

PalArch's Journal of Archaeology
of Egypt / Egyptology

**THE EFFECT OF *EFFECTIVE TAX RATE*,
TUNNELING INCENTIVE, AND *EXCHANGE RATE*
ON COMPANY DECISIONS TO TRANSFER
PRICING : FOOD AND CONSUMPTION SUB-
SECTOR COMPANIES LISTED ON THE
INDONESIA EVIDENCE**

Dirvi Surya Abbas *¹, Arry Eksandy²

^{1,2}Faculty of Economics and Business, University of MuhammadiyahTangerang,
Banten Indonesia

Email: abbas.dirvi@gmail.com

Dirvi Surya Abbas, Arry Eksandy, **THE EFFECT OF EFFECTIVE TAX RATE, TUNNELING INCENTIVE, AND EXCHANGE RATE ON COMPANY DECISIONS TO TRANSFER PRICING : FOOD AND CONSUMPTION SUB-SECTOR COMPANIES LISTED ON THE INDONESIA EVIDENCE**-PalArch's Journal Of Archaeology Of Egypt/Egyptology 17(7), ISSN 1567-214x

ABSTRACT: The purpose of this study was to determine the effect of the Effective Tax Rate, Tunneling Incentive and Exchange Rate on the company's decision to conduct Transfer Pricing at food and consumption sub-sector companies listed on the Indonesia Stock Exchange (BEI). The research period used is 5 years, namely the 2015-2019 period. This study's population includes the Food and Consumption Sub-Sector Companies listed on the Indonesia Stock Exchange for the period 2015-2019. The sampling technique was using a purposive sampling technique. Based on the established criteria, a total sample of 7 companies was obtained. The type of data used is secondary data obtained from the Indonesia Stock Exchange website. The analysis method used is panel data regression analysis, including the F test and t-test processed using the Eviews 9.0 program. The results showed that the Effective Tax Rate positively affected Transfer Pricing and the Exchange Rate harmed Transfer Pricing, while Tunneling Incentive did not affect Transfer Pricing.

Keywords: *Transfer Pricing, Effective Tax Rate, Tunneling Incentive and Exchange Rate.*

INTRODUCTION

Facing the increasingly modern era of globalization, the economy develops indefinitely; even the state is no longer a limit. New problems will arise that must be prepared to be faced. One of them is that multinational companies will face tax differences that apply in each country. The rapid development of the world economy is one of the impacts of globalization besides that a country is no longer a limitation. The problem that often arises is the tax rate, where multinational companies will face this problem. With this difference in tax rates, multinational companies make decisions to carry out transfer pricing.

The function of practice transfer pricing has developed. Initially, this practice transfer pricing was only used for certain interests, but nowadays, it is often carried out with an objective that does not follow its original purpose. Initial objective Transfer pricing is to assess the performance of members and divisions of a company. But developments have been able to change the original function of transfer pricing. Transfer pricing is also often used for tax management, a business in which a company can minimize the amount of tax to be paid. Apart from being coercive, taxes are something that is often avoided by many companies (Mangoting, 2015).

The development of the times with the existence of transfer pricing is increasingly used by companies to manipulate so that tax payments can be as minimal as possible. The initial objective of transfer pricing is getting lost due to errors in applying it in a company. Many parties think that transfer pricing is one reason the state will suffer losses because the taxes paid are too small.

LITERATURE REVIEW

Agency Theory

Brigham & Daves (2001) in Ahmad & Septriani (2008), explains that maximizing the prosperity of shareholders or stockholders is one of the company's goals from the perspective

of financial management. Not all owners of capital have a good ability to achieve goals. To reduce failure, the responsibility for managing the company is left to professional parties. The existing limitations can be closed by those who already have good professionalism. Managers or agents here are referred to as professionals. Give power to company managers and owners, that is, shareholders hoping that managers can make decisions by creating a potential conflict of interest called theory agency (agency theory).

Political Cost

The political cost calculates all costs incurred by companies for all political actions such as taxes, government regulations, government subsidies, labour wages, and others. For companies, the political intensity is often related to the size of the company. This perspective develops an understanding of transferring wealth or funds from a company due to its political exposure. The amount transferred is often related to the size and appearance of the company. Political costs reveal that large companies have relatively high profits permanently, so the government can be motivated to raise taxes and request higher public services from companies.

Transfer Pricing

Transfer pricing is a company policy determining the transfer price for a transaction, be it goods, services, intangible assets, or financial transactions conducted by the company. There are two groups of transactions in transfer pricing, namely intracompany and intercompany transfer pricing. Intra Company transfer pricing is transfer pricing between divisions within a company. Meanwhile, intercompany transfer pricing is transfer pricing between two companies that have a special relationship. The transaction itself can be carried out in a different country (international transfer pricing) (Budi in HadiSetiawan, 2014).

Transfer pricing Initially Was only a major issue for tax

administrators and tax experts, but transfer pricing has become the centre of economists' attention regarding tax payment obligations for multinational corporate activities. According to some literature, Transfer pricing is a special sale price used in the inter-divisional exchange division recorded revenues for sellers (selling division) and division cost buyers (buying division). Transfer pricing is often referred to as intercompany pricing, intercorporate pricing, interdivisional or internal pricing, a price calculated for management control purposes or the transfer of goods and services between members (group companies). Transfer pricing is usually defined for intermediate products, which are goods and services supplied by the selling division to the buying division. (Anita Kamilah, 2016)

Effective Tax Rate

The effective tax rate is the company's effective tax rate which can be calculated from tax income expense (current tax expense) divided by profit before tax. The lower the value of the effective tax rate, the better the value of the effective tax rate in a company and the better the value of the effective tax rate indicates that the company has succeeded in implementing tax planning.

The effective tax rate can be defined as the amount of tax burden that must be paid by the subject tax in a reasonable amount so as not to hinder the achievement of objectives of the subject's tax. The Subject tax, in this case, is a company that is subject to corporate income tax. In-Law Number 2008, explains that those subject to tax consist of individuals, entities, and permanent establishments. In contrast, the object of taxation is the income that every increase in economic capability can be accepted or obtained in Indonesia and abroad that can be used for consumption or to increase the wealth of the taxpayer, by name or in any form.

Tunneling Incentive

As owners of capital, shareholders have rights and obligations over the company following laws, regulations, and company budgets. As a consequence of the existence of rights, shareholders must be aware of their responsibilities as owners of capital by considering the laws and regulations and the company's articles of association. Minority shareholders and other external parties are often disadvantaged by controlling shareholders because of the strong influence that creates the risk of exploitation, such as conglomerate business groups' characteristics. The ability to control business activities, on the one hand, arises due to sharing ownership which is concentrated in one of the controlling parties, which will lead to activities tunnelling. Tunnelling is the activity of transferring assets in profit out of the company to benefit the company's stock controlling.

Exchange Rate The

The exchange rate of a foreign currency is the value between one currency and another. This means that the exchange rate shows the ratio of the value between two different currencies. This means that a currency's value is determined by the exchange rate of that currency against other currencies. According to Mulyani (2014), it is said that the price of a currency relative to other currencies (exchange rate) is highly dependent on the power of supply and demand for the currency. Sartono (2001) in Social and Machfoedz (2002: 349) states that the meaning of currency exchange rates according to the FASB is the ratio between a unit of currency and some other currencies be exchanged at a certain time. It is important to understand the difference between the real exchange rate and the nominal exchange rate because they affect the exchange rate risk. Changes in the nominal exchange rate will be followed by the same price changes that make the company do not affect the domestic company's relative financial position and its foreign

competitors, and there is no effect on cash flows.

Effect of Effective Tax Rate on Transfer Pricing

Effective Tax Rate (ETR) is the payment of some taxes high, weakening exchange rate, concentrated share ownership, and the existence of profit engineering to get a high bonus. The transfer price is assessed to be a solution when the company faces this situation, but on the other hand, some parties suffer losses, especially the state. Effective Tax Rate (ETR) is a proxy for taxes.

Research on taxes with transfer pricing conducted by These Regina (2016), GustiAyu& I KetutSujana (2017), DesiAlfiatus and DiahProbawulan (2019), which states that taxes have a positive effect on transfer pricing. This explains that multinational companies often use transfer pricing to minimize the amount of taxes that must be paid. practice Transfer pricing can be carried out by increasing the purchase price or reducing the selling price between companies in one group and transferring the profits earned to groups domiciled in countries that apply low tax rates.

H₁: *Effective Tax Rate affects Transfer Pricing.*

Effect of Tunneling Incentive Against Transfer Pricing

Emerging incentive tunnelling occurs due to the agency problem between majority shareholders with minority shareholders. This problem arises because of the different interests and goals of each of the interested parties. Share ownership that is concentrated in one party or one interest will provide the ability to control the company's business activities under its control.

According to Marfiah and AndriPooren (2014), Dito Tri Hapsoro (2015), and Alfin (2018) state that tunnelling incentives have a positive effect on decisions transfer pricing because tunnelling is the behaviour of management or majority

shareholders who transfer company assets and profits for their own interests. however, the fee is charged to minority shareholders. According to Alfin (2018), related party transactions can be used as an opportunistic goal by controlling shareholders to conduct tunnelling. The related party transactions can be in the form of sales or purchases used to transfer cash or assets; current others leave the company through unfair pricing in the controlling shareholder's interests. Then the controlling shareholder will get the power and incentives in a company.

H2: *Tunneling Incentive* has an effect on *Transfer Pricing*.

Effect of Exchange Rate on Transfer Pricing

The exchange rate is the price of one country's currency in units of another currency, commonly referred to as the reference currency. Exchange rates can be traded in two ways: the present value (spot rate) or transactions carried out immediately, and the future value (forward rate) or transactions made at a certain time in the future. The value of a currency is determined by the demand and supply of the related currency. The exchange rate has two values: the spot rate and the forward rate, namely the selling value (ask rate) and the buying value (bid rate), seen from the currency exchange bank. The bid rate is always lower than the asking rate, and it is from the difference between the bid rate and the asking rate that the bank makes a profit.

H3: *Exchange Rate* affects *Transfer Pricing*.

RESEARCH METHODS

The sampling method used in this study was purposive. This study's sample is the Food and Consumption Sub-Sector Companies listed on the Indonesia Stock Exchange for the period 2015-2019. Samples are selected based on predetermined criteria. The samples obtained were 35 from 7 companies over a period of five years (2015-2019).

RESULTS AND DISCUSSION

The data analysis used was panel data regression using Microsoft Excel 2016 and software Eviews 9.0 for systematic research data processing. The regression equation used in the research model consists of descriptive statistics that provide an overview or description. Data have seen from the mean (mean), median, maximum, minimum, standard deviation, skewness, and kurtosis. Results of descriptive statistical analysis of the four variables used in this study are as follows:

Table 1. Descriptive Statistics

	TPC	ETR	TNC	ECR
Mean	0.517140	0.280855	0.646909	0.015367
Median	0.586505	0.241843	0.583346	0.004966
Maximum	1.001864	0.910088	0.999998	0.103206
Minimum	0.021503	0.000343	0.176847	0.000112
Std. Dev.	0.349826	0.179336	0.237361	0.022018
Skewness	0.076035	1.711070	-0.096048	2.280003
Kurtosis	1.494289	6.355131	2.148648	8.666939
Observations	35	35	35	35

Source: Eviews 9.0, data processed (2020)

The Transfer pricing largest (maximum) is 1.001864, and the smallest value (minimum) is 0.021503. The average (mean) transfer pricing is 0.517140, and the standard deviation value is 0.349826. standard deviation Transfer pricing that is smaller than the average value indicates that the conditions of the sample companies' receivables fluctuate every year.

The Tax rate largest (maximum) effective 0.910088 and the smallest (minimum) value is 0.000343. The average (mean) Effective tax rate is 0.280855, and the standard deviation value is 0.179336. The standard deviation of the Effective tax rate, which is smaller than the average value indicates that the conditions for paying the sample companies' taxes have fluctuated every year.

The Tunneling incentive largest(maximum) is 0.999998, and the smallest value (minimum) is 0.176847. The average (mean) Tunneling incentive is 0.646909, and the standard deviation value is 0.237361. The standard deviation of Tunneling incentive, whose value is smaller than the average value, shows

that the condition of the stock capital of the sample companies has fluctuated every year.

The largest (maximum) exchange rate is 0.103206, and the smallest (minimum) value is 0.000112. The average (mean) Exchange rate is 0.015367, and the standard deviation value is 0.022018. The average value which is smaller than the standard deviation value indicates that the condition of the exchange rate fluctuations every year.

Table 2. Summary of Research Results

Hypothesis	<i>t-statistic</i>	Prob	Conclusion
ETR	2.118938	0.0442	Accepted
TNC	1.472778	0.1533	Rejected
ECR	-2.403496	0.0240	Accepted
Total Observations	35		
<i>Adjusted R-Squared</i>	0.632001		
<i>F-Statistic</i>	7.487948		
<i>Prob (F-Statistic)</i>	0.000031		

Source: Eviews9.0 , data processed (2020)

Effect of Effective Tax Rate on Transfer Pricing

Variable Effective tax rate has at-count of 2.118938 and a significant value of 0.0442, which means less than 0.05. Thus, the variable Effective tax rate has a significant positive effect on transfer pricing. This means that the greater the company's effective tax rate, the greater the transfer pricing. Basically, Transfer Pricing is a tax saving mechanism implemented by the companies that are the sample in this study. This study's sample implements a tax saving mechanism through tax planning activities by making the tax burden to a minimum in the applicable tax regulations.

The results of this study are following research conducted

by Waphiroh and Hapsari (2017), Thesa (2017), GustiAyu and I Ketut (2017), Desi and Diyah et al. (2019), Saraswati and Sujana (2017) & Alfin (2018) which state that Tax or Effective tax rate has a significant positive effect on transfer pricing. However, this study's results are not following the research conducted by Hartati (2015), which states that the tax or tax rate effectively does not significantly affect transfer pricing.

Effect of Tunneling Incentive on Transfer Pricing

Variable Tunneling incentive has a t-count of 1.472778 and a significant value of 0.1533, which means greater than 0.05. Thus, the variable is Tunneling incentive not significant to transfer pricing. This means that the greater the tunnelling incentive, the more likely the company will carry out transfer pricing, which can harm minority shareholders. If a subsidiary buys inventory from the parent company at a much higher price, then it is very profitable for the parent company, which is the majority shareholder of the subsidiary.

This study's results follow Saifudin and LukySeptiani (2018) research, which states that tunnelling incentives do not affect transfer pricing. However, the results of this study are not following this research by These Refgia (2017) which states that tunnelling incentives have a positive and significant effect on transfer pricing, this is also supported by the research of Wafiroh Dan Hapsari (2017), Ria Rosa and Rita (2017), GustiAyu and I Ketut (2017), Desi and Diyah (2019), Syarah (2017), Marfuah and Andri (2014), Dito (2015) and also research from Alfin (2018) that tunnelling incentive affects transfer pricing.

Effect of Exchange Rate on Transfer Pricing

Variable Exchange rate has a t-count of -2.403496 and a significant value of 0.0240, which means less than 0.05. Thus, the variable Exchange rate has a negative and significant effect on transfer pricing. This is probably because the size of the

exchange rate does not affect the companies consider whether the company will choose to make a decision transfer pricing or choose not to carry out transfer pricing in the company because, in the sample companies' financial statements, there are many losses in the profit or loss on exchange rates so that the exchange rate does not become the main focus of management's tendency to utilize transactions transfer pricing.

This research is in line with Marfuah and Andry (2014) and Desi and Diyah (2017) who say that the exchange rate affects transfer pricing, which means that foreign currency exchange rates influence the company's decision to carry out transfer pricing. And this research is not following the research of Alfin (2018) and Hartati (2015).

Conclusion

Effective Tax Rate has a significant positive effect on Transfer Pricing in food and consumption sub-sector companies listed on the IDX for the 2015-2019 period. This is indicated by the t-count value $2.118938 > t\text{-table } 1.69389$ and the Prob value. equal to $0.0442 < \alpha 0.05$. Thus H1 in this study is proven. Tunnelling Incentive has no significant effect on transfer pricing in food and consumption sub-sector companies listed on the IDX for the 2015-2019 period. This is indicated by the t-count value $1.472778 < t\text{-table } 1.69389$ and the Prob value. equal to $0.1533 > \alpha 0.05$. Thus H2 in this study is not proven. Exchange Rate has a significant negative effect on Transfer Pricing in food and consumption sub-sector companies listed on the IDX for the 2015-2019 period. This is indicated by the t-value $(-2.403496) < t\text{-table } (-1.69389)$ and the Prob value. equal to $0.0240 < \alpha 0.05$. Thus H3 in this study is proven. The companies that are the research samples are only the food and consumption sub-sector companies listed on the IDX. The observation period in this study is concise, namely only the period 2015-2019. This study

only uses three independent variables: Effective Tax Rate, Tunneling Incentive, and Exchange Rate. These variables can only explain the effect simultaneously on Transfer Pricing of 68.58%, the remaining 31.42% is explained by other variables outside Effective Tax Rate, Tunneling Incentive, and Exchange Rate.

REFERENCES

- Ardana, MA The Effect of Taxes, *Tunneling Incentive, Exchange Rate, and Leverage* on Decisions in *Transfer Pricing* Manufacturing Companies Listing on the Indonesia Stock Exchange in 2015-2018. (2019).
- Aring, A., Tinangon, JJ &Elim, I. Application of Fixed Asset Recognition Accounting in the Regional Financial and Asset Management Agency of Minahasa Regency. *Going Concern J. Ris.Account.* **15**, 69–76 (2020).
- Az-Zahra, H. The Effect of Taxes, Foreign Ownership, Company Size, and Profitability on *Transfer Pricing*.
- Brilianty, T. The Effect of Taxes, Bonus Mechanisms and Company Size on Decisions *Transfer Pricing* in Trading and Companies Manufacturing Listed on the Indonesia Stock Exchange in 2012-2014. (2015).
- Butar, SB Implications of Capital Market Regulations on Profit Management Motives: Testing Based on Signaling Theory. *J. Account. and Finance. Indonesia.* **11**, 99–119 (2014).
- Eksandy, A. &Heriyanto, F. Accounting and Financial Research Methods: Equipped with Panel Data Regression Analysis and Panel Data Logistics Using the EViews Program. *Fak.Econ.and Business Univ. MuhammadiyahTangerang*(2018).
- Fauziah, NF The Effect of Taxes, *Tunneling Incentives*, and Bonus Mechanisms on Company Decisions to *Transfer Pricing*. (2018). Indriaswari, YN The Influence of Taxes, *Tunneling Incentives* and Bonus Mechanisms on Decisions in *Transfer Pricing* Manufacturing Companies Listed on the Indonesia Stock Exchange. (2017).
- Hole Y., Hole S.P., &Wagh.V. (2019). Omni channel retailing: an opportunity and challenges in the Indian market. *Journal of Physics: Conference Series*, 1362 (2019), 1-12.
- Hole, Y., &Snehal, P. &Bhaskar, M. (2018). Service marketing and quality strategies. *Periodicals of engineering and natural sciences*, **6** (1), 182-196.
- Mispiyanti, M. The Effect of Taxes, *Tunneling Incentives* and Bonus Mechanisms on Decisions *Transfer Pricing*. *J. Account. Invest.* **16**,

- 62–74 (2015).
- Mulyani, N. Analysis of the Effect of Inflation, Interest Rates, Rupiah Exchange Rates, and Gross Domestic Product on the Jakarta Islamic Index. *J. Business and Management. Ekse.1*, 1–13 (2014).
- Pratiwi, RA Analysis of Asset Growth, Profit Growth, Financial Ratios, Company Size, and Non-Financial Factors that Affect the Bond Rating of Companies Listed on the IDX. (2014).
- PuspitaAkhdya, DWI &Arieftiara, D. The Effect of Taxes, *Exchange*, Rates And Foreign Ownership on Company Decisions to *Transfer Pricing*. *J. Account. AKUNESA* 6, (2019).
- Raharjo, E. Agency Theory and Stewardship Theory in Accounting Perspective.*Econ Focus. J. Ilm. Econ.2*, (2007).
- Refgia, T., Ratnawati, V. & Rush, R. Effect of Taxes, Mechanism Bonus, Company Size, Foreign Ownership, And *Tunneling Incentive Against Transfer pricing* (Basic Industry Sector Companies And Chemical Listing In BEI Years 2011-2014). (2017).
- Sarifah, DA, Probowulan, D. & Maharani, A. Impact of *Effective Tax Rate* (ETR), *Tunneling Incentive* (TNC), Index Net Profit Trend(ITRENDLB) and *Exchange Rate* onDecisions for *Transfer Pricing* Manufacturing Companies Listing on the Indonesia Stock Exchange (IDX). *J. Ilm. Account.andHumanika*9, (2019).
- Setiawan, H. *Transfer Pricing* and the Risks to State Revenues.*Accessed From http //kemekeu.go. id*(2014).
- Sunarsih, NM &Mendra, NPY The Influence of Intellectual Capital on Firm Value with Financial Performance as an Intervening Variable in Companies Listed on the Indonesia Stock Exchange. *Simp.Nas.Account.XV* 1, (2012).
- Surastiani, DP &Handayani, BD Analysis of Factors Affecting the Quality of Information on Local Government Financial Statements.*J. Din. Account.7*, 139–149 (2015).
- Tiwa, EM, Saerang, DPE &Tirayoh, V. The Influence of Taxes and Foreign Ownership on the Application of *Transfer Pricing* in Manufacturing Companies Listed on the IDX in 2013-2015. *J. EMBA J. Ris. Econ.Management, Business and Accounts.5*, (2017).
- Wirahadi Ahmad, A. &Septriani, Y. Agency Conflict: A Theoretical Review and How to Reduce It. *J. Accounts. Manaj.3*, 47–55 (2008).
- www.idx.co.id