

Examination Of Factors Determining Transfer Price In Indonesian Mining Companies

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ABSTRACT

The purpose of this study was to examine the effect of firm size, leverage, tax planning, tunneling incentives, intangible assets, and multinationality on the decision to transfer pricing. The research was conducted on mining sector companies listed on the Indonesia Stock Exchange in 2015-2019 by applying multiple linear regression analysis. Samples were obtained by purposive sampling method. Based on the results of the hypotheses in this study, it shows that firm size, leverage, intangible assets, multinationality affect transfer pricing, whereas tax planning and tunneling incentives do not affect transfer pricing. The results have substantial implications for theory as well as practice, in understanding transfer pricing decision, particularly for mining companies.

Keywords: Transfer Pricing; Leverage; Intangible Assets; Multinationality.

Pengujian Faktor-Faktor yang Mempengaruhi Penentuan Harga Transfer di Perusahaan Pertambangan

ABSTRAK

Tujuan dari penelitian ini adalah menguji dampak dari ukuran perusahaan, leverage, perencanaan pajak, tunnelling incentives, aset tak berwujud, dan multinasionalitas terhadap penentuan harga transfer. Penelitian ini dilakukan terhadap perusahaan-perusahaan pertambangan yang terdaftar di Bursa Efek Indonesia tahun 2015-2019 dengan menerapkan analisis regresi berganda. Sampel diperoleh dengan metode purposive sampling. Berdasarkan hasil pengujian hipotesis-hipotesis dalam penelitian ini memperlihatkan bahwa ukuran perusahaan, leverage, aset tak berwujud, dan multinasionalitas memengaruhi penentuan harga transfer. Sementara itu, perencanaan pajak dan tunnelling incentives tidak mempunyai pengaruh terhadap penentuan harga transfer. Hasil ini mempunyai implikasi yang penting terhadap teori dan juga praktik, dalam memahami keputusan harga transfer terutama dalam konteks perusahaan pertambangan.

Kata Kunci: Harga Transfer; Leverage; Aset Tak Berwujud; Multinasionalitas.

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INTRODUCTION

The rapid growth of international economy has boosted the growth of multinational company. The existence of General Agreement on Trade and Tariff (GATT) and World Trade Organization (WTO) has bridged the flow of goods, service and capital among countries. Companies have operated not only in their own countries but also in others and started to become multinational and transnational companies. These companies operate through subsidiaries plus their branches in foreign countries. What has become trend today among multinational companies is that they minimize tax through transfer pricing mechanism, that is by transferring revenue and liability which in turn, results in interest liability for affiliation in a country that has different tariff of tax (Anggraeni & Lutfillah, 2019) and (Hariaji & Akbar, 2021). The profit transfer occurs by regulating transfer price from one company to other affiliated company outside Indonesia boundary.

As Indonesia is the 5th biggest coal producer in the world, it produced around 485 million of tonnes in 2017 or about 7.2% from all total production in the world. Besides, Indonesia also the second biggest exporter following Australia that 80% of the coal production was prepared for export. Data from Center Bureau of Statistics show that during 2018-2020 around 80% of national coals were exported. It was also noted that during 2018-2020 mining and digging industry contributed Rp 700-800 billion per year (Center Bureau of Statistics, 2021).

In contrast, though the industry generated fantastic economic value, the tax contribution from coal and mineral (*minerba*) was minimum. Data from Ministry of Finance shows that the tax ratio was only 3.9% in 2016, whilst national tax ratio in 2016 was 10,4% (www.Pajak.go.id). This low ratio indicated that the actors of mining industries avoided the tax. Finance ministry noticed that there were more tax payers holding *Minerba* business permit who did not report their annual tax report than those who did. In 2015 of 8.003 tax subjects of coal industries, 4.532 did not submit their annual tax report. This number is only a tip of an iceberg as there were more not-registered smaller mining actors as tax subjects. In fact, many reported their real amount of tax as the result of tax avoidance and tax saving using aggressive tax planning, corporate inversion, profit shifting and transfer mispricing. Thus, the tax income from *minerba* sector, especially from coal, was still far from its real potential.

In Indonesia, PT Adaro Energy Tbk (ADRO) was the company that committed the tax avoidance in mining sector. Based on the report of Global Witness entitled "Taxing Times for Adaro", published on July 4, 2019, the tax avoidance by using transfer pricing mechanism was conducted by PT Adaro Energy Tbk (ADRO) by transferring profits from selling and paying the royalty of mined coals in Indonesia. From 2009-2017 PT Adaro Energy Tbk (ADRO) through its subsidiaries in Singapore that was Coaltrade Services International Pte.Ltd, had managed to pay as much as 125 million USD lower than what they should have paid. The financial report of PT Adaro Energy Tbk (ADRO) shows the total commission of payment received by Coaltrade Services International Pte.Ltd with low tax in Singapore had annually increased average from 4 million USD before 2009 to USD 55 million from 2009-2017. More than 70% coals were sold by Coaltrade Services International Pte.Ltd which was the branch company of PT Adaro Energy Tbk (ADRO) in Indonesia. Probably the profit tax from the

commission of coal trading in Singapore was averagely as much as 10%. meanwhile, the commission from coal trading in Indonesia was charged for a tax as much as 50% annually.

This research aims to give a more comprehensive view on the decision of transfer pricing on mining sector, especially on multinational companies in Indonesia. By finding out the factors influencing transfer pricing, companies will be able to create more precise strategies while academic will understand transfer pricing better. From this background and research by Keuschnigg & Devereux (2013) dan Kumar et al. (2021) revealing many factors influencing the transfer pricing, the writer decides to choose "Factors influencing the decision on Transfer Pricing of Mining companies in Indonesia" as the title.

Agency theory according to Jensen & Meckling (1976) is an explanation of a relation as a contract from principals related to agent to execute some works. In agency relation, the principals involve some accountability transfer to make a decision required for company's operations. The contract and relation between agent and principals may result in conflict between manager and company's owner as there will be conflict of interest between the two parties. The agency problems occur when the manager who is also the agent wants his own version of welfare for himself which contradicts to the principal. Meanwhile, information asymmetry also supports the company profit for a better performance. One way to optimize the benefits is by saving tax through transfer pricing.

Meanwhile, signaling theory was originally formulated by Spence (1973) explaining that the information provider sends a sign in the form of information signaling conditions of a company that is useful for the receiver (investor). In the signaling theory, in a qualitative way, managers or companies own more information than foreign party and they also use measurement or certain facilities to infer the qualities of their companies. By the time the information is published, market has interpreted and analyzed the information as good and bad news. If the information is perceived as a good signal, investors will be interested in stock trading, which invites reaction from market and thus reflected on the change volume of the stock trading.

Multinational companies will try to give a good signal that they have high profits in their annual profit-loss report making an impression that the companies will last longer in the future (Muhammadi et al., 2016). This is done by allocating their supposed high tax to the lower one to minimize total cost and maximize the company's profits. One way to do this is by tax avoidance. Avoiding tax is conducted by transferring goods from one country that has low tax charge to tax heaven country and resend the goods back to a country potential for a higher transfer price (Richardson & Lanis, 2007).

Price transferring is mostly related to a systemical price manipulation purposed at deducting profits which in turn reducing the total sum of tax or cost from a country (Choi et al., 2020). The multinational companies use a a certain scheme to decide transfer price in that they shift their profits from the country with high tax to the country with the lower one (Mooij & Liu, 2020; Nguyen, 2016). The practice of making transfer price causes income shifting or tax base and/or cost from one taxpayer to another, which can be manipulated to save all tax payables of taxpayers who are within their special relationship. Transferring Price happens

when the income shift uses unfair prices between companies within the country and foreign companies, especially those of tax heaven countries. This research tests the influence of the following factors on transfer pricing:

A company size is a scale that classifies company into big and small using some classifications such as total assets of company, stock market values, average sale, and total sale. An established big company will be easier to get more shares in market than small companies and that indicates that big companies have more flexibilities (Agustina, 2019). Many research on the influence of company size to transfer pricing had been conducted by (Anh et al., 2018) di Vietnam and (Merle et al., 2019) at Euronext Paris Exchange, in addition to researches by (Hariaji & Akbar, 2021), (Septiyani et al., 2018), (Yanti & Pratiwi, 2021).

Based on signal theory, the information delivered by a company manager to public (investor and potential investor), regarding the company size has become a signal for an investor to find out to what extent a company will grow. A big company is perceived to be more critical by share holders and foreign party so that the big company takes stronger pressure to provide a good financial report.

H₁: Company size has positive influence on pricing transfer.

Leverage is the use of asset and resources by a company that has fixed cost aimed at increasing potential profits of share holders (Yunidar & Firmansyah, 2020). Finance leverage is used to implement company policies in order to receive loan capital from external party. All this is meant for the organizations to fund their business as well as to increase profit and fixed costs (Devi & Suryarini, 2020).

To mention some, the research on how leverage can affect the pricing transfer are those conducted by (Agustina, 2019), (Anh et al., 2018), (Merle et al., 2019), (Waworuntu & Hadisaputra, 2016) informing that leverage can influence the transfer pricing positively. However, this is different from what Priyanti & Suryarini (2021) has found stating that leverage cannot influence the transfer pricing.

Signal theory emphasizes the importance of information issued by a company regarding a decision to invest by external party of the company. The reliable signal from the company will reduce information asymmetri and different interests between manager and share holder. A company with high leverage (loan ratio) shows that most of the assets are funded by making loan. The higher the loan is the higher the loan interest is. This will require the company to save more of its tax so that it will still have funds to be distributed to share holders or to manager as a bonus.

H₂: Leverage has positive influence on pricing transfer.

Income tax will decrease if the company profit is a little, and the company will make an attempt to plan the tax in order to make more efficient tax payment. Multinational company really observes the tax in every country in order to enhance or maximize their profits (Chan et al., 2015). Therefore, the foreign affiliated companies will manage their profits by placing larger amount of profit on the company in a country with lower tax charge and placing a less profit-company in a country with high-charged tax (Hanlon & Slemrod, 2009).

The research on tax planning were conducted by (Maulida & Wahyudin, 2021), (Susanti & Firmansyah, 2018) saying that tax planning influences transfer

pricing significantly. Yet, the research by (Agustina, 2019) and (Yanti & Pratiwi, 2021) did not find enough proof that tax can affect the decision of transfer pricing.

According to agency theory, a manager will attempt to make any action that can benefit him and thus considered to have a good performance. One way to do this is by tax planning, tax planning is the consideration on tax charge paid by the company suitable with the company profits. The good tax planning will limit the manager to manipulate financial report. The manager's consciousness to pay tax in accordance to company's ability will avoid his decision to make transfer pricing.
H3: Tax planning has negative influence on pricing transfer.

Agency conflict occurs if a dominant share holder forces his own will to manager so that he will get benefits only for himself. To get the benefits, one can do Tunneling incentive, that is the action of a major / dominant share holder who transfers assets and profits of the company for his own benefit, yet a minor share holder should also pay for his. (Ayu et al., 2017), (Hartati et al., 2015). The process of asset or profit shifting will reduce the profit of minor share holders.

Share ownership centered at one party will enable the owner to control his company business. This centered ownership will also give a chance to share holder to do tunneling incentives. The research by (Azzura & Pratama, 2019), (Priyanti & Suryarini, 2021), (Solikhah et al., 2021) prove that tunneling incentive has positive influence on transfer pricing. Meanwhile, the research by (Putri, 2019) and (Susanti & Firmansyah, 2018) found that tunneling incentive influences the decision to transfer pricing negatively.

The agency theory believes that agency conflict can appear between major/dominant share holders and minor share holders. The delegation of accountability from principal to agent will start the problem of information asymmetry between principal and agent as a company manager. Multinational companies as the companies that keep the relation with other party will be easier to do *tunneling incentive*. The easiness occurs as there is a possibility to shift assets or profits of the company to other company abroad, so that the tax will be lower. This condition is useful as one way to manipulate tax cost of the company.

H4: Tunneling Incentive has positive influence on pricing transfer.

PSAK 19 Pasal 17 (2015) states that intangible assets is an asset which generally has long-term benefits and does not have any physical form and is useful for company operations and that the asset will not be sold. Two general intangible characteristics are the high level of its benefits uncertainty while no physical form. Goodwill, patent, intellectual right, brand, rent, rental rights holder, license, franchise, specific formula, technology, research and development are samples of intangible assets.

The research by (Avri Rahman & Cheisviyanny, 2020; Firmansyah & Yunidar, 2020) prove that intangible asset has positive influence toward transfer pricing. This research however is contradicted to the research by (Merle et al., 2019; Waworuntu & Hadisaputra, 2016) showing that intangible assets influences transfer pricing negatively.

The agency theory also confirms that agency conflict may occur between major share holders and minor ones where the major will press manager in order to elevate their own welfare. Multinational companies will allocate their intangible assets to a lower tax jurisdiction resulting in royalty or cost of license from other

entity of the groups of higher tax which also enjoy the benefits from the asset which in turns enable profit shifting.

H5: Intangible assets have positive influence on pricing transfer.

Multinational company is the company that operates (producing and selling goods or service) in more than one country. Two aspects of ownership should be highlighted, ownership by external party and the other one is by internal party. The internal party is the share holders and joins as a manager in the company. Meanwhile, the external party is the international or multinatinal company that holds share more than 50% at subsidiaries operating in Indonesia.

The research by (Anh et al., 2018), (Gao & Zhao, 2015) found other factor influencing the decision to transfer pricing which is multinationality. The companies operating across countries internationally do more tax avoidance more highly than those operating across domestically as they can transfer the company profits to other company in foreign countries where tax charged much lower (Rego, 2003). However, Waworuntu & Hadisaputra (2016) found different result in their research in that multinationality affects the decision to transfer pricing negatively.

Multinational company usually applies efficient tax planning to all group entities to reduce its tax (Hemling et al., 2021). It is possible as multinational companies gain income from bigger various foreign sources so that they can get involved in comitting tax avoidance. Multinational companies have more opportunity to be waived from paying company tax than domestic companies as the multinational companies do transactions involving different countries in the world and will use tax incentives better than domestic companies.

H6: Multinationality has positive influence on pricing transfer.

Referring to the previous hypothesis, the following is the research framework in Figure 1.

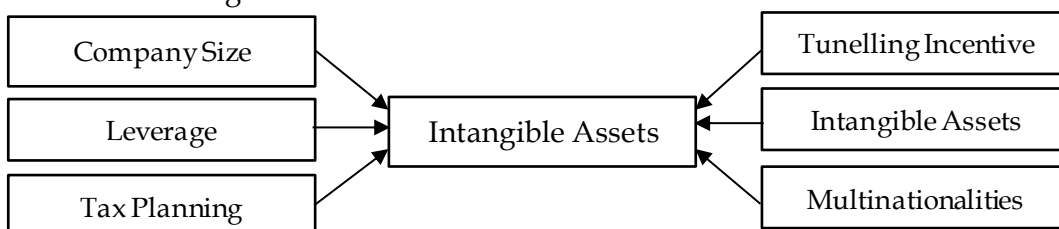


Figure 1. Research Framework

Source: Research Data, 2021

RESEARCH METHOD

This research used quantitative method. The population was all mining companies listed on Indonesia Stock Exchange (IDX) period 2015-2019 (47 companies). The writers excluded 2020 as it was the year when Pandemic Covid-19 hit the world, and company's behaviour might have changed (Mele et al., 2021). Mining companies have the largest numbers of companies in BEI and thus were suitable for being research population. In addition, mining companies have some sub-sector industries therefore expected to be able to show the stock market reaction as a whole. The samples were obtained using purposeive sampling technique. The criteria for the sample were companies publishing a complete annual report during period of 2015-2019 and the companies were under foreign control with the

ownership more than 20%. The data used in this research are secondary data taken from the finance report of go-public company of mining sector (*annual report*) between 2015-2019. The data were compiled to measure the variables displayed below. Table 1.

Table 1. Variable Measurement

Variable	Measurement
Transfer Pricing	$\frac{\sum \text{Account receivable of related party}}{\sum \text{Account receivable}}$
Company size	$\text{Ln}(\sum \text{Asset})$
Leverage	$\frac{\sum \text{Long term liability}}{\sum \text{Asset}}$
Tax Planning	$\frac{\text{Tax Expenses}}{\text{profit before tax}}$
Tunneling Incentive	$\frac{\sum \text{Foreign stock}}{\sum \text{Listed stocks}}$
Intangible assets	$\sum \text{Intangible assets}$
Multinationality	$\frac{\sum \text{Subsidiary companies abroad}}{\sum \text{Subsidiary companies}}$

Source: ResearchData, 2021

Technique of data analysis used descriptive statistics and classical test assumption. The test on hypothesis method is multilinear regression analysis and formulated as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 \dots \dots \dots (1)$$

Explanation:

- Y = Transfer Pricing
- a = Constanta
- X₁ = Company size
- X₂ = Leverage
- X₃ = Taxplanning
- X₄ = Tunneling Incentive
- X₅ = Intangible assets
- X₆ = Multinationality
- b = Multilinear co-efficient regression

RESULT AND DISCUSSION

Using criteria of sampling, 15 manufactur companies (Table 2). were collected with total as many as 75 data. The data were calculated by using SPSS and the following is the result of the statistic test of the research descriptive variables. Normality test using Kolmogorov Smirnov test gave the number as much as 0,591. This number is more than 0,05, then it can be concluded that residual data on regression model in this research is normally distributed.

Table 2: List of Samples

No.	Companies	No.	Companies
1.	PT. Adaro Energy	9.	PT. Mitrabara Adiperdana
2.	PT. Bumi Resources	10.	PT. Samindo Resources
3.	PT. Delta Dunia Makmur	11.	PT. Dian Swastatika Sentosa
4.	PT. Baramulti Suksessarana	12.	PT. TBS Energi Utama
5.	PT. Darma Henwa	13.	PT. Medco Energi Internasional
6.	PT. Golden Energy Mines	14.	PT. Cakra Mineral
7.	PT. Indo Tambangraya Megah	15.	PT. Vale Indonesia
8.	PT. Resource Alam Indonesia		

Source: ResearchData, 2021

Table 3: Result of Descriptive Statistic Test

Variabel	Minimum	Maximum	Mean	Standar Deviation
Transfer Pricing	0,00	1,00	0,24	0,32
Company Size	11,96	14,01	12,97	0,65
Leverage	0,00	8,79	1,36	1,68
Tax planning	0,00	1,11	0,32	0,21
Tunneling Incentive	0,20	0,99	0,53	0,25
Intangible assets	8,52	13,10	0,221	1,16
Multinationality	0,00	0,50	0,22	0,16

Source: Research Data, 2021

Table 4: Multicollinearity Test Result

Variable	Collinearity Statistics	
	Tolerance	VIF
Company size	0,241	4,155
Leverage	0,667	1,499
Tax planning	0,826	1,211
Tunneling Incentive	0,550	1,818
Intangible asset	0,682	1,467
Multinationality	0,290	3,453

Source: Research Data, 2021

Multicollinearity test shows there is not any tolerance value < 0,10 and VIF value which is >10. It means, there is not any multicollinearity.

Table 5: Heteroscedasticity Test Result

	Sig. (2-tailed)	Absolute Residual
Company size		0,516
Leverage		0,910
Tax planning		0,360
Tunneling Incentive		0,922
Intangible assets		0,536
Multinationality		0,403

Source: Research Data, 2021

Heteroscedasticity test used Glejser Test, Sig. > 0,05 which means no Heteroscedasticity problem. Based on test for auto correlation, the result was as much as 0,06. This is more than 0,05, which means, there is not any auto correlation sign.

Table 6: Result of Multiple linear Regression

Model	Unstandardize Coefficients	
	B	Sig
Constant	-0,140	0,893
Company size	0,316	0,005
Leverage	-0,079	0,003
Tax planning	-0,156	0,383
Tunneling Incentive	-0,181	0,334
Intangible assets	-0,298	0,000
Multinationality	-0,652	0,018

Source: Research Data, 2021

Based on Table 6, we can develop a regression equation as follows.

$$Y = -0,140 + 0,316X_1 - 0,079X_2 - 0,156X_3 - 0,181X_4 - 0,298X_5 - 0,652X_6$$

The result of significant simulation shows that prob. F value is as much as 0,000. The values are less than 0,05 or can be said that the model regression of this research is appropriate to predict dependent variables. From the determination coefficient test, Adjusted R-squared test resulted in the value as much as 0,472. This means that the tested independent variables such as company size, leverage, tax planning, tunnelling incentive, intangible asset, and multinational are able to explain the dependent variables of transfer pricing as much as 47,2%, whilst the rest, 52,8%, are explained by other variable unlisted in this research.

The first hypothesis test shows the variable of company size has t-test as much as 2,951 with significance level 0,005. From the result, it is known that company size has a significantly positive effect on transfer pricing. The result consistent to previous research by Anh et al. (2018), Merle et al. (2019). This means that the bigger the company is the bigger chance it must do transfer pricing. This is because big companies are critically observed by share holders and external party, therefore bigger companies tend to be more under pressure to provide a good financial report through transfer pricing mechanism. Besides, human resources in big companies are equipped with qualified science and experience to do transfer pricing.

The second hypothesis results in leverage variable with t-test as much as -3,174 with significant level as much as 0,003. Previous research by Priyanti & Suryarini (2021), Roslita (2020) also support the finding. This result means that company with high leverage will keep its good image towards investor and creditor. It also means, doing transfer pricing will add a risk on worsening the image of the company. In addition, doing a transfer pricing by adding more long-term liability has been limited by government since the issuance of PMK-169/PMK010/2015 concerning the determination of company's debt and equity ratio for income tax calculation purpose.

The third hypothesis shows the variable of tax planning has t-test as much as -0,882 with significance level 0,383. In line with research of (Yanti & Pratiwi, 2021), the conclusion can be drawn that $0,383 > 0,05$ means not enough evidence that tax planning has affected transfer pricing. Moreover, the fourth hypothesis reveals the variable tunneling incentive has t result as much as -0,978 with the significance level as much as 0,334. The conclusion is $0,334 > 0,05$ which means there is no evidence that tunneling incentive affects transfer pricing. Previous research showed a consistent result by Septiyani et al. (2018).

The fifth hypothesis shows that the variable of intangible asset has t result as much as -5,421 with significant level 0,000. It can be seen that t-test is negative, which means the more intangible assets, the smaller possibility for a company to do transfer pricing. The result consistent to the research by Merle et al. (2019); Waworuntu & Hadisaputra (2016). This is because OECD (Organisation for Economic Co-operation and Development) through BEPS act no 13 (Base Erosion and Profit Shifting Action Plan) supports taxpayers to prepare a transfer pricing document using the approach of ex-ante or analysis before or during transaction of affiliation (contemporaneous transfer pricing documentation). Indonesia is one country that has adopted the idea by releasing Ministry of Finance Decree number 213/PMK.03/2016. Accordingly, Laws of Republic of Indonesia number 36 year of

2008 on the fourth amendment on Laws number 7 year of 1983 on Income Tax, the tax authority has right to correct transfer pricing on the affiliation transaction of tax payers especially on the transaction contradicting against arm's length principals considering price or profits gained by independent parties. With the tight rules of tax, a company may avoid to commit transfer pricing.

The sixth hypothesis tells that multinationality variable has t-test as much as -2,476 with significance level of 0,018. The finding supports previous research (Waworuntu & Hadisaputra, 2016) and (Yanti & Pratiwi, 2021). It means, the more subsidiaries in other countries, the smaller its chance to do transfer pricing. It is like the reward for Indonesia joining Group of Twenty (G20) working with OECD to solve the problems caused by Base erosion and profit shifting as those doing transfer pricing will put the countries charging normal/high tax tariff in their tax system, in addition to causing gap in global economy. Some actions by G20 are formulating international tax regulations, making tax treaty and transfer pricing. These matters are implemented by legalizing Global Action Plan prepared by OECD. With a tighter tax regulation, a company will find it more difficult to practice transfer pricing.

CONCLUSION

Company size has positive effect on transfer pricing. Tax planning and tunneling incentive do not influence transfer pricing. Leverage, intangible asset, and multinationality have negative effect on transfer pricing. This research finds determinant co-efficient as much as 47,2%. it means that the independent variables used in this research such as company size, leverage, tax planning, tunneling incentive, intangible asset, and multinationality affect the dependent variable that is transfer pricing as much as 47,2%. meanwhile, the rest 52,8% are affected by other variables that are unlisted in this research. It is recommended that next research add more variables that may influence the decision of a company committing transfer pricing, for example profitability, bonus mechanism, inventory ratio, and exchange rate.

For practitioners, the implication of this research can be the guidance to make a better regulation. Meanwhile, government is responsible for observing a company so that it will work more transparently and thus, frauds will be decreased and tax income will be more optimal. For academician, the implication of this research can add knowledge about transfer pricing its influential factors. Plus, this research can generate clearer idea for the next research.

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