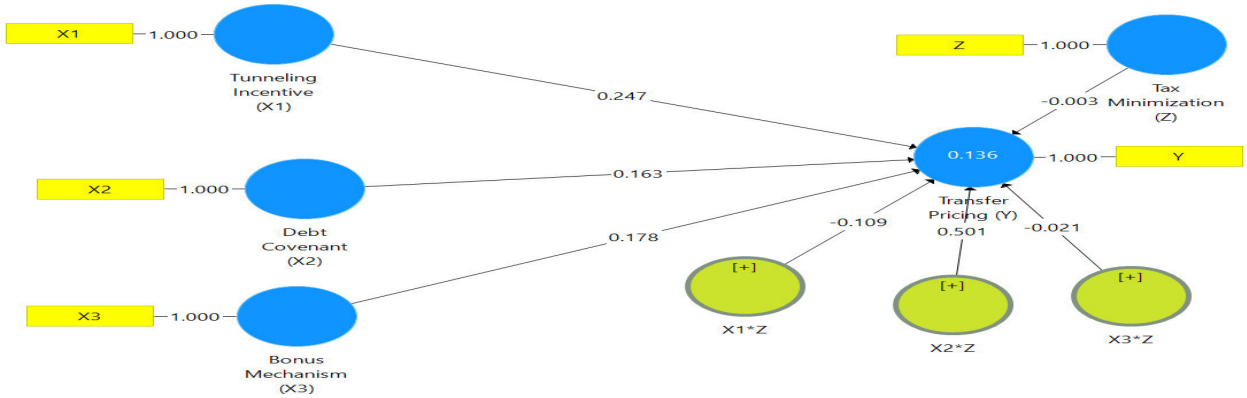
The data collection method used is the non-participant observation method in the 2016-2020 financial statements of mining companies that went public and were listed on the IDX in 2016-2020. The data was obtained through www.idx.co.id. So the data used is as much as 175 data on 35 companies. The data analysis technique used in this research is PLS (Partial Least Square).

RESULTS AND DISCUSSION

PLS Analysis Results

The model testing uses a variance based or component based approach with the Partial Least Square (PLS) method. In PLS the structural model of the relationship between latent variables is called the inner model, while the measurement model is called the outer model. The stability of this estimate is evaluated by using t-statistical test, before analyzing it, it is tested first on the empirical research model. The test results can be described as follows:

Figure 1. PLS Analysis Results



Secondary Data, 2022

Goodness of Fit – Outer Model

There are three values that must be considered at this stage, namely the value of convergent validity, discriminant validity, and composite reliability. Convergent validity is used to determine instrument items that can be used as indicators of all latent variables. The results of this test are measured based on the value of the factor loading (outer loading) of the construct indicators. The results of the convergent validity test are presented in Table 1.

Table 1. Convergent Validity

Variable	*Outer Loading*	*Description*
Tunneling Incentive (X1)	*1.000*	*Valid*
Debt Covenant (X2)	*1.000*	*Valid*
Bonus Mechanism (X3)	*1.000*	*Valid*
Transfer Pricing (Y)	*1.000*	*Valid*
Tax Minimization (Z)	*1.000*	*Valid*

Secondary Data, 2022

In Table 1, it can be seen that the Tunneling Incentive variable has a factor loading value above 0.5 with a value of 1,000 and is declared valid. When viewed on the Debt Covenant variable, the factor loading value is above 0.5 with a value of 1,000. This reflects that the Debt Covenant is able to convince the company about the loan agreement made by the company.

The value of the Bonus Mechanism variable has a value greater than 0.5, which is 1,000. This illustrates that the variable is dominant in representing the Bonus Mechanism (X3) variable. In addition, this condition reflects that most companies are able to manage the Bonus Mechanism well.

The factor loading value of the Transfer Pricing variable shows a value of 1,000 which is greater than 0.05. Test results Table 5.2 shows that this measurement can be explained that it has met the requirements of convergent validity. The Tax Minimization variable has a factor loading value above 0.5 with a value of 1,000 and is declared valid. When viewed on the Tax Minimization variable, the factor loading value is above 0.5 with a value of 1,000. This reflects that Tax Minimization is able to convince the company about the good management of the company's tax burden.

The results of the discriminant validity test are presented in Table 2 which explains that the value of the square root of average variance extract (AVE) on the research variable has a value above 0.5 so that this measurement can be explained as meeting the requirements of the discriminant validity measurement.

Table 2. Discriminant Validity

Variable	*AVE*	*Description*
Tunneling Incentive (X1)	*1.000*	*Valid*
Debt Covenant (X2)	*1.000*	*Valid*
Bonus Mechanism (X3)	*1.000*	*Valid*
Transfer Pricing (Y)	*1.000*	*Valid*
Tax Minimization (Z)	*1.000*	*Valid*
*X1*Z*	*1.000*	*Valid*
*X2*Z*	*1.000*	*Valid*
*X3*Z*	*1.000*	*Valid*

Secondary Data, 2022

Furthermore, composite reliability testing is carried out which aims to test the reliability of the instrument in a research model. The results of the composite reliability test are presented in Table 3. Based on Table 4, it can be explained that the results of the composite reliability test are good, because all of the latent variables are reliable, which have a composite reliability value greater than 0.7. This shows that all indicators have become measuring instruments for their respective constructs.

Table 3. Composite Reliability

Variable	*Composite Reliability*	*Description*
Tunneling Incentive (X1)	*1.000*	*Reliable*
Debt Covenant (X2)	*1.000*	*Reliable*
Bonus Mechanism (X3)	*1.000*	*Reliable*
Transfer Pricing (Y)	*1.000*	*Reliable*
Tax Minimization (Z)	*1.000*	*Reliable*
*X1*Z*	*1.000*	*Reliable*
*X2*Z*	*1.000*	*Reliable*
*X3*Z*	*1.000*	*Reliable*

Secondary Data, 2022

The last step after testing composite reliability is testing Cronbach's alpha value. The test results in Table 4 show that all latent variables, namely tunneling incentive (X1), debt covenant (X2), bonus mechanism (X3), transfer pricing (Y), and tax minimization (Y) have Cronbach's alpha values above 0.7 so that it can be concluded that this research has met the reliability.

Table 4. Cronbach's Alpha

Variable	*Crnbach's Alpha*	*Description*
Tunneling Incentive (X1)	*1.000*	*Reliable*
Debt Covenant (X2)	*1.000*	*Reliable*
Bonus Mechanism (X3)	*1.000*	*Reliable*
Transfer Pricing (Y)	*1.000*	*Reliable*
Tax Minimization (Z)	*1.000*	*Reliable*
*X1*Z*	*1.000*	*Reliable*
*X2*Z*	*1.000*	*Reliable*
*X3*Z*	*1.000*	*Reliable*

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Goodness of Fit-Inner Model (Structural Model)

Goodness of structural fit in the inner model describes the relationship between latent variables based on substantive theory. Assess the model with PLS, starting with looking at the R-square for each endogenous latent variable. The results of the inner model test can see the relationship between constructs by comparing the significance value and R-square of the research model. The R2 value of the endogenous variables in this study can be seen in Table 5. The R2 value of the Transfer Pricing (Y) variable of 0.136 means that 13.60% of the variation in the Transfer Pricing variable is explained by the Bonus Mechanism, Debt Covenant, Tax Minimization, Tunneling Incentive variables used in model, while the remaining 86.40% is explained by other variables or factors outside the model.

Table 5. R^2 Value of Endogenous Variables

Endogenous Variables	*R-Square*
Transfer Pricing (Y)	*0.136*

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The goodness of the fit structural model in the inner model is tested using predictive value – relevance (Q2), to measure how good the observation value is produced by the model and also the parameter estimates, meaning how much influence exogenous variables have on endogenous variables so that only endogenous variables have a Q2 value. Predictive value – relevance is obtained by the formula:

$Q2 = 1–(1–R1^2)$

$Q2 = 1-(1-0.316^2)$

$Q2 = 0.10$

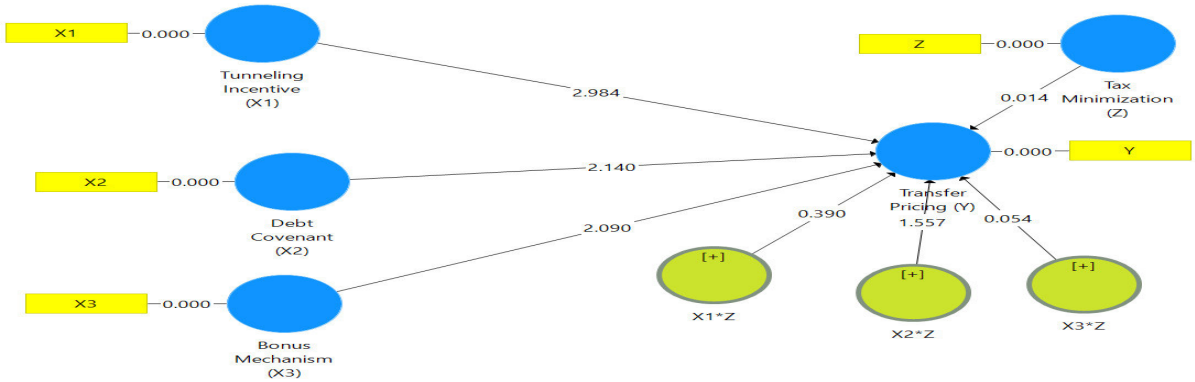
Q-Square value > 0 indicates the model has predictive relevance. On the other hand, if the value of Q-Square < 0, it shows that the model lacks predictive relevance. Assuming the data is distributed free, the structural model of the PLS predictive approach is evaluated with R-square for the dependent construct, Q-square test for predictive relevance

The results above show the R square value of 0.136, thus the value is > 0. The value of Q2 is close to the value of 1 which means the model has a predictive value – relevance, and it can be stated that this structural model fits the data.

Hypothesis Testing Results

Hypothesis testing is done by using the p test (p-value) on each path of influence between variables as shown in Figure 5.2. In PLS statistical testing of each hypothesized relationship is carried out using simulation. Testing with bootstrapping is also intended to minimize the problem of abnormal research data.

Figure 2. PLS Analysis Bootstrapping Results



Secondary Data, 2022

Table 6. Inner Loading

	Original Sample (O)	*Sample Mean (M)*	*Standard Deviation (STDEV)*	*T Statistics (|O/STDEV|)*	*P Values*
Bonus Mechanism (X3) -> Transfer Pricing (Y)	*0.178*	*0.204*	*0.085*	*2.090*	***0.037***
Debt Covenant (X2) -> Transfer Pricing (Y)	*0.163*	*0.171*	*0.076*	*2.140*	***0.033***
Tunneling Incentive (X1) -> Transfer Pricing (Y)	*0.247*	*0.245*	*0.083*	*2.984*	***0.003***
*X1*Z -> Transfer Pricing (Y)*	*-0.109*	*-0.149*	*0.279*	*0.390*	***0.697***
*X2*Z -> Transfer Pricing (Y)*	*0.501*	*0.516*	*0.322*	*1.557*	***0.120***
*X3*Z -> Transfer Pricing (Y)*	*-0.021*	*0.063*	*0.390*	*0.054*	***0.957***

Secondary Data, 2022

The Effect of Tunneling Incentive on Transfer Pricing

The results of the bootstrapping test from the PLS analysis can be seen in Table 6. It has been determined previously that the t-table value with a significance of five percent is 1.96. Table 6 provides information that the Tunneling Incentive shows a positive and significant effect on transfer pricing as indicated by the path coefficient with a value of 0.247 with a t-statistic of 2.984 (> 1.96). The results of this test indicate that Hypothesis 1 (H1) which states that Tunneling Incentive has a positive and significant effect on transfer pricing can be proven. This shows that the increase in transfer pricing can increase the company's Tunneling Incentive.

Tunneling Incentive has a positive and significant effect on Transfer Pricing, this means that the increasing practice of tunneling incentives carried out in the company, the company will carry out more transfer pricing with parties who have a special relationship. Vice versa, if the practice of tunneling incentives carried out by companies is decreasing, the frequency of transfer pricing activities will also be lower in companies with related parties.

The results of this test are consistent with the proposed hypothesis. So it can be seen that mining sector companies listed on the Indonesia Stock Exchange in 2016-2020 in deciding to transfer pricing are influenced by the size of the tunneling incentive. In agency theory, it has been explained that the controlling or majority shareholder can transfer all company resources to himself through transactions between the company and the owner. This can be done, namely by selling assets, providing loans, etc. and controlling or majority shareholders can increase the portion of the company without having to transfer assets through the issuance of dilutive shares or other financial transactions that result in losses for non-controlling shareholders or minority.

The results of this study are in line with research conducted by Nuradila and Wibowo (2018); Sutjiatmo (2018); Noviastika et al., (2016) who found a positive effect of tunneling incentives on the company's transfer pricing decisions. The results in this study are different from the research conducted by (Suryarini et al., 2020) which states that tunneling incentives have no effect on the company's transfer pricing decisions.

The Effect of the Debt Covenant on Transfer Pricing

Furthermore, Debt Covenant shows a positive and significant effect on Transfer Pricing. These results are shown in Table 6, where the path coefficient shows a value of 0.163 with a t-statistic value of 2.140 (> 1.96). This test shows that Hypothesis 2 (H2) which states that the Debt Covenant has a positive and significant effect on Transfer Pricing can be proven. This means that a significant increase in Debt Covenant will significantly

increase consumer transfer pricing.

Debt covenants have a positive effect on the company's decision to transfer pricing. This means that if debt covenants increase in the company, the company will do more transfer pricing with parties who have a special relationship by transferring profits from companies with low DER ratios to affiliates with high DER ratios. Vice versa, if the debt covenants applied by the company are less, the frequency of transfer pricing activities will be lower in companies with related parties.

The results of this test are consistent with the proposed hypothesis. So it can be seen that mining sector companies listed on the Indonesia Stock Exchange in 2016-2020 in deciding to transfer pricing are influenced by the size of the debt covenant. Debt covenants are closely related to agency theory, where in practice investors as company owners represent the management of resources in the company to the contracted party, namely the manager to be able to generate profitable returns for the company. The intermediary used to measure debt covenants is the leverage ratio. This ratio is useful for providing an overview of the obligations to third parties on the company's capital structure, so that the risk of uncollectible debt in the company can be predicted.

The results of this study are in line with research conducted by Tjandrakirana and Ermadiani (2020); Nuradila and Wibowo (2018); Junaidi and Yuniarti. Zs (2020) who found a positive influence of debt covenants on the company's transfer pricing decisions. The results in this study are different from the research conducted by (Wahyu Indrasti, 2016) which states that the Debt Covenant has no effect on the company's transfer pricing decisions.

The Effect of the Bonus Mechanism on Transfer Pricing

Bonus Mechanism shows a positive and significant effect on Transfer Pricing, where the path coefficient shows a value of 0.178 with a t-statistic of 2.090 (> 1.96). The results of this test give meaning to accept Hypothesis 3 (H3) which states that the Bonus Mechanism has a positive and significant effect on Transfer Pricing and can be proven. This shows that a significant increase in the Bonus Mechanism will significantly increase Transfer Pricing.

The bonus mechanism has a positive effect on the company's decision to transfer pricing. This means that if the bonus mechanism increases in the company, the company will carry out more transfer pricing with parties who have special relationships. Vice versa, if the bonus mechanism applied by the company is less, the frequency of transfer pricing activities will be lower in companies with related parties.

The results of this test are consistent with the proposed hypothesis. So it can be seen that mining sector companies listed on the Indonesia Stock Exchange in 2016-2020 in deciding to transfer pricing are influenced by the size of the bonus mechanism. Hongren (2008:428) states that bonus compensation is seen based on team variations in various divisions within an organization. The company team must be willing to help each other. Directors' bonuses are not based on subunit profits but are based on the overall good and profit of the company. So to get the overall bonus, transfer pricing practices are carried out to transfer profits from affiliates with high profits to affiliates with low profits. In addition, in practice there is an assessment of bonuses not only based on the performance of individual directors, but also an assessment of bonuses on the overall performance of affiliates.

The results of this study are in line with research conducted by Saifudin and Septiani Putri (2017); (Lo et al., 2010); Rahma and Wahjudi (2021) which state that the bonus mechanism affects transfer pricing decisions. However, the results of this study are not in line with the research conducted by Mispiyanti (2015) which examined that the bonus mechanism has no significant effect on transfer pricing decisions.

Tax Minimization as Moderating Variable on the effect of Tunneling Incentive on Transfer Pricing

Tax minimization is not able to moderate the effect of Tunneling Incentive on Transfer pricing, where the path coefficient shows a value of -0.190 with a t-statistic of 0.390 (<1.96). The results of this test indicate that Hypothesis 4 (H4) which states that Tax minimization is able to moderate the effect of Tunneling Incentives on Transfer pricing cannot be proven. This shows that Tax minimization is not able to moderate the effect of the Tunneling Incentive on Transfer Pricing significantly and not significantly.

Tax minimization is not able to moderate the effect of tunneling incentives on transfer pricing decisions. Tunneling is the behavior of managers as controlling shareholders who transfer company profits for their own interests by charging fees to minority shareholders (Amanah & Suyono, 2020)

Concentrated share ownership allows companies to tunnel through tax minimization to transfer profits to the parent company. Tax regulations related to transfer pricing practices that apply multinationally, namely the OECD (Organization for Economic Co-operation and Development) and nationally (Director General of Taxes Regulation Number PER-32/PJ./2011 narrow the scope for companies to carry out tax practices aggressively through tax minimization Aggressive taxation practices through the transfer of assets to the parent by selling goods below the market price and conducting a Right Issue (the right granted to existing investors to buy new shares issued before new shares) which causes the percentage of minority share ownership to be further diluted The result is to reduce the value of dividends received by minority shareholders. The practice of transfer pricing through tunneling incentives that is carried out not in accordance with tax regulations will be subject to

substantial taxes and administrative sanctions. In addition, strict supervision from independent commissioners can result in protect the interests of minority shareholders from transfer pricing practices. So that the practice of tunneling from affiliated companies to the parent company will also decrease (Amanah & Suyono, 2020) and tax minimization cannot moderate tunneling incentives for transfer pricing practices.

Based on the results of this test, it can be seen that tax minimization is not able to strengthen or weaken the effect of tunneling incentives on transfer pricing decisions in mining sector companies listed on the Indonesia Stock Exchange in 2016-2020. This result is in line with research conducted (Handayani, 2021) which states that tax minimization cannot moderate the effect of tunneling incentives on transfer pricing provisions with a positive regression coefficient. Simultaneously, tax minimization cannot moderate the effect of tunneling incentives on transfer pricing provisions based on research conducted by (Amanah & Suyono, 2020).

Tax Minimization as a Moderating Variable Influence of Debt Covenant on Transfer Pricing

Tax minimization is not able to moderate the effect of the Debt Covenant on Transfer Pricing, where the path coefficient shows a value of 0.501 with a t-statistic of 1.557 (<1.96). The results of this test indicate that Hypothesis 5 (H5) which states that tax minimization is able to moderate the effect of debt covenants on transfer pricing is not significant and cannot be proven. This shows that tax minimization is not able to moderate the effect of the debt covenant on transfer pricing significantly but not significantly.

Tax minimization is not able to moderate the influence of debt covenants on transfer pricing decisions. This shows that when there is a shift in profits from companies that have a low DER (Debt Equity Ratio) to affiliated companies with a high level of DER by means of transfer pricing, namely companies that have a high DER ratio will create income in the form of management services or sales commissions to affiliates. with the aim of paying debts so that the DER value will decrease and avoid violating the debt covenant (Debt Covenant). So the increase in income which automatically increases the profit will be directly proportional to the tax burden paid, so that tax minimization does not occur and does not affect the debt covenants of transfer pricing practices.

Based on the results of this test, it can be seen that tax minimization is not able to strengthen or weaken the influence of debt covenants on transfer pricing decisions for mining sector companies listed on the Indonesia Stock Exchange in 2016-2020. The results of this study are in line with the research conducted by Nuradila & Wibowo (2018) which in their research stated that the tax minimization variable failed to moderate the effect of debt covenants on transfer pricing decisions in multinational companies. The results of this study are also strengthened by research conducted by (Yulianti & Rachmawati, 2019) that debt covenants have no significant negative effect on transfer pricing.

Tax Minimization as Moderating Variable on The Effect of Bonus Mechanism on Transfer Pricing

Tax minimization is not able to moderate the effect of the bonus mechanism on transfer pricing, where the path coefficient shows a value of -0.021 with a t-statistic of 0.054 (<1.96). The results of this test indicate that Hypothesis 6 (H6) which states that Tax minimization is able to moderate the Effect of the Bonus Mechanism on Transfer Pricing cannot be proven. This shows that Tax minimization is not able to moderate the Effect of Bonus Mechanism on Transfer Pricing significantly and not significantly.

Tax minimization is not able to moderate the effect of the bonus mechanism on transfer pricing decisions. This shows that the awarding of bonuses is based on overall performance (holding and affiliation), then the bonus shift which is basically a shift in profits between affiliates by means of transfer pricing, namely shifting profits from companies that have high profits or profits to companies that have low profits through the creation of income in the form of sales commissions and management services from companies that have low profits will result in an increase in the income tax burden (income tax burden is directly proportional to profit). So that tax minimization is not able to influence the effect of the bonus mechanism on transfer pricing. In addition, the bonus mechanism used by company owners with the aim of giving appreciation to the board of directors who have managed their company well is still being carried out to motivate the performance of the directors by means of a separate assessment (Key Performance Indicator) in the form of a willingness to share profits with affiliates by means of fixed transfer pricing. generate income tax burden Article 21 of the Income Tax Law.

Based on the results of this test, it can be seen that tax minimization is not able to strengthen or weaken the effect of the bonus mechanism on transfer pricing decisions in mining sector companies listed on the Indonesia Stock Exchange in 2016-2020. This is in line with the thoughts expressed by Nuradila and Wibowo (2018), Amanah and Suyono (2020), Rahmawati Nila and Mulyani Susi Dwi (2020) who argue that tax avoidance cannot mitigate the impact of the bonus mechanism on transfer pricing decisions in multinational companies.

Tax minimization cannot moderate the effect of the bonus mechanism on transfer pricing provisions and the regression coefficient is negative, in other words, it cannot increase transfer pricing provisions. Simultaneously, tax minimization cannot moderate the effect of the bonus mechanism on the provision of transfer pricing (Handayani, 2021).

CONCLUSION

The variables of tunneling incentive, debt covenant and bonus mechanism have a positive and significant effect

on transfer pricing. And the use of tax minimization moderating variable which moderates the effect of tunneling incentive, debt covenant and bonus mechanism variables on transfer pricing. This study can also prove the theories that underlie this research, including Positive Accounting Theory, Agency Theory, Theory of Reasoned Action (TRA), and Contingency Theory. The results of the study explain that tunneling incentives, debt covenants and bonus mechanisms are important variables that have a positive and significant effect on transfer pricing, either directly or indirectly through the moderating variable of tax minimization. Thus, these results can be used as material for consideration and input for strategic policy makers in determining policies that are carried out to improve company performance.

In future research, it is expected to add other variables such as liquidity, firm size, Return on equity (ROE), Return on Assets (ROA) and liabilities as well as other variables that have not been included in this study, so as to expand the scope of this research. research and can obtain a comparison of the results of different studies. Researchers are also advised to replicate in future research. Replication can be done with the same research object in different periods and different scopes with the same research period.

Research Limitations

1) The sample used in this study only focuses on mining sector companies listed on the Indonesia Stock Exchange, so it cannot be generalized to other sectors. For further research, it is recommended to increase the research sample, not only limited to mining sector companies, but also in other sectors such as finance, manufacturing and others.
2) The year of observation for this research is limited to 2016 to 2020, it is better for further research to extend the observation period so that it is expected to provide better results.

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