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Determinants of Transfer Pricing Decisions In Indonesian Multinational Companies

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Abstract:- This aims of study was to analyze tax, good corporate governance (GCG), tunneling incentives, intangible assets, leverage, profitability and exchange rates on transfer pricing. This type of research was Explanatory Research. The population were multinational companies in the manufacturing industry which are listed on the Indonesia Stock Exchange (IDX) as many as 156 companies. The selected sample were 64 companies. The independent variables were Tax, Good Corporate Governance, Tunneling Incentive, Intangible Asset, Leverage, Profitability, Exchange Rate. The dependent variable was transfer Pricing. The method of analysis used multiple linear regression and hypothesis testing. The results showed that tax had no positive and not significant effect on the company's decision to do transfer pricing. GCG had a positive and not significant effect on the company's decision to do transfer pricing. TNC had a positive and significant effect on the company's decision to do transfer pricing. Intangible Asset had no positive and insignificant effect on the company's decision to do transfer pricing. Leverage does not have a positive and significant effect on the company's decision to do transfer pricing. Profitability had positive effect on the company's decision to do transfer pricing. Exchange Rate does not have a positive and significant effect on the company's decision to transfer pricing.

Keyword:- *Tax, Good Corporate Governance , Tunneling Incentive, Intangible, Asset, Leverage , Profitability, Exchange Rate dan Transfer Pricing.*

I. INTRODUCTION

The issue of transfer pricing is becoming a very interesting issue and is increasingly gaining attention from tax authorities in various parts of the world. More and more countries in the world are starting to issue regulations on transfer prices, which is one that requires vulnerability to be used as a shortcut in making a profit. Rossing (2013) regarding Tax strategy control: The case of transfer pricing, tax risk management that tries to discuss how tax strategies affect management control systems in companies that face the risk of taxation in transfer prices, the results of multinational company research through price regulation with transfer pricing arrangements. The implementation of the control lever by the company is slightly greater than the decision of the company that wants to apply good, clean, compliant company regulations to the applicable laws and care for the environment which is based on high social values of cultivation (Good Corporate Governance).

According to Cadbury in Sutedi, (2012: 1) explains that Good Corporate Governance is an activity to direct and control the company in order to achieve a balance between strength and competency of the company. Marfuah and Azizah (2014) found that the influence of tax, tunneling incentives, and exchange rates on company decisions to make transfer pricing, attracting tax and tunneling incentives were significantly positive on transfer pricing and exchange rates in this study showed a positive but not significant effect. Hartati. et al (2015) concerning minimal taxation, tunneling incentives, and bonus settings on transfer pricing decisions for all companies listing on the IDX, the results of minimization tax selection, tunneling incentives, and the use of bonuses have a significant effect on transfer pricing. Grubert (2008) in Grant, et al., (2013) which describes profitability, leverage, intangible assets, and multinationality are positively related to the aggressiveness of transfer prices.

Based on the description, there is motivation to conduct this research because in the development of the use of transfer price submissions in multinational companies related to motivation other than tax which increases management planning to conduct price transfers in order to increase profits in the current period and from previous studies, The following including good corporate governance (GCG), tunneling incentives, intangible assets, leverage, profitability, and higher exchange rates. These are a number of factors that can influence a company's decision to implement a transfer pricing policy. This study is interesting to use with the latest data and uses variables such as taxation, good corporate governance (GCG), tunneling incentives, intangible assets, leverage, profitability, and exchange rates as variables in this study.

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In addition, the period in this study was the following years from 2008-2017 which differed from the previous research with a five-year observation period. The measurement of price transfer practices in this study uses a proxy for the ratio of the value of related party transactions (transactions with related parties). This proxy measures the sale and purchase transactions which will cause spending as well as those that can affect the calculation of the company's accounting profit.

Based on this background the objectives of this study include analyzing the effect of tax on transfer prices, analyzing the effect of good corporate governance (GCG) on transfer prices, analyzing the effect of tunneling incentives on transfer prices, analyzing intangible assets to transfer prices, analyzing the influence of leverage on transfer prices, analyze the effect of profitability on transfer prices and analyze exchange rates on transfer prices.

II. LITERATURE REVIEW AND HYPOTESIS

According to the OECD (Organization for Economic Coorperation and Development) 2009, transfer pricing is: "Price at which a company undertakes any transactions with associated enterprises. When a company transfers goods, intangible property or services to a related company, the price charged is defined as a transfer price. Hongren and Sundem (2012) "Transfer Pricing is the effort of multinational companies to reduce income tax by allocating corporate profits to children with lower tax burden. Understanding transfer pricing can be divided into two, namely the understanding is neutral and is authoritative (negative). The neutral notion assumes that transfer prices are purely a business strategy and tactic without reducing the tax burden. While theorative notion assumes that transfer prices are an effort to save tax burden by tactics, including shifting profits to countries with lower tax rates (Suandy 2014).

Based on Article 1 paragraph (8) Regulation of the Director General of Tax Number PER-32 / PJ / 2011, defines transfer pricing, namely Determination of price in transactions between parties that have a special relationship". Meanwhile according to the Statement of Financial Accounting Standards (PSAK) No. 7 (2015), parties that have a special relationship are if one party has the ability to control the other party, or has significant influence over the other party in making decisions. Transactions between parties that have a special relationship are a transfer of resources or obligations between the parties that have a special relationship, regardless of whether a price is calculated. The development of hypotheses in this study is explained below.

- *The Effect of Tax on the Company's Decision to Do Transfer Pricing*

Tax planning that is often used by multinational companies including transfer pricing, thin capitalization, capital repatriation, foriegn-exchange control, international double taxation and foreign tax credit, tax treaty protection / facilities, establishment of representatives, branch or subsidiary (Santoso in Karisma, 2014 : 42). This was supported by Rahayu (2010) in Mispiyati (2015) which stated that the characteristics of the relationship between parent companies in Indonesia and overseas subsidiaries which according to the tax perspective were considered as separate entities. Thus between the parent company and the subsidiary can make transactions (inter company transactions) that are arranged in such a way that the subsidiary (parent company) in Indonesia suffers losses, while the overall business other than in Indonesia is still experiencing profit so as to reduce the tax burden in Indonesia. Kasztelnik (2012) which shows that tax motivation influences the use of transfer pricing policies. The research also proves that transfer pricing can be a tool in reducing international transaction costs and minimizing tax rates can also help companies earn high profits from international cross-country transactions globally. The same study was carried out by Klassen et al. (2013), Rossing (2013), Nurhayati (2013), Hartati et al (2015), Wafiroh and El-Muhasaba (2016) who found evidence that tax variables showed a positive and significant influence on the occurrence of transfer pricing transactions.

Based on some of the research results above, it can be concluded that the tax variable has a positive effect on multinational company decisions in conducting transfer pricing policies. So in this study the hypotheses formulated are as follows:

H1: Tax has a positive effect on the decision to transfer pricing

- *The Effect of Good Corporate Governance (GCG) on the Company's Decision to Transfer Pricing*

According to Cadbury in Sutedi (2012: 1) states that Good Corporate Governance is a process and structure used by corporate organs to improve business success and corporate accountability based on legislation and ethical values. One component of Good Corporate Governance (GCG) used in this study is audit quality. Audit quality can be interpreted as good or not an audit conducted by the auditor. Transparency is an important principle in GCG. This can be done by reporting matters related to taxation in the capital market and the General Meeting of Shareholders (GMS).

Based on Annisa and Kurniasih's research (2012), audit quality affects the implementation of tax avoidance. If a company is audited by The Big 4 Public Accounting Firm (KAP), it will be increasingly difficult to carry out aggressive tax policies. The more audit quality of a company, the company tends not to manipulate earnings for tax purposes (Chai and Liu in Annisa and Kurniasih, 2012: 132). One way in tax avoidance is transfer pricing. The

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results of research conducted by Noviastika et al (2016) show that good corporate governance has a positive effect on the indication of transfer pricing. So in this study the hypotheses formulated are as follows:

H2: Good Corporate Governance (GCG) has a positive effect on the decision to transfer pricing

- *The Effect of Tunneling Incentives on Company Decisions to Transfer Pricing*

Tunneling incentive is a behavior of the majority shareholders who transfer the assets and profits of the company for their own benefit, but the cost holders are charged to the minority shareholders (Hartati, et al., 2014). Research conducted by Sari (2012) in Marfuah and Azizah (2014) states that there are two things that are considered as encouragement for companies to do tunneling. First, ownership structure. Second, the availability of financial resources at companies that will be tunneled. By controlling and having significant influence, the controlling shareholder can adopt policies that benefit him, including contractual policies with related parties.

Related party transactions can be utilized as opportunistic purposes by controlling shareholders for tunneling. The related party transactions can be in the form of sales or purchases that are used to transfer cash or other current assets out of the company through the determination of unfair prices for the interests of the controlling shareholders. Then the controlling shareholder will gain power and incentives in the company (Mispiyati, 2015: 67). This is supported by research Yuniasih (2012) in Hartati et al. (2014) which mentions that share ownership in public companies in Indonesia tends to be concentrated, so there is a tendency for majority shareholders to tunnel.

Based on research conducted by Hartati et al., (2014), Marfuah and Azizah (2014), Wafiroh and Hapsari (2015), Mispiyati (2015), and Noviastika (2016), it is suspected that tunneling incentives have a positive effect on the decision to transfer pricing. So in this study the hypotheses formulated are as follows:

H3: Tunneling Incentive has a Positive Impact on the Transfer Pricing Decision

- *Effect of Intangible Assets on Company Decisions to Transfer Pricing*

Intangible assets become an important part in the operation and sustainability of multinational companies, this is because multinational companies have become the most important part of the majority of intangible assets transactions between countries, regulations regarding setting transfer prices are automatically applied broadly to transactions that involve the transfer of intangible assets in one way or the other. In this case, it is important to understand the ability to separate intangible assets from other assets for valuation purposes (Brauner 2008: 86).

Research and development (R and D) which is part of intangible assets is also known as one of the strategic factors for companies in understanding the relationship between the intensity of RdanD on company performance because it will have an impact on the strategic policies taken by the company including the company's decision to transfer pricing. Based on research conducted by Grant, et al. (2013), it is suspected that intangible assets affect the decision to transfer pricing. So in this study the hypotheses formulated are as follows:

H4: Intangible assets influence the decision to transfer pricing

- *The Effect of Leverage on Company Decisions to Transfer Pricing*

Debt is one of the company's actions in meeting funding sources that aim to run its business. The greater the debt, the taxable income will be smaller because of the greater tax incentives on debt interest (Prakosa, 2014). In general, companies use debt to third parties in carrying out company operations. Adding a number of a company's debt will incur an interest expense that is a deduction from the company's tax burden (Kurniasih and Sari, 2013).

Research conducted by Grant et al., (2013) found that leverage can be a factor that drives transfer pricing aggressiveness with the aim of reducing corporate tax burden. Based on research conducted by Grant, et al. (2013) it is suspected that leverage has a positive effect on the decision to transfer pricing. So in this study the hypotheses formulated are as follows:

H5: Leverage affects the decision to transfer pricing

- *The Effect of Profitability on Company Decisions to Transfer Pricing*

According to Sunyoto (2013: 113), profitability is the company's ability to benefit from its business. Meanwhile, according to Kasmir (2012: 196) profitability ratios are ratios to assess the ability of companies in seeking profits. Research conducted by Bava and Gromis (2015) states that the lower the profitability of a company, the higher the likelihood of a shift in profits that occurs, in other words the greater the allegation that companies commit transfer pricing practices. Richardson and Lanis (2007) in Pradipta and Supriyadi (2015) stated that the greater the income earned by the company, it will affect the amount of income tax that must be paid. Based on research conducted by Grant, et al. (2013), it is suspected that profitability affects the decision to transfer pricing. So in this study the hypotheses formulated are as follows:

H6: Profitability influences the decision to transfer pricing

➢ *Effect of Exchange rate on the Company's Decision to Transfer Pricing*

The development of the business world also makes the company's motives develop in implementing transfer pricing in the company. As mentioned by Prem Sikka and Hugh Willmott (2010: 342), one of the motives of companies to use transfer pricing schemes is to pursue cash flow. Currently multinational companies have competed to be able to expand their marketing networks abroad, Marfuah and Azizah (2014: 157) say because of currency differences most multinational companies ask to exchange one currency for another to make payments, because of the exchange rate which is constantly fluctuating, the amount of cash needed to make payments is also uncertain. The consequence is that the number of foreign exchange units needed to pay for raw materials from abroad can change even if the supplier does not change prices. Meanwhile, cash flows of multinational companies are denominated in several currencies where the value of each currency relative to the value of the dollar will differ over time. These different exchange rates will later influence transfer pricing practices in multinational companies.

Research conducted by Canri et al. 2004), which shows that the exchange rate has a significant positive effect on transfer pricing decisions and this is in line with the formulation of the hypothesis. However, research conducted by Marfuah and Azizah (2014) shows that exchange rates have a positive but not significant effect on transfer pricing decisions. Based on research conducted by Chan et al. (2004) and Marfuah and Azizah (2014) there are significant differences regarding the effect of the exchange rate so it needs to be tested again. Therefore, the hypothesis in this study was formulated as follows:
H7: Exchange rate has a positive effect on the decision to transfer pricing.

III. RESEARCH METHOD

This study examines factors consisting of taxation, Good Corporate Governance, tunneling incentives, intangible assets, leverage, profitability, and exchange rates on the dependent variable, namely the company's decision to transfer pricing. This study uses data in 2008-2017 because in that year there were changes in tax rates and the enactment of changes in taxation laws such as the General Provisions Act and Tax Procedures, the Income Tax Act and the Value Added Tax Act so that there is more tax motivation relevant.

The population of this study is multinational companies in the manufacturing industry listed on the Indonesia Stock Exchange (IDX) with criteria 1) this study uses multinational companies in the manufacturing industry listed on the Indonesia Stock Exchange during 2008-2017; 2) the company was never delisted on the Indonesia Stock Exchange during 2008-2017; 3) sample companies are controlled by foreign companies with a percentage of ownership of 20% or more in 2008-2017. This is in accordance with PSAK No. 15 which states that the controlling shareholder is a party that owns shares or equity securities of 20% or more 4) the sample company did not experience a loss during the observation period of 2008-2017 and 5) the company that reported the financial statements or the data reported is complete in 2008-2017.

The independent variables in this study are Tax (X1), Good Corporate Governance (X2), Tunneling Incentive (X3), Intangible Asset (X4), Leverage (X5), Profitability (X6), Exchange Rate (X7). The dependent variable (the dependent variable) is Transfer Pricing (Y). The method of data analysis uses multiple linear regression analysis to test whether the independent variable has an influence on the dependent variable simultaneously or partially.

IV. RESULT

The population of this research were all manufacturing multinational companies listed on the Indonesia Stock Exchange between 2008-2018. Based on data obtained from the IDX the number of manufacturing multinational companies in 2008-2018 totaled 156 issuers. There were 22 delisting companies. Foreign ownership is less than 20% and has lost 35 companies. The number of samples selected were 64 companies. The number of observations for 10 years were 640 observations. The table presents a summary of statistics from the research variables.

Information	Minimum	Maximum	*Mean*	*Std. Deviation*
Pajak (X1) (%)	-6,00	15,00	0,598	1,628
GCG (X2) (*Dummy*)	0	1	0,460	0,499
TNC (X3) (%)	0,176	0,925	0,568	0,197
Intangible Asset (X4) (*Dummy*)	0	1	0,780	0,414
Leverage (X5) (%)	0,001	4,500	0,496	0,414
Profitability (X6) (%)	0,050	43,170	8,045	8,557
Exchange Rate (X7) (%)	-35,000	26,333	0,850	3,660
Transfer pricing (Y) (%)	0,010	0,930	0,143	0,198

Table 1:- Descriptive Statistics of Research Variable Results (n = 640)
Source: Data processed

Table 1 explains the descriptive statistics of the research variables. The average value of the tax variable is 0.598%. The minimum value of the tax variable is -6.00% and the maximum value is 15.00%. Standard deviation of 1.628%. The standard deviation value of 1.628% means that the value of the tax variable approaches the average value with a smaller size of data distribution. The sample companies have taxes that tend to be low. The average TNC value is 0.568%. The lowest TNC value was 0.176% and the highest TNC value was 0.925%. The standard deviation value of 0.197% means that the TNC variable value indicates that the data distribution is quite large, this is supported by the standard deviation value which is increasingly away from the average value.

Leverage has an average value of 0.496%. The lowest value is 0.001% and the highest value is 4.5%. A standard deviation of 0.414% means that the value of leverage has a level of data distribution away from the average with a greater variation of the spread. The average value of profitability is 8.045%. The minimum value of profitability is 0.050% and the maximum value is 43.170%. The standard deviation value of 8.557% means that the value of profitability is close to average with a smaller size of data distribution.

The average exchange rate is 0.850%. The lowest value of the exchange rate variable is -35,000% and the highest value is 26,333%. A standard deviation value of 3.660% means that the exchange rate is close to average with a smaller size of data distribution. The average value of Transfer pricing is 0.143%. The lowest value of the transfer pricing variable is 0.010% and the highest value is 0.930%. The standard deviation value of 0.143% means that the value of Transfer pricing is approaching the average with a smaller size of data distribution. This study uses multiple linear regression as a tool that accommodates the influence of independent and dependent variables. The independent variables of the study are tax (X1), GCG (X2), TNC (X3), Intangible Asset (X4), Leverage (X5), profitability (X6) and Exchange Rate (X7). The dependent variable is debt / leverage. The results of the regression equation are shown according to Table 2.

Model	*Standardized Coefficients*	t	*P value*	*Information*
	Beta			
(Constant)	-2,301	-10,126	0,000	-
Ln Pajak (X1)	-0,039	-0,762	0,447	Not Significant
GCG (X2)	0,104	2,468	0,014	Significant
Ln TNC (X3)	0,117	2,474	0,014	Significant
Intangible Asset (X4)	-0,064	-1,399	0,162	Not Significant
Ln *Leverage* (X5)	0,061	1,464	0,144	Not Significant
Ln *Profitability* (X6)	-0,074	-1,362	0,174	Not Significant
Ln *Exchange Rate* (X7)	-0,016	-0,300	0,764	Not Significant

Table 2:- Results of Multiple Linear Regression Analysis
Source: Data processed

Based on the analysis results in the regression equation explained below.

Y= -2,301 - 0,039X1 + 0,104X2 + 0,117X3 - 0,064X4 + 0,061X5 - 0,074X6 -0,016X7 + e

Explanation of the results of the regression model equation obtained by a constant of -2.301 explains that if there are no tax variables, GCG, TNC, Intangible Asset, Leverage, profitability and Exchange Rate are constant or equal to zero then the company's decision to do Transfer pricing is -2,301; Tax regression coefficient of - 0.039 means that GCG, TNC, Intangible Asset, Leverage, profitability and Exchange Rate are constant so that each tax increase of 1% then the decision of the company to do the transfer pricing will decrease; GCG regression coefficient of 0.104 means that tax, TNC, Intangible Asset, Leverage, profitability and Exchange Rate are constant, so if corporate governance (GCG) increases, the decision of the company to do the transfer pricing will be higher.

TNC regression coefficient of 0.117 means that tax, GCG, Intangible Asset, Leverage, profitability and Exchange Rate are constant, so if TNC increases, then the company's decision to do transfer pricing will be higher; Intangible Asset regression coefficient of - 0.064 means that tax, GCG, TNC, Leverage, profitability and Exchange Rate are constant then if the Intangible Asset is carried out then the decision of the company to do Transfer pricing will decrease further; Leverage regression coefficient of 0.061 means that tax, GCG, TNC, Intangible Asset, profitability and Exchange Rate are constant, so if leverage increases by 1%, then the company's decision to do transfer pricing will increase; Profitability regression coefficient of

-0,074 means that tax, GCG, TNC, Intangible Asset, Leverage and Exchange Rate are constant then if profitability increases by 1% then the company's decision to do transfer pricing will decrease and the Exchange Rate regression coefficient of -0.016 means that tax, GCG, TNC, Intangible Asset, Leverage and constant profitability then if the Exchange Rate increases by 1% then the company's decision to transfer pricing will decrease further.

Based on the results of testing the hypothesis using the t test it can be stated the level of tax significance is 0.447. This value of significance t (p-value) of 0.447 is more than α (= 0.05). Partially based on the results of tax testing has no positive effect and is not significant on the company's decision to do transfer pricing. The first hypothesis that states tax has a positive effect on the company's decision to do transfer pricing is not proven. The level of significance of GCG is 0.014 with a significance value of tcount (p-value) of 0.014 less than α (= 0.05). Partially based on the results of GCG testing has a positive and not significant effect on the company's decision to do transfer pricing. The second hypothesis which states that GCG has a positive effect on the company's decision to do transfer pricing is proven.

The level of significance of TNC is 0.014 with a significance value of t-count (p-value) of 0.014 less than α (= 0.05). Partially based on TNC testing results have a positive and significant effect on the company's decision to transfer pricing. The third hypothesis which states TNC has a positive effect on the company's decision to do transfer pricing is proven. The level of significance of Intangible Asset is 0.162, this significance value of t-count (p-value) is 0.162 more than α (= 0.05). The fourth hypothesis which states that Intangible Asset has a positive effect on the company's decision to do transfer pricing is not proven. The level of significance of Leverage is 0.144 with a significance value of t-count (p-value) of 0.144 more than α (= 0.05). Partially based on the Leverage test results do not have a positive and significant effect on the company's decision to do transfer pricing. The fifth hypothesis which states leverage has a positive effect on the company's decision to do transfer pricing is not proven. The significance level of profitability is 0.174 with this value of significance t (p-value) of 0.174 more than α (= 0.05). Partially based on the results of testing profitability has a positive effect on the company's decision to do transfer pricing. The sixth hypothesis stating that tax has a positive effect on the company's decision to do transfer pricing is not proven. The level of significance of the Exchange Rate is 0.764 with a significance value of t-count (p-value) of 0.764 less than α (= 0.05). Partially based on the Exchange Rate test results do not have a positive and significant effect on the company's decision to do transfer pricing. The seventh hypothesis is twisted Exchange Rate has a positive effect on the company's decision to do transfer pricing is not proven

V. DISCUSSIONS

- *The Effects of Taxes on Company Decisions to Transfer Pricing*

The results of the regression analysis state that tax has no positive and insignificant effect on the company's decision to transfer pricing. This was supported by Rahayu (2010) in Mispiyati (2015) which stated that the characteristics of the relationship between parent companies in Indonesia and overseas subsidiaries which according to the tax perspective were considered as separate entities. Thus between the parent company and the subsidiary can make transactions (inter company transactions) that are arranged in such a way that the subsidiary (parent company) in Indonesia suffers losses, while the overall business other than in Indonesia is still experiencing profit so as to reduce the tax burden in Indonesia .

The results of this study are not in accordance with Kasztelnik (2012) which shows that tax motivation influences the use of transfer pricing policies. This study does not support Klassen et al. (2013), Rossing (2013), Nurhayati (2013), Hartati et al (2015), Wafiroh and El-Muhasaba (2016) who found evidence that tax variables showed a positive and significant influence on the occurrence of transfer pricing transactions.

This research does not prove that transfer pricing can be a tool in reducing international transaction costs and minimizing tax rates can also help companies earn high profits from international inter-country transactions globally. These results indicate that the increasing tax imposed, the company in making transfer pricing with parties that have a special relationship will decrease or vice versa. The results of this study are consistent with research conducted by Marfuah and Azizah (2014) which states that the fiscal authority (taxation apparatus) subjectively views the purpose of transfer pricing is to avoid taxes. Regarding the issue of transfer pricing, in general fiscal authorities must pay attention to two basic things so that tax correction on the alleged transfer pricing gets a strong justification so that companies can minimize the practice of transfer pricing. The two principals were; (1) affiliation (associated enterprises) or special relationship and (2) fairness or arm's length principle. By holding a transfer pricing agreement between the taxpayer and the Directorate General of Taxes to parties that have a special relationship, it can reduce the practice of transfer pricing abuse by multinational companies. Transfer pricing agreement is an agreement between the taxpayer and the Directorate General of Taxes to parties that have a special relationship.

The principle of fairness and the prevalence of business (Arm's Length Principle / ALP) is a principle that regulates that if the conditions in transactions carried out between parties that have a special relationship are equal or comparable to the conditions in transactions carried out between parties that have no special relationship as a comparison, then the price or profit in transactions conducted between parties that have a special relationship

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must be the same as or be in the range of prices or profits in transactions conducted between parties that do not have a special relationship to be a comparison.

This has been regulated in Regulation of the Director General of Tax No.PER-42 / PJ / 2011. This rule discusses the application of the principle of fairness and the prevalence of business (arm's length principal) related to the transaction between the taxpayer and those who have a special relationship. This rule requires taxpayers to use fair market value in dealing with related parties (related pasties). According to the arm's length principle, transfer prices should be set to reflect the agreed price even though the transaction was carried out by parties who have no special relationship. So if there are transactions between companies that have a special relationship, the condition of the transaction must be the same as transactions between companies that do not have a special relationship.

- *The Effect of GCG on Company Decisions to Transfer Pricing*

The results of the regression analysis stated that GCG has a positive and significant influence on the company's decision to transfer pricing. that Good Corporate Governance is a process and structure used by corporate organs to improve business success and corporate accountability based on legislation and ethical values (Cadbury in Sutedi, 2012: 1). Companies that have good governance will consider all their activities, especially for activities that deviate from the rules. This can enable good corporate governance to influence companies in transfer pricing.

Good Corporate Governance as measured by audit quality can be interpreted as good or not an audit conducted by the auditor. Transparency is an important principle in GCG. This can be done by reporting matters related to taxation in the capital market and RUPS. Based on Annisa and Kurniasih's research (2012), audit quality affects the implementation of tax avoidance. If a company is audited by The Big Tenmaka Public Accounting Firm (KAP), it will be increasingly difficult to implement an aggressive tax policy. The more audit quality of a company, the company tends not to manipulate earnings for tax purposes (Chai and Liu in Annisa and Kurniasih, 2012: 132).

This study is in accordance with Annisa and Kurniasih's (2012) research which found that GCG has a significant effect on a company's decision to transfer pricing. This study is also in accordance with Noviastika et al (2016) showing that good corporate governance has a positive effect on the indication of transfer pricing.

- *Effect of TNC on Company Decisions to Transfer Pricing*

The results of the regression analysis stated that TNC had a positive and significant influence on the company's decision to transfer pricing. That means that if TNC is higher then the company's decision to transfer pricing. This is consistent with the opinion of Hartati, et al., (2014) explaining that Tunneling incentive is a behavior of the majority shareholders who transfer the assets and profits of the company for their own benefit, but the cost holders are charged to minority shareholders. The results of this study are in line with Sari (2012) in Marfuah and Azizah (2014) stating that there are two things that are considered as encouragement for companies to do Tunneling. First, ownership structure. Second, the availability of financial resources at companies that will be tunneled. By controlling and having significant influence, the controlling shareholder can adopt policies that benefit him, including contractual policies with related parties.

These results also support the research of Yuniasih (2012) in Hartati et al. (2014) which mentions that ownership of shares in public companies in Indonesia tends to be concentrated, so there is a tendency for majority shareholders to conduct tunneling. This study is in accordance with Hartati et al., (2014), Marfuah and Azizah (2014), Wafiroh and Hapsari (2015), Mispiyati (2015), and Noviastika (2016), so it is suspected that Tunneling incentives have a positive effect on the decision to do transfer pricing.

TNC also influences transfer pricing. Gilson and Gordon (2003) identified two possible ways that controlling shareholders can obtain private benefits over the control of company policy, namely through company operating policies and contractual policies with other parties. The forms of private benefits that can be obtained through company operating policies include high salaries and benefits, bonuses and large compensation, and dividends. Whereas the way to obtain private benefits through contractual policies, among others, is done through tunneling which transfers resources out of the company for the benefit of controlling shareholders (Johnson et al. 2000)

Tunneling in the ownership structure is concentrated due to several things. First, the majority shareholders have incentives and the ability to conduct transactions at a certain price. Second, the weak protection of the rights of minority shareholders. Third, majority shareholders have the power to influence management in making decisions that only maximize the interests of the majority shareholders and harm the interests of minority shareholders. The company carries out this tunneling with the aim of minimizing transaction costs. By conducting tunneling to parties that have a special relationship, costs can be reduced so that it is more economical than those who do not have a special relationship. In addition, the company carries out tunneling with the aim of manipulating profits. For example, a company sends its assets to parties that have a special relationship that causes accounts receivable from parties that have a special relationship to increase so that it can be interpreted as an increase in profits.

Tunneling can also be done by selling company products to companies that have a relationship with managers at prices lower than market prices, maintaining their positions / job positions even though they are no longer competent or qualified in running their business or selling company assets to companies that have relationship with managers (affiliated parties).

- *The Effect of Intangible Assets on Company Decisions to Transfer Pricing*

The results of the regression analysis state that Intangible Asset has no positive and significant influence on the company's decision to transfer pricing. That means that if the Intangible Asset is higher, it will not determine the company's decision to transfer pricing. Brauner (2008: 86) explains that intangible assets are important for the sustainability of multinational companies. This is because multinational companies have become the most important part of the majority of intangible assets transactions between countries, regulations regarding transfer pricing are automatically widely applied to transactions involving the transfer of intangible assets in one way or another. The results of this study are not in accordance with Grant, et al. (2013), it is suspected that intangible assets affect the decision to transfer pricing.

Intangible Asset is not a component in operational activities that can have an impact on company profits. The company's effort to do transfer pricing is a step from the company's management to play the profits generated by the company in order to avoid a large tax burden. Therefore, the amount of Intangible Asset owned by the company does not encourage company managers to take transfer pricing actions.

Based on agency theory, the information gap between majority shareholders and minority shareholders can be minimized with information that can provide the trust of minority shareholders. Intangible Asset is an additional information presented by the company in order to minimize the existing information gap. Presentation of Intangible Asset information can be a tool for company management to foster minority shareholders' trust in the possibility of manipulation practices carried out by company managers such as the practice of transfer pricing.

The results of this study are in line with research conducted by Ohnuma and Kato (2015) who found empirical evidence that Intangible Asset has no effect on transfer pricing. The results of this study prove that Intangible Asset transactions that do not reflect the practice of transfer pricing to transfer profits to tax heaven countries, but to explore the differences of Intangible Assets due to limited information to find comparable prices in the same conditions and negotiations with other countries in the exchange of information as well requires large resources

- *Effect of Leverage on Company Decisions to Transfer Pricing*

The results of the regression analysis explain that leverage does not have a positive and significant influence on the company's decision to transfer pricing. That means that if leverage is higher it will not determine the company's decision to transfer pricing. The company uses debt to third parties in carrying out its operations. Adding a number of a company's debt will incur an interest expense that is a deduction from the company's tax burden (Kurniasih and Sari, 2013).

The company has various sources of funding in running its business, one of which is debt. Leverage measures the size of a company's assets financed by debt. The greater the debt, the taxable profit will be small because the tax incentives on debt interest are greater (Prakosa, 2014). Ozkan (2001) states that companies with high tax obligations will choose to owe in order to reduce taxes. The company deliberately owes to reduce the tax burden, so it can be said that the company is aggressive towards taxes. Multinational companies generally finance members of these groups of companies with debt and / or capital transfers (Richardson et al., 2013). Debt and / or capital transfers are partly driven by opportunities for tax arbitration and as such, companies involved in selective debt localization for tax purposes are more likely to be aggressive in terms of their transfer pricing arrangements (Richardson, et al, 2013).

This study is not in accordance with Grant et al., (2013) found that leverage can be a factor that encourages aggressiveness in transfer pricing with the aim of reducing the company's tax burden. Grant, et al. (2013) explains that leverage positively influences the decision to transfer pricing.This research is in accordance with Dyanty, et al (2011) showing that leverage does not affect the company's decision to transfer pricing. The higher the leverage, the greater the company's financing from creditors. This of course further enhances bank supervision of the company's operations to ensure that shareholders will not expose the assets of the company.

- *The Effect of Profitability on Company Decisions to Transfer Pricing*

The results of the regression analysis state that profitability has no positive and insignificant effect on the company's decision to transfer pricing. That means that if the company's ability to generate profits does not affect the company's decision to transfer pricing. It also indicates that profitability is the company's ability to obtain net profit after tax.

These results are not in accordance with the theory put forward by Bava and Gromis (2015) stating that the lower the profitability of a company, the higher the possibility of a shift in profits that occurs, in other words the greater the allegation of companies doing transfer pricing practices. This research does not support the research of Richardson and Lanis (2007) in Pradipta and Supriyadi (2015) which states that the greater the income earned by a company, it will affect the amount of income tax that must be paid. Based on research conducted by Grant, et al. (2013), it is suspected that profitability affects the decision to transfer pricing.

➢ *Effect of Exchange Rate on Company Decisions to Transfer Pricing*

Exhange rate does not affect the company's decision to transfer pricing. The results of this study are not in accordance with the research of Canri et al. 2004), which shows that the exchange rate has a significant positive effect on transfer pricing decisions and this is in line with the formulation of the hypothesis. However, research conducted by Marfuah and Azizah (2014) shows that exchange rates have a positive but not significant effect on transfer pricing decisions. Based on research conducted by Chan et al. (2004) and Marfuah and Azizah (2014) there are significant differences regarding the effect of the exchange rate so it needs to be tested again.

The test results show the exchange rate does not affect the company's decision to conduct transfer pricing transactions. In line with statements from Marfuah and Azizah (2014) that the size of the exchange rate does not influence the company in considering the decision to transfer pricing or not making a transfer pricing decision. The company did not make the exchange rate reference a consideration in transfer pricing because most of the company's consolidated financial statements in Indonesia tend to denominate some of the company's operating activities related to funding into one foreign currency, namely the dollar. This has an impact on some companies experiencing foreign exchange losses due to the strengthening of the dollar, because some multinational companies' activities are influenced by the dollar currency. So the company does not base the exchange rate as a decision to transfer pricing because the company thinks more about other things that can provide benefits for the company.

VI. CONCLUSIONS AND RECOMMENDATIONS

Research limitations include the research that proxies transfer pricing without considering other factors such as macro conditions, politics and company policy: this study only uses variables that reflect the company's financial condition, in this case, the study does not compare existing data with variables variables outside the company such as government regulations, and a country's legal system where these variables can be a factor that influences the company's decision to transfer pricing.

Based on the results of data analysis as stated above, conclusions can be drawn, among others: 1) Tax has no positive and no significant effect on the company's decision to do transfer pricing; 2) GCG has a positive and not significant effect on the company's decision to do transfer pricing; 3) TNC has a positive and significant effect on the company's decision to do transfer pricing. 4) Intangible Asset has no positive and no significant effect on the company's decision to do transfer pricing; 5) Leverage has no positive and insignificant effect on the company's decision to do transfer pricing; 6) Profitability has a positive effect on the company's decision to do transfer pricing; 7) Exchange Rate does not have a positive and significant effect on the company's decision to transfer pricing.

The advice that can be given in research is for companies to need to be careful in taking transfer pricing. Because good and optimal transfer pricing will improve the survival of companies; b) The need for more in-depth research that needs to be done by subsequent researchers in order to obtain better research results, including research variables should be added with other research variables that can affect transfer pricing in addition to the variables studied such as liquidity and this study uses samples from manufacturing companies without differentiating between industrial sectors because each industrial sector has different characteristics.

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