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Tax, Bonus Mechanism, Tunneling Incentive, Debt Covenant and Transfer Pricing in Multinational Companies

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ABSTRAK

Pengaruh pajak, mekanisme bonus, tunneling incentive dan debt covenant merupakan salah satu variabel penting bisa dipertimbangkan oleh manajemen dalam rangka pembuatan keputusan strategis untuk memaksimal laba dengan perencanaan pajak berupa transfer pricing tanpa adanya unsur pelanggaran terhadap peraturan yang berlaku. Penelitian ini bertujuan untuk menguji pengaruh pajak, mekanisme bonus, tunneling incentive dan debt covenant terhadap transfer pricing pada perusahaan multinasional. Data sekunder yang digunakan dalam penelitian ini diperoleh dengan mengakses www.idx.co.id. Populasi dalam penelitian ini adalah perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia tahun 2012-2016. Teknik pengambilan sampel yang digunakan adalah purposive sampling. Jumlah sampel dalam penelitian ini adalah 125 observasi. Metode pengumpulan data yang digunakan dalam penelitian ini adalah metode observasi non partisipan dan teknik analisis data yang digunakan adalah regresi logistik. Hasilnya tunneling incentive berpengaruh positif terhadap keputusan perusahaan dalam melakukan transfer pricing, tetapi pajak, mekanisme bonus, dan debt covenant tidak berpengaruh terhadap keputusan perusahaan multinasional dalam melakukan transfer pricing.

Keywords: pajak, mekanisme bonus, insentif tunneling, debt covenant, transfer pricing.

ABSTRACT

The effect of taxes, bonus mechanisms, tunneling incentives and debt covenants is one of the important variables that can be considered by management in the context of making strategic decisions to maximize profits with tax planning in the form of transfer pricing without any element of violation of applicable regulations. This research is aimed to test the influence of tax, bonus mechanism, tunneling incentive and debt covenant to transfer pricing of multinational companies. The seconder data used in this research is obtained by accessing www.idx.co.id. The population of this research is a manufacture company registered in Indonesia Stock Exchange in year of 2012-2016. The sample taking technique used is purposive sampling. The number of sample in this research is 125 observations. The data collecting method used in this research is non-participant observation method and the data analysis technique used is logistic regression. The result is tunneling incentive has a positive influence to company decision in doing the transfer pricing, but, tax, bonus mechanism, and debt covenant do not have influence to multinational company decision in doing the transfer pricing.

Kata kunci: tax, bonus mechanism, tunneling incentive, debt covenant, transfer pricing.

INTRODUCTION

Strategic managemen objectives are generally defined as something to be achieved in the long term; such as survival, security and maximizing profit (Taufiqurokhman, 2016:7). To achieve that goal, such as rational profit, management can take policies, one of which is a tax planning strategy though transfer pricing without any element of violation which in the future can result in sanctions or fines.

Transfer pricing is a company policy in determining the price of transaction transfer, either in the form or goods, service, intangible assets, or oven financial transaction, which is done by the company. There are two groups of transfer pricing transaction, they are: intra-company transfer pricing and inter-company transfer pricing. The transfer pricing transaction itself can be done in one country (domestic transfer pricing), or in different countries (international transfer pricing) (Setiawan, 2014).

Transfer pricing in the scope of multinational companies (international transfer pricing) is a special relationship transaction where the transaction happened among company members or in one group (intra-group transaction). This can caused the indication of transfer pricing practice to avoid tax, by setting the different selling between the company with special relationship and the company without special relationship.

The special relationship, as in the Law no.36 Year 2008 regarding to the Income Tax Article 18 Paragraph (4), the special relationship between Corporate Tax Payer could happen because the participation of direct and indirect capital with the lowest of 25% to other tax payer, could be two or more tax payers under the same mastery, either directly nor indirectly. As in PSAK 7, the special relationship or the related parties are persons or entities related entities who prepare the financial report. Besides, the associated company is included into the coverage of special relationship based on this PSAK 7.

The special relationship transaction can result into price unworthiness, fee, or other rewards that realized in business transaction since the market power does not apply as it is (Anang, 2015:2). So there is a possibility to treat the price unworthiness in the special relationship; moreover, there is a difference in income tax rate among countries. Related to that fact, the Director General of Tax set a rule number PER-32/PJ/2011 Article 1 Paragraph 5 regarding to The Principle of Fairness and The Nature of Business.

The high tax rate becomes one of the factors that cause the multinational companies do the transfer pricing practice to transfer their income to other countries with low tax rate (Hansen & Mowen, 2005). Multi-national firms often consider ways of charging artificially low or high prices for sales between related parties in high-tax and low-tax jurisdictions, in order to shift income and reduce overall tax incursion (Bhimani et al., 2019). An MNC may use transfer pricing that moves costs to a high-tax country and transfers revenue to a low-tax country (Mukhzarudfa & Putra, 2019). The kind of transfer pricing which is done by the multinational companies caused a big loss to a country. In Indonesia, the largest source of state revenue is tax. (Abu Saman Lubis, 2015) states that one source of the state budget expenditure (APBN) is from tax. Therefore, transfer pricing is one problem which becomes an attention to the government and tax officials.

One of the transfer pricing practice which can be disadvantageous to a country is the price manipulation case (transfer pricing) of the coal sales of PT. Adaro Indonesia. There is an allegation that PT. Adaro Indonesia sold the coal below the market price to the affiliates in Singapore, Coaltrade Services International Pte, Ltd in 2005 and 2006 (www.dpr.go.id).

The Tax Regulation no.43 Year 2010 which has been changed into Tax Regulation no. 32 Year 2011 regarding to the Application of The Principle of Fairness and The Nature of Business in the transaction between the tax payer and the party which has a special relationship is believed can cause the potential reduction of tax revenues of a country since the multinational companies tend to transfer their tax obligation from the countries which have high tax rate (high tax countries) to the countries which applied low tax rate (low tax countries) (Santoso, 2004).

The difference of tax rate will motivate the transfer pricing. In some of the research, it was found that tax has influence to the decision of transfer pricing (Hartati et al., 2014; Noviastika F et al., 2016; Pramana, 2014; Syamsuddin, 2015; Yuniasih et al., 2012). However, there also a research which shows that there is no influence of tax to the company decision in doing the transfer pricing (Marfuah & Azizah, 2014; Wen, 2014).

The decision in doing transfer pricing is also influenced by the bonus mechanism. Purwanti (2010) states that royalty / bonus is a reward given by RUPS boards of directors members annually if the company gets profit, where bonus has positive influence to increase in corporate earnings, which is reported by increading the profit now by transfer pricing practice. Hartati et al. (2014) found that bonus mechanism has influence to transfer pricing decision. However, research result of Pramana (2014) and Mispiyanti (2015) showed different things, that is, there is no influence between bonus mechanism and transfer pricing decision.

Beside tax and bonus mechanism, the decision to do transfer pricing is also influenced by tunneling. The research result shows that tunneling incentive has positive influence to the manufacture company decision in doing transfer pricing (Marfuah & Azizah, 2014; Mispiyanti, 2015; Noviastika F et al., 2016; Pramana, 2014; Syamsuddin, 2015; Wen, 2014; Yuniasih et al., 2012). Other things that influence a company doing transfer pricing is debt covenant. In accordance with the debt covenant hypothesis, a company which has a high debt ratio tend to do accounting policy, which makes the company profit becomes higher.

Transfer pricing is a tool to mobilize operating profits for its business purposes, the fiscal authority (taxation officials) always wants transactions that occur between divisions or between companies in one group to still refer to fair market prices and are arm's length. Developing countries, including Indonesia, are aware that multinational corporations with various advantages use transfer pricing engineering to transfer Indonesia's tax potential to other countries with various excuses, reasons and justifications for this engineering. Therefore, the fiscal authority subjectively views the purpose of transfer pricing is to avoid taxes, the fiscal authority pays attention to two principal things, namely associated enterprises or special relationships and the arm's length principle (Mispiyanti, 2015).

Rahayu (2010) states that the characteristics of the relationship between a subsidiary company in Indonesia and its parent company abroad are considered as a separate entity according to tax perspective. Thus, the subsidiary and the parent company can make transactions (inter company transactions) which are arranged in such a way that the subsidiary company in Indonesia suffers a loss, while the overall business other than in Indonesia is still profitable so that it can reduce the tax burden in Indonesia. This is supported by the opinion of Gusnardi (2009) which states that multinational companies conduct transfer pricing to minimize their company's global tax liability. As stated by Bernard et al. (2011) stated that the price of related party transactions and arm's-length is related to the level of import taxes and tariffs in the destination country. Yuniasih et al. (2012) stated that taxes have a positive effect on the company's decision to carry out transfer pricing. One of the reasons why companies do transfer pricing is to reduce the tax burden that is getting bigger. Because in business practice, entrepreneurs generally identify tax payments as a burden so they will always try to minimize the tax burden. Based on the description above, the hypothesis is:

H_1: Taxes have a positive effect on transfer pricing of multinational companies

Companies usually use bonuses to improve employee performance, so that the profit generated each year is getting higher. Some companies use bonus plans and some companies do not implement this practice. Basically, company managers want a large bonus from the company, one way is by changing the reported profit. In the bonus plan hypothesis, managers of companies with bonus plans tend to choose accounting procedures with changes in reported earnings from future periods to present periods. If their reward depends on the reported bonus on net income, then it is likely that they can increase their bonus for the period by reporting the highest possible net income. One way of doing this is by choosing accounting policies that increase reported earnings for that period by means of transfer pricing.

The greater the overall company profit generated, the better the image of the directors in the eyes of the company owner. Therefore, directors have the possibility to do everything they can to maximize company profits, including transfer pricing practices. This is also supported by Healy (1985) who found that company managers with a net profit-based bonus mechanism systematically adopt accrual policies to maximize their expectations. According to Lo et al. (2010) bonus has a positive effect on the increase in company revenue which is reported by increasing profit in the current period, one of which is the transfer pricing practice. In addition, Hartati et al. (2014) in their research also states that company owners will see the company's overall profit as an assessment of the performance of their directors so that the directors will do their best so that overall company profits will increase, including by carrying out transfer pricing practices. From the description above, then the hypothesis

H_2: The bonus mechanism has a positive effect on transfer pricing of multinational companies.

Tunneling is the behavior of transferring company assets and profits for the benefit of the majority shareholder controlling minority shareholders (Aharony et al., 2010). Sales or purchase transactions with related parties are used to transfer cash and other current assets out of the company by determining prices that are not fair for the benefit of the controlling shareholders. Purchasing goods or services above fair value and selling goods or services below fair value are methods of tunneling. Mutamimah (2009) found tunneling by majority owners to minority owners through merger and acquisition strategies. Examples of tunneling incentives are not distributing dividends, selling assets or securities from companies they control to other companies they own at prices below market prices, and selecting unqualified family members to occupy important positions in the company (Johnson et al., 2014). Aharony et al. (2010) found that tunneling incentives after initial public offerings (IPOs) were associated with sales of special relationships prior to IPO. Yuniasih et al. (2012) find that related party transactions are more commonly used for the purpose of transfer of wealth than dividend payments because listed companies must distribute dividends to the parent company and other minority shareholders. Thus it can be said that the owners of the majority shares will do ways that can generate high profits and sacrifice the rights of minority shareholders. One way is through transfer pricing (Pramana, 2014). Based on the analysis and theory above, the hypothesis can be formulated as follows:

H_3: Tunneling incentive has a positive effect on transfer pricing of multinational companies.

In the debt covenant hypothesis, the closer a company is to violations of accounting based on debt agreements, the more likely it is that company managers will choose accounting procedures with changes in reported earnings from future to present periods. One of the ways that companies can increase profits and avoid credit regulations is by transfer pricing. The higher the debt or equity ratio, the closer the company is to the credit agreement or regulatory limit (Kalay, 1982). The higher the credit limit, the more likely it is for irregularities in credit agreements and expenses. Managers will have accounting methods that increase profits so as to loosen credit limits and reduce the cost of technical errors. From the analysis and theory above, the following hypothesis can be formulated:

H_4: Debt covenants have a positive effect on transfer pricing of multinational companies.

RESEARCH METHODS

The location of this research is a manufacture company registered in Indonesia Stock exchange (BEI) in 2012-2016 by accessing the official site of BEI, that is, www.idx.co.id to get annual report from each company which becomes the research sample. The sample is done in the period of 2012-2016 since the Tax Regulation no.32 Year 2011 regarding to the application of The Principle of Fairness and The Nature of Business in transaction between tax payer and the party who has social relationship rules about the transfer pricing which started effectively in November 2011. The result of sampling stage is presented in Table 1.

Table 1. Sample Selection

No.	Criteria	Number of Company
1	Manufacture companies registered in Indonesian Stock Exchange among period of 2012-2016	132
2	Manufacture companies controlled by foreign company with percentage of ownership less than 20%	(41)
3	Manufacture companies presented the financial report using currencies other than rupiah	(15)
4	Manufacture companies that do not give the financial report successively in 2012-2016	(6)
5	Manufacture companies which experienced loss in 2012-2016	(45)
	Total sample based on criteria	25
	Observation year	5
	Number of observation (a x b)	125

Source: Processed data, 2020

Table 1. shows that the secondary data is obtained and selected in accordance with the determined criteria, so we can get sample of 25 companies with observation period of 5 years, so that the total number of observation are 125.

Transfer pricing is the value in each product or service from one division which is transferred to other division in the same company or among companies which have the special relationship. The sales to a party which has special relationship indicated the transfer pricing practice. The price set in sales to related party or special relationship usually used the unworthiness price, it can be using the increasing or decreasing price (Noviastika F et al., 2016). The company which sell something to a party with special relationship in other countries will be given the value 1 and the one which is not will be given value 0 (Mispiyanti, 2015).

Tax variable is measured by using Cash Effective Tax Rate (Cash ETR). Dyreng et al. (2010) states that Cash ETR is good to illustrate the tax aversion activity by a company because Cash ETR is not influenced by the estimation changes, such as allowance for evaluation or tax protection. ETR is a percentage of tax rate which is covered by a company, where ETR is often used as a reference by decision maker and the parties who have interests to make policy in a company and contain conclusion of tax system in a company (Ardyansah, 2014). Cash ETR is a cash issued to tax fee divided by profit before tax. The formulae to calculate Cash ETR is as follows:

$$\text{Cash ETR}= \frac{\text{Tax Payment}}{\text{Profit Before Tax}} \text{..(1)}$$

Bonus mechanism is the calculation component of bonus amount which is given by the company owner or shareholders through RUPS to board of director members every year if they get profit (Suryatiningsih & Siregar, 2009). This variable is measured by the formulae ITRENDLB, it is based on the percentage of net profit achievement in year t to the net profit of year t-1 (Irpan, 2011; Suryatiningsih & Siregar, 2009).

$$\text{ITRENDLB}=\frac{\text{Net profit of year t}}{\text{Net profit of year t-1}} \text{..(2)}$$

Variable of tunneling incentive in this research is based on the magnitude of foreign share ownership which is above 20% (twenty percent). The entities are considered to have significant influence directly and indirectly to other entities when it encloses capital of 20% or more, based on the Standard Statement of Financial Accounting (PSAK) no.15.

Debt covenant is a way chosen by a company by choosing a method that can increase the profit; this was explained in positive accounting theory. Debt covenant is proxied by debt ratio, in this research using the DER ratio, it is a comparison between the total debt and share capital.

Data analysis technique used in this research is logistic regression. Logistic regression analysis is an analysis tool used to measured how far the influence of independent variable to dependent variable, in this case, the dependent variable is in the form of dummy variable (transfer pricing). The logistic regression equation used is;

$$\textit{Logit } Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \text{ .... (3)}$$

Remarks:

Y	= transfer pricing
α	= constanta
β_1 dan β_2	= regression coefficient
X_1	= tax
X_2	= bonus mechanism
X_3	= tunneling incentive
X_4	= debt covenant
ε	= *error term*

RESULTS AND DISCUSSIONS

Descriptive statistic test is aimed to find out the sample characteristics used in the research in the form of mean (average), maximum and minimum value, and also standard deviation. Table 2. is the result of descriptive statistic test.

Table 2. Descriptive Statistic Result

	N	Minimum	Maximum	Mean	Deviation Std.
Tax	125	0,050	2,900	0,327	0,279
Bonus Mechanism	125	0,260	4,140	1,124	0,501
Tunneling Incentive	125	0,250	0,970	0,586	0,221
Debt Convenant	125	0,000	3,030	0,779	0,584

Transfer Pricing	125	0,000	1,000	0,648	0,479
Valid N (listwise)	125				

In Table 2., variable of transfer pricing (Y) is measured based on dummy variable, so the minimum value is 0 and the maximum value is 1, the mean is 1,648 and the deviation standard value is 0,479. The mean of 0,648 or same as 65% indicated that the sale transaction to a party which has special relationship in other country was happened to 65 observations, which means that most companies do the transfer pricing transaction.

The average value of X1 is tax, which is 0,327 or equivalent to 32,7%. This figure shows that the average tax burden of the sample companies is 32,7% of the profit before tax. The maximum value indicates that the sample company has 209,0% tax/Cash Effective Tax Rate as a policy for transfer pricing, namely the Indo Acitama Tbk company in 2016. The minimum value indicates that there is a sample company that is 027,4% with a Cash Effective Tax Rate implementing transfer pricing policy, namely the company Pelangi Indah Canindo Tbk in 2016.

The average value of X_2, namely the bonus mechanism, is 1,124 or equivalent to 112,4%. The average bonus mechanism for the sample companies is 112,4%, which means that the average achievement of net profit in year t against net income in year t-1 for sample companies is 12,4%. The maximum value of 414,0% indicates that there is a sample company based on the percentage of profit sharing through the bonus mechanism to carry out transfer pricing policies, namely the KMI Wire and Cable Tbk company in 2011. The minimum value of 026,0% has the influence of the bonus mechanism policy to carry out the policy transfer pricing throughout the research period, namely the company Pelangi Indah Canindo Tbk in 2013.

The average value of X_3 is tunneling incentive, which is 0,586 or equivalent to 58,6%. This figure shows that the share ownership of the sample companies tends to be concentrated in a small number of parties. The maximum value of tunneling incentive from the sample company shows that 97% foreign share ownership above 20% carries out a transfer pricing policy, namely the company Nippon Indosari Corporindo Tbk during 2012 to 2015. The minimum value is 25% foreign share ownership above 20% in the Nippon Indosari Corporindo company Tbk in 2016.

The average value of X_4 is debt covenant, which is 0,779 or equivalent to 77,9%. The maximum value of 3,030 debt covenants shows that 303,0% of the sample companies adopted a debt ratio policy to carry out transfer pricing policies, namely Multi Bintang Indonesia Tbk in 2014. The minimum value of 000,0% indicates that the company does not use debt ratios to implement policies. Transfer pricing, namely the company Hanjaya Mandala Sampoerna Tbk for the period 2015 and 2016.

The regression model qualification is valued by using Hosmer and Lemeshow's Test. Is the statistic value of Hosmer and Lemeshow test is bigger than 0,05 then the zero hypothesis is accepted and it means that the model is able to predict the observation value or can be said that the model can be accepted since it fits the observation data. The statistic value of Hosmer and Lemeshow is 0.078 which is bigger than 0.05, then the zero hypothesis is accepted and it means that the model is able to predict the observation value or can be said that model can be accepted since it fits the observation data.

The test of whole model is in accordance with the data is done by comparing the value between *-2Log Likelihood* (-2LogL) in the beginning with the value of *-2Log Likelihood* (-2LogL) to the end. If there is a decreasing of Likelihood value, it shows a good regression model or in other words the hypothesized model fits the data. The value of -2LogL in the beginning is 162,179 and the value of -2LogL in the end is 139,369. The decreasing value of this -2LogL indicates that a good regression model or in other words the hypothesized model fits the data.

The magnitude of determination coefficient value in logistic regression model is indicated by the value of Nagelkerke's R Square. Nagelkerke's R Square is used to measure how big are the free variables used in this research, they are: tax, bonus mechanism, and tunneling incentive which are able to influence the bound variable of transfer pricing. The value of Nagelkerke's R Square is 0,229. It means that the free variables used in this research, they are: tax, bonus mechanism, tunneling incentive, and debt covenant influenced the bound variable of transfer pricing, in amount of 22,9%, meanwhile 77,1% influenced by other variable not included in this research.

This classification table shows the prediction power of regression model to predict the company probability in doing the transfer pricing.

Table 3. Classification Table

Observed			Predicted		
			Transfer Pricing		Percentage Correct
			0	1	
Step 1	*Transfer Pricing*	0	21	23	47,7
		1	9	72	88,9
Overall Percentage					74,4

Based on the Table 3. the ability to predict the regression model to the probability of company decision in doing the transfer pricing is 88,9%. So it is known that by using the regression model, there are 72 companies or 74,4% companies predicted will be doing the transfer pricing decision out of total 81 companies that apply transfer pricing. Meanwhile, the ability to predict regression model to the probability where company did not do transfer pricing is 47,7%. So it is known that by using the regression model, there are 21 companies or 47,7% companies predicted will not be doing the transfer pricing decision out of total 44 companies that do not apply transfer pricing.

Based on the analysis result from variables in the equation result, as presented in Table 4.

Table. 4. *Variables in the Equation*

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	X_1	-0,606	0,911	0,443	1	0,506	0,545
	X_2	0,027	0,416	0,004	1	0,949	1,027
	X_3	4,518	1,110	16,565	1	0,000	91,649
	X_4	-0,641	0,376	2,902	1	0,088	0,527
	Constant	-4,874	0,864	1,967	1	0,161	0,298

a. Variable(s) entered on step 1: X_1, X_2, X_3.

Based on Table 4. it is obtained the regression equation:

$$\textit{Logit } Y = -4{,}874 - 0{,}606\, X_1 + 0{,}027\, X_2 + 4{,}518\, X_3 - 0{,}641\, X_4 + \varepsilon$$

The first hypothesis states that tax has influence to company decision in doing transfer pricing. Based on analysis result that tax variable with proxy, Cash Effective Tax Rate (Cash ETR) hasn't influenced the multinational company decision in doing transfer pricing. This result is not as the same as Dyreng et al. (2010), that Cash ETR is good to illustrate the tax aversion activity by the company since Cash ETR has not been influenced by the estimation changes such as allowance for evaluation and tax protection. This means that multinational company operated in the country with different tax rate or higher and lower tax rate, the probability of tax payment obligatory by cash is not become their priority concern to run their business strategically to switch the profit.

The second hypothesis submitted is bonus mechanism has positive influence to transfer pricing of multinational company. The analysis result found that bonus mechanism has no influence to transfer pricing of multinational company. This result is consistent with the research conducted by Mispiyanti (2015); Pramana (2014) who found that bonus mechanism has no influence to transfer pricing.

It means that bonus given by company owners to their managers based on the amount of company profit is in accordance with bonus plan hypothesis does not affect the company to do transfer pricing or not. Besides, it also happened because the manufacture company has a good stakeholder supervision mechanism. Company has audit committee which has background of education and experience in accounting and financial, so it can affect the effectiveness of supervision to management. Audit committee with background of education and experience in accounting and financial has a better ability in finding the manipulations, so it can be fixed soon (Ariyani & Harto, 2014).

The third hypothesis is tunneling incentive has positive influence to transfer pricing of multinational company. The analysis result shows that tunneling incentive has a significant positive influence to transfer pricing of multinational company.

This result is the same with research done by Hariyani & Ayem (2021); Sari & Novyarni (2020); Marfuah & Azizah (2014); Mispiyanti, (2015); Noviastika et al. (2016); Syamsuddin (2015); Yuniasih et al. (2012) which state that tunneling incentive has a positive influence to manufacture company decision in doing transfer pricing. Tunneling can be done by selling the product to the related company with lower price. Then the shareholder controllers will get the authority and incentive in the company (Dwinanto, 2010). It indicates that the company with concentrated ownership in one party tends to do the tunneling through the transfer pricing transaction.

The fourth hypothesis that debt covenant has positive influence to transfer pricing of multinational company. The analysis result shows that debt covenant has no influence in transfer pricing of multinational company. It means that in doing transfer pricing, multinational company is not as in the same direction as debt covenant hypothesis.

In debt covenant hypothesis, it is revealed that the closer a company to accounting violation based on debt agreement, so the tendency is the bigger probability the company managers chose the accounting procedures with reported profit changes from future to present time period. One way used by the company to increase the profit and avoid the credit regulation is by transfer pricing. The higher the debt ratio or equity is, the closer the company with the agreement limit or credit regulation (Kalay, 1982).

CONCLUSIONS

Tax (Cash ETR) has no influence to multinational company decision in doing transfer pricing. The assumption of multinational company doing transfer pricing to minimize tax, so the obligatory tax payment by cash or Cash ETR is not become the priority concern in tax aversion or tax burden savings. Bonus mechanism does not influence the multinational company decision in doing transfer pricing. It shows that bonus given by the company owner to the board of directors is based on the amount of company profit in accordance with bonus plan hypothesis does not affect the company to do transfer pricing or not. Tunneling incentive shows the positive influence to multinational company decision in doing transfer pricing. It indicates that the ownership structure is concentrated to a few parties that tend to do tunneling through transfer pricing transaction. Debt covenant does not affect the multinational company decision in doing transfer pricing. This can be interpreted that management's strategy to implement debt covenants is not sufficient for multinational company’s decisions to transfer pricing. This research only obtained determination coefficient of 22,9%. In the next research, it would be better to add other variables or use the tax variable from the factor of tax rate. Chan et al. (2011) revealed that the exchange rate affects the transfer pricing decisions related to maximizing the company's profitability.

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