The Effect of Taxes and Bonus Mechanisms on Transfer Pricing decisions in Mining Sector Companies listed on the IDX 2018-2020

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ABSTRACT

This study aims to examine the impact of Tax and Bonus Mechanisms on IDX's 2018-2020 listed Mining Sector Companies Transfer Pricing decisions. The number of samples taken is 30 companies from 47 companies in the mining sector using purposive sampling method. Logistics Regression analysis method is used in the data analysis using SPSS 20. The result of this research is that Tax and Bonus Mechanisms have no influence on transfer pricing decisions. It can be seen from the test result of the regression coefficient of 0.000 and the significance level of the tax variable is 0.705 > 0.05, while the bonus mechanism has a regression coefficient of 0.000 in the negative direction and a significance value of 0.315 > 0.05. It can be said that the tax and bonus mechanism are not a benchmark for companies in carrying out Transfer Pricing practices.

Keywords: Tax and Bonus Mechanism, Mining Sector, Transfer Pricing

INTRODUTION

The development of technology and the rapid flow of globalization have encouraged many companies to expand their business, not only in one country. Many companies are developing their business through subsidiaries or branch companies to other countries (multinational corporations). For example the company PT Telekomunikasi which is a business company wholly owned by PT Telkom Indonesia. To strengthen its business in facing the global market, PT Telekomunikasi established a branch in Singapore which was named Telekomunikasi International [1].

The rapid growth of the international economy has contributed to the development of multinational companies. One of the reasons for the development of multinational companies is that the tax rates applicable to different countries are different. Tax is a problem that cannot be avoided by every company. Each company has been required to make tax payments in accordance with the applicable

calculations. That way the company feels that the existence of taxes will harm the company, so there are many frauds in paying taxes. Many things are done by companies to minimize tax payments to the state. Thus, to avoid paying high taxes, one of the things the company does is transfer pricing. Due to the different tax rates applicable to various countries, multinational companies may transfer their profits to countries with lower tax rates in order to minimize the tax burden and maximize profits. International tax reduction efforts are made through transfer pricing, namely by increasing the purchase price or cost (on account) or by reducing the selling price (under invoice). It is used to transfer profits to low-tariff countries by maximizing expenditures and ultimately reducing revenues[2-4].

According to Article[2] or, since the share capital of one entity is owned or controlled by another entity for 25% or more, a special relationship can be established between taxpayer companies, or different 25% or more of the shares between entities are owned by one entity. Special relationships may cause unfair prices, commissions, or other rewards earned in business transactions. Worldwide, transactions between taxpayers with special relationships are called transfer pricing. There are several reasons why companies decide to do transfer pricing. One of the reasons companies carry out transfer pricing transactions is taxes. Based on the political cost theory, besides taxes, it has a coercive nature so that the government requires a multinational company to pay taxes which of course makes the company feel pressured because it has to routinely pay taxes to the state. So the manager chooses to do a way to minimize tax payments, namely by transfer pricing to his group of companies in other countries so that the taxes paid by the company can be as minimal as possible[5-7].According to the calculation of the Director of the State Administration of Taxation in 2015, the state may lose 1.3 trillion rupiah due to transfer pricing. According to the internal information of the Director of the General of Taxes, it is emphasized that the losses are mainly due to the payment of Interest, Royalties and Intercompany services, so much so that the Director General of Taxes estimated that by filing such payments the state does not need to add more debt [5, 8]. In the current era, transfer pricing is one of the issues that has a very influential impact on the revenue of a country, one of which is in the tax sector. One of the cases related to transfer pricing is that there are 2,000 multinational corporations operating in Indonesia that do not pay Article 25 and Article 29 of the Corporate Income Tax (PPh) for reasons of loss. The company has not paid taxes for 10 years through the use of transfer pricing methods or through tax evasion of taxable profits or profits from Indonesia to other countries. As many as 2,000 companies are indicated to evade taxes for reasons of continuous loss.One of the cases of misuse of transfer pricing policies also occurred in Indonesian multinational companies, namely PT Adaro Indonesia, which reoccurred in 2019, is indicated to have done transfer pricing based on the report of the international NGO Global Witness. PT Adaro Energy [3]is one of the largest coal companies in Indonesia. The company commits tax evasion through transfer pricing in which the company sells coal to its subsidiary Coaltrade Service International Pte. Ltd in Singapore at a lower price than its market price. As is known, Singapore has a lower tax rate than Indonesia. Therefore, Coaltrade Services International Pte. Ltd. By selling the coal to other parties at a high price, so that there has been a profit shift where the tax paid to Indonesia should be large enough to be small and PT. Adaro benefits greatly because taxes paid in Singapore are low [1](“https://tirto.id/djp-dalami-dugaan-penghindaran-pajak-ptadaro-energy-edKk”).In addition to taxes, the bonus mechanism also influences transfer pricing decisions. The bonus mechanism is a policy carried out by the company in order to improve the work performance of its employees, in order to create a good work environment. When performing their duties, directors often want to show good performance to company owners. Since, if shareholders or business owners judge the work of directors with common sense, business owners will reward directors who run well [9].

LITERATURE REVIEW

Transfer Pricing

Diana Sari believes that transfer pricing is a price calculated to manage the transfer of goods and services between profit control and cost management centers. Broadly speaking, transfer pricing includes calculating prices between multiple entities, and the owners of these entities may be the same or different in law. Taking into account the attributes of entities, it is possible to draw the boundaries between intra-group and intra-group transfers, that is, the former refers to the transfer between departments of an entity, and the other refers to the transfer between the internal entities of the group enterprise[10]. On the other hand, pejoratively, the transfer pricing of term is usually related to systemic price manipulation, with the purpose of artificially reducing profits, trying to make the company lose money and avoid taxation or tariffs in a country[11].

Tax

According to [5] taxes are people's contributions to public finances in accordance with the law, and there is no reciprocal service that can be directly proven and used to pay for public expenses. Tax is described as a tax levied by a country on behalf of its citizens in accordance with the law, in which the country does not directly counteract its citizens.

Bonus Mechanism

According to [11] the bonus mechanism is a reward given by the owner of the company to the manager for meeting the company's performance targets, a manager may get a bonus based on net income, or according to the target of increasing net income.

Framework

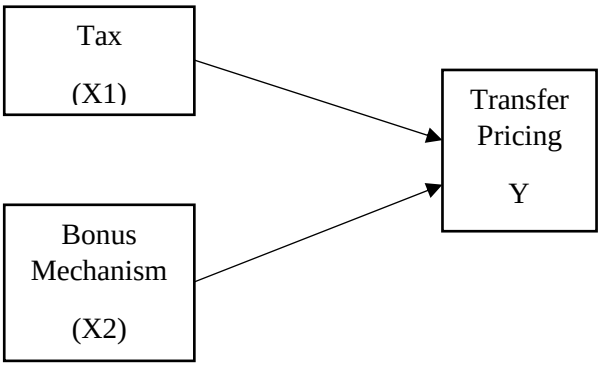

Figure 1.1 Framework

Hypothesis :
H1: Tax has a positive effect on transfer pricing decisions
H2: Bonus mechanism has a positive effect on transfer pricing decisions.

RESEARCH METHODOLOGY

This type of research is quantitative research. The technique of data collection used is documented, that is, to collect, record and review secondary data in the form

of 2018-2020 annual reports and periodicals of mining manufacturing companies listed on the Indonesian Stock Exchange through the website www.idx.co.id Indonesia Stock Exchange (IDX).

Data source

The documentation method is used by researcher in collecting this secondary data. This documentation method is carried out by collecting annual reports, financial reports along with audit reports by independent auditors and other necessary data based on the previous explanation. While other supporting data obtained by researchers indirectly (literature study method from scientific journals) as well as literature containing discussions related to this study[12-14]. The type of secondary data obtained from www.idx.co.id in the form of an annual report published by the IDX.

Data collection technique

The method of data collection used in this study is the documentary method, which is a data collection technique by collecting, recording and reviewing secondary data in the form of journals or previous research. Other supporting data are obtained from various supporting books and other sources related to transfer pricing.

Population and Sample

The population of this research are mining manufacturing companies listed on the IDX from 2018 to 2020. Purposive sampling method was used in this study as the sample. This method is based on the suitability of the characteristics of the sample with the selection of the sampling standards specified for sampling. Multinational companies were chosen as samples taken in this study because multinational companies are easier to charge on transfer pricing. This is done in the hope that there will be no bias for the purposes of this study.

The procedure for selecting the sample criteria is as follows:

1. This study uses mining sector manufacturing companies listed on the Indonesia Stock Exchange during 2018-2020.
2. Companies that report complete financial statements or data in 2018-2020.
3. Companies that earn positive profits in 2018-2020.
4. Tax expense is less than deferred tax expense.

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

The variables used in this research include the dependent variable (Y) namely transfer pricing decisions and the independent variable (X) namely taxes and bonus mechanisms. The results of testing these variables are descriptive as shown in table

Table 1

Descripture Statistics Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
X1	30	2.00	9682.00	3153.7000	2897.73813
X2	30	89.00	13925.00	1373.0000	2428.67401
Y	30	0	1	.20	.407
Valid N (listwise)	30				

Table 1 is known about the descriptive statistics of all variables in this research. The minimum value represents the minimum value of the result of processing sample

data. The maximum value is the maximum value from data analysis. The average value of the number of data and the number of each variable is described by the mean. The standard deviation is to explain the distribution of the distribution and the variability contained in the data. The following are the results of the analysis of the research.

This descriptive statistical test is designed to look at the quality of the research data, as shown by the values contained in the standard deviation and mean. In other words, if the mean is greater than the deviation or standard deviation, the quality of the data will be better. Based on table 1 above, it shows the measurement of variables of well N 30 in the period 2018-2020 regarding descriptive statistics using SPSS 21, the explanation is as follows:

a. The results of the calculation of the Tax variable can be seen in table 1 above showing the measurement of variables from N as many as 30 in the 2018-2020 period has a Minimum 2.00, Maximum 9682.00 and Mean (average value) 3153.7000, and Standard deviation (deviation) standard) this variable is 2897,73813.

b.The results of the calculation of the bonus mechanism variable can be seen in table 1 above showing the measurement of variables from N as many as 30 in the 2018-2020 period has a Minimum 89.00, Maximum 13925.00 and Mean (average value) 1373,0000, and Standard deviation (standard deviation) this variable is 2428,67401.

c. The results of the transfer pricing variable calculation can be seen in table 1 above showing the measurement of variables from N as many as 30 in the period 2018-2020 has a Minimum 0.00, Maximum 1.00 and Mean (average value) 0.20, and Standard deviation (standard deviation) this variable is 0.407.

Logistics Regression Stages

1. Assessing the Overall Model

2. Overall Model Fit Test Results

The output of the overall model fit test results is based on the likelihood function.

Table 2

Overall Model Suitability Test Results

Keterangan	2 Log Likelihood
Block Number : 0	30,197
Block Number : 1	27,019

Based on table 2, information is obtained that the test was carried out by comparing the value between the -2Log Likelihood (-2LL) at the beginning (block number: 0) and the 2Log Likelihood (-2LL) at the end (block number: 1). The initial -2LL value is 30,197. Two independent variables were added, so that the final 2LL value decreased to 27.019. As the likelihood (-2LL) decreases, this indicates that a better regression model or hypothetical model fits the data.

Table 3

Coefficient of Determination Test Results (Nagelkerke R Square)

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	27.019[a]	.095	.151

The magnitude of the test value of the coefficient of determination in the logistic regression model is represented by the Nagelkerke R Square value. The results of the coefficient of determination test (Nagelkerke R Square) are shown below.According to Table 3, the value of Nagelkerke R Square is 0.151, which means that the variability of the dependent variable that can be described by the independent variable is 15%, and the remaining 85% is described by other variables.

Regression Model Feasibility Test Results

Table 4

Lemeshow and Hosmer Test

Step	Chi-square	df	Sig.
1	10.775	8	.215

The Lemeshow and Hosmer goodness-of-fit test is used to evaluate the feasibility of the regression model. Then, the feasibility results of the regression model will be displayed. Based on Table 4, the display Chi-square value is 10.775, and the significance (p) is 0.215. Since the significant value is greater than 0.005, the research data model on the effect of tax and bonus mechanisms on transfer pricing decisions is valid, so it merits further testing.

Classification Matrix Results

Testing this classification matrix to predict the possibility of companies in making transfer pricing decisions. The results of the classification matrix test are shown in table

Table 5

Classification Matrix Test Results

Observed			Predicted		
			Y		Percentage Correct
			0	1	
Step 1	Y	0	24	0	100.0
		1	5	1	16.7
	Overall Percentage				83.3

a. The cut value is ,500

Table 5 shows the prediction rate of 16.7% of transfer pricing companies and 100% of non-transfer pricing companies. Overall, the model with variable taxation and bonus mechanism is statistically predictable at 83.3%. The conclusion from table 4.7 that the predictive ability of the regression model of the sample company's probability of conducting transfer pricing is 16.7%. A total of 1 company out of 5 sample companies will carry out transfer pricing. Next, there are 24 companies that do not transfer pricing from the total.

Logistics Regression Test Results

The results of the logistic regression model are shown in the following table:

Table 6

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I.for EXP(B)	
								Lower	Upper
Step 1a	X1	.000	.000	.143	1	.705	1.000	1.000	1.000
	X2	.000	.000	1.011	1	.315	1.000	1.000	1.001
	Constant	-2.067	.809	6.534	1	.011	.127		

The test results on the logistic regression coefficients produce the following model: Ln (p/1-p) = TP = -2.067 + 0.000TAX – 0.000MB +

Based on table 4.8 shows that the variable X1 (tax) as an independent variable has a positive coefficient of 0.000 with a significance level (p) of 0.705, greater than = 5%, the first hypothesis (Ha1) is rejected, which means that the tax has no significant effect on transfer decisions pricing. So the variable coefficient (tax) has increased by 1 unit, then the transfer pricing variable also increases by 0.000 units assuming other factors are constant.

The variable (X2) bonus mechanism as an independent variable has a negative coefficient of 0.000, and the significance level (p) is 0.315 greater than = 5%, then the second hypothesis (Ha2) is rejected, which means that the reward mechanism does not have a significant impact on the transfer pricing decision. The resulting beta value of 0.000 is negative, indicating that there is a negative correlation between the transfer pricing and bonus mechanism. Therefore, if the bonus mechanism variable increases by 1 unit, assuming other factors remain unchanged, the transfer pricing variable will also increase by 0.000 units.

Conclusion

Based on the data collected and the results of tests performed using logistic regression testing, with the discussion in the previous section, the conclusion that can be drawn is:

1. Taxes have an effect on Transfer Pricing decisions.

From Table 4.8, the results of the regression coefficient test are 0.000 and the significance level of the tax variable is 0.705>0.05. This indicates the first hypothesis that taxes have a negative effect on transfer pricing decisions. Although the higher the tax rate, it does not encourage the parent company to shift its profits to a subsidiary that has a lower tax rate. Many methods can be used by companies to minimize the amount of tax paid by doing tax planning. This study results are the same as those conducted by[3].

2. The Bonus Mechanism has no effect on Transfer pricing decisions.

This study examines the positive effect of the bonus mechanism on transfer prices. Based on Table 4.8, it see that the bonus mechanism variable has a regression coefficient of 0.000 in the negative direction and a significance value of 0.315 > 0.05. These results indicate that the bonus mechanism has a negative and insignificant effect on the transfer price. This means that it can be concluded that hypothesis 2 shows that the bonus mechanism has a positive impact on transfer

pricing, but it was rejected. This is because mining sector companies have a good stakeholder monitoring mechanism. This has been anticipated by the existence of an audit committee that has the capacity and experience in the field of financial accounting so as to be able to detect fraud committed by the company's management so that it can be corrected immediately. The results of this study are the same as those conducted by [9, 12, 15]determined that the bonus mechanism has no effect on transfer pricing.

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