International Journal of Social Science (IJSS)
Vol. 4 Issue.2 August 2024, pp: 187-190
ISSN: 2798-3463 (Printed) | 2798-4079 (Online)
DOI: https://doi.org/10.53625/ijss.v4i2.8322

THE INFLUENCE OF TAX EXPENSE AND PROFITABILITY ON TRANSFER PRICING IN MANUFACTURING COMPANIES IN THE CONSUMER GOODS INDUSTRY SECTOR LISTED ON THE INDONESIA STOCK EXCHANGE FROM 2016 TO 2020

By
Anselmus Rufus Kodu[1], Rimi Gusliana Mais[2]
[1]Institut Bisnis dan Informatika Kwik Kian Gie
[2]Sekolah Tinggi Ilmu Ekonomi Indonesia Jakarta
Email: [1]rufuskodu@gmail.com, [2]rimi_gusliana@stei.ac.id

Article Info

Article history:
Received June 25, 2024
Revised July 05, 2024
Accepted July 28, 2024

Keywords:
Transfer Pricing, Tax Expense, Profitability, Manufacturing Industry

ABSTRACT

This study aims to investigate the influence of tax expense and profitability on transfer pricing decisions in manufacturing companies within the consumer goods industry sector listed on the Indonesia Stock Exchange during the period 2016-2020. Utilizing a quantitative approach and secondary data from annual financial reports, multiple linear regression analysis was conducted to assess the relationship between independent variables (tax expense and profitability) and the dependent variable (transfer pricing). The results indicate that both tax expense and profitability significantly impact firms' transfer pricing decisions. Companies tend to actively employ transfer pricing strategies when faced with high tax expenses and achieve good profitability levels. The implications of this research emphasize the importance of effective transfer pricing management in optimizing tax structures and financial performance, as well as the necessity for clear regulations to ensure compliance and transparency in business practices. This study provides valuable insights for practitioners, academics, and policymakers in comprehending the complexities of transfer pricing within the context of manufacturing companies, while also suggesting further research into more advanced measurement methods related to transfer pricing

Corresponding Author:
Anselmus Rufus Kodu
Institut Bisnis Indonesia Kwik Kian Gie
Email: rufuskodu@gmail.com,

1. INTRODUCTION

Taxation plays a crucial role in national governance, especially concerning multinational corporations (MNCs) operating across different countries. These corporations often optimize their production processes and engage in transactions with related entities in various countries to maximize profits. One of the strategies used is transfer pricing, which involves determining the prices of goods and services exchanged between related companies.

However, transfer pricing policies often give rise to various issues such as customs duties, taxes, anti-dumping regulations, unfair business competition, and internal corporate management issues (Klassen et al., 2013). The use of transfer pricing as a strategy to reduce tax expenses has become a significant international tax issue. This is because multinational corporations often leverage these policies to lower their overall tax liabilities.In Indonesia, transfer pricing cases have drawn the attention of tax authorities. For instance, the Directorate General of Taxation accused PT. Toyota Motor Manufacturing Indonesia of evading taxes amounting to 1.2 trillion Indonesian Rupiah through transfer pricing. This case came to light after the tax authorities found that Toyota Indonesia sold its manufactured vehicles to Singapore at unreasonable prices, resulting in losses and reduced profits that led to lower tax payments.

International Journal of Social Science (IJSS)
Vol. 4 Issue.2 August 2024, pp: 187-190
ISSN: 2798-3463 (Printed) | 2798-4079 (Online)

Transfer pricing has become a vulnerable scheme for companies to manipulate in order to boost their profits. Therefore, it is important to examine the factors influencing this practice. One significant factor is tax expense. According to Suryana cited in Yuniasih et al. (2012), transfer pricing is used to adjust the company's profit levels so that both taxes paid and dividends distributed are minimized. Previous studies by Refgia (2017), Saraswati & Sujana (2017), and Cahyadi & Noviari (2018) found that tax expense has a positive effect on transfer pricing decisions. However, research by Marfuah & Azizah (2014) and Mispiyanti (2015) yielded different results, suggesting that tax expense has a negative or insignificant effect on transfer pricing decisions.

In addition to tax expense, profitability also influences transfer pricing. Profitability, which reflects management's performance in managing corporate assets, is often associated with suspected transfer pricing practices (Cahyadi & Noviari, 2018). Studies by Richardson et al. (2013) and Kusuma & Wijaya (2017) found that profitability has a positive impact on transfer pricing.

Based on this background, this research aims to examine the influence of tax expense and profitability on transfer pricing in manufacturing companies within the consumer goods industry sector listed on the Indonesia Stock Exchange from 2016 to 2020.

2. THEORETICAL FRAMEWORK

Profitability measures a company's ability to generate profit from its operational activities. A common measure of profitability is Return on Equity (ROE), which reflects how efficiently a company utilizes its equity capital to generate net income. Companies with high profitability tend to have more resources to invest in sophisticated tax planning, thus often engaging in tax avoidance practices to maximize net profit.

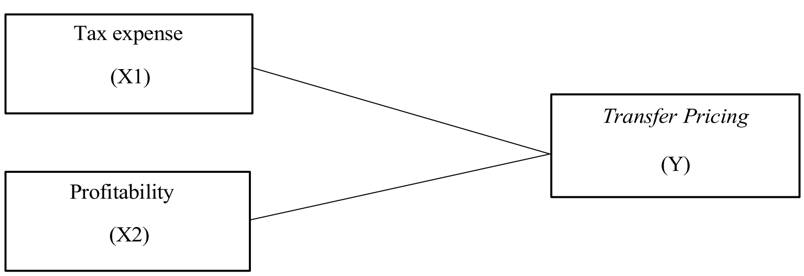
Leverage indicates the proportion of debt in a company's capital structure. Companies with high leverage often face pressure to manage their debt expense efficiently, including reducing tax liabilities. Therefore, highly leveraged companies may be more inclined to engage in tax avoidance as a strategy to minimize tax obligations and maintain financial health.

Company size is often associated with the ability to engage in tax avoidance practices. Larger companies typically have more resources to undertake complex and effective tax planning. Additionally, they may have access to more experienced tax advisors who can assist in designing sophisticated tax avoidance strategies.

Tax expense refers to the total taxes a company is required to pay within a specific period. Companies with high tax expenses may have greater incentives to reduce their tax liabilities through various tax avoidance strategies. This includes exploiting legal loopholes and engaging in aggressive tax planning to decrease the amount of taxes payable.

Conceptual Framework

Based on the theoretical discussion above, the conceptual framework for this research can be illustrated as follows:



3. RESEARCH METHODOLOGY

This study employs a quantitative approach to measure the influence of independent variables (tax expense and profitability) on the dependent variable (transfer pricing) among manufacturing companies in the consumer goods sector listed on the Indonesia Stock Exchange (IDX) during the period 2016-2020. The data analyzed are sourced from annual financial reports of these companies published on the official IDX website, accessible via https://www.idnfinancials.com/id/.

The population of the study comprises 67 active manufacturing companies in the consumer goods sector listed on the IDX during the specified period. From this population, the research sample was selected using purposive sampling criteria: active listing on the IDX from 2016 to 2020, consistent presentation of financial reports, and absence of financial losses during the study period. A total of 28 companies met these criteria and formed the sample, yielding 140 observations (28 companies x 5 years). The study aims to explore how tax expense and profitability influence the practice of transfer pricing within these companies, aiming to provide deeper insights into tax avoidance strategies and financial management in the context of multinational corporations operating in Indonesia.

4. RESULTS AND DISCUSSION

The analysis results indicate that the data for the transfer pricing variable follows a normal distribution with a p-value of 0.200 in the Kolmogorov-Smirnov normality test. Although not significant at the $\alpha = 0.05$ level, with 95% confidence, the normality assumption can be considered fulfilled. This is crucial to ensure the validity of using statistical techniques that require normally distributed data.

Furthermore, the analysis of multicollinearity shows that the tax expense (x1) and profitability (x2) variables have high tolerance values (0.941) and low VIF (1.062), indicating no multicollinearity issues between these independent variables. This confirms that both variables can be included in the regression model without significant problems.

The Durbin-Watson test yielded a value close to 2 (1.791), indicating no significant autocorrelation in the residuals of the regression model. This suggests there is no systematic pattern in the residuals left after correcting for the independent variables.

Moreover, from the analysis of the residual scatter plot, there is no clear pattern indicating heteroskedasticity, indicating that the residual variance does not significantly change across the range of predicted values.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.440	.045		9.825	.000
	Tax expense	-.343	.135	-.210	-2.544	.012
	Profitability	.003	.001	.241	2.923	.004

a. Dependent Variable: *transfer pricing*

The regression results demonstrate that both independent variables, tax expense (x1) and profitability (x2), have significant regression coefficients on the transfer pricing variable (y). With p-values around 0.027 and 0.011 respectively, there is strong statistical evidence to reject the null hypothesis (H0) that there is no effect of the independent variables on the dependent variable. Therefore, both tax expense and profitability significantly influence transfer pricing in this research context.

The analysis results provide a deeper understanding of the factors influencing transfer pricing in the consumer goods manufacturing industry. The significant impact of the tax expense and profitability variables underscores the importance of considering these factors in transfer pricing management strategies. Companies can optimize cost structures and enhance profitability to effectively manage transfer pricing in accordance with market conditions and applicable regulations.

5. CONCLUSION

This study reveals significant relationships among tax expense , profitability, and transfer pricing decisions in the consumer goods manufacturing sector companies listed on the Indonesia Stock Exchange during the period of 2016-2020. Based on the analysis results, there is a notable influence of tax expense on companies' transfer pricing decisions. When companies face high tax expenses, they tend to actively utilize transfer pricing to optimize their tax structures. Additionally, company profitability significantly affects transfer pricing decisions, with firms adjusting strategies based on their profitability levels. Simultaneously, both tax expense and profitability jointly influence transfer pricing decisions, reinforcing each other's impact on companies' transfer pricing practices.

6. IMPLICATIONS

Managers need to carefully manage transfer pricing to optimize tax structures and financial performance aligned with long-term company goals and compliance with tax regulations. The study underscores the importance of clear regulations to ensure transparency and compliance in transfer pricing practices. Policymakers should consider policies

International Journal of Social Science (IJSS)
Vol. 4 Issue.2 August 2024, pp: 187-190
ISSN: 2798-3463 (Printed) | 2798-4079 (Online)

supporting ethical business practices and preventing misuse of transfer pricing strategies. Further research could explore advanced measurement methods and additional variables like intangible assets and leverage to deepen understanding of factors influencing transfer pricing practices.

The conclusions and implications of this research offer valuable insights for practitioners, academics, and policymakers seeking to understand transfer pricing complexities in manufacturing companies. Implementation of these findings in business practices can support sustainable growth and development of companies.

REFERENCES

[1] Martasari. (2015). Pengaruh Karakteristik Keuangan Dan Nonkeuangan Terhadap Transfer Pricing Pada Perusahaan Di Indonesia. Universitas Diponegoro.
[2] Cahyadi, A. S., & Noviari, N. (2018). Pengaruh Pajak, Exchange Rate, Profitabilitas, Dan Leverage Pada Keputusan Melakukan Transfer Pricing. E-Jurnal Akuntansi Universitas Udayana, 24, 1441–1473.
[3] Mispiyanti. (2015). Pengaruh Pajak, Tunelling Incentive dan Mekanisme Bonus terhadap keputusan Transfer Pricing. Jurnal Akuntansi dan Investasi, 16(1), 62-73.
[4] Olivia. (2019). Pengaruh Beban Pajak, Profitabilitas dan Kepemilikan Asing dengan Tax Haven sebagai variabel moderasi terhadap kebijakan perusahaan melakukan Transfer Pricing. Institut Bisnis dan Informatika Kwik Kian Gie, Jakarta.
[5] Thesa Refgia. (2017). Pengaruh Pajak, Mekanisme Bonus, Ukuran Perusahaan, Kepemilikan Asing dan Tunelling Incentive terhadap Transfer Pricing. Universitas Riau.
[6] Gusti Saraswati, IK Sujana. (2017). Pengaruh Pajak, Mekanisme Bonus, dan Tunneling Incentive pada indikasi melakukan Transfer Pricing. Universitas Udayana.
[7] Kodu, A. R., Saragih, K., Sitorus, F., & Silvanita, K. (2023). The Influence of Internal Control, User Capability and Information Technology on the Quality of the Accounting Information System at PT VK. International Journal of Research and Innovation in Social Science, 7(12), 175-182. Retrieved from International Journal of Research and Innovation in Social Science (IJRISS).
[8] Kodu, A. R. (2022). Pengaruh Pengendalian Internal, Kemampuan Pengguna, dan Teknologi Informasi terhadap Kualitas Sistem Informasi Akuntansi pada PT Virama Karya (Persero). Universitas Kristen Indonesia.
[9] Mais, R. G., & Hastuti, D. D. (2023). Profitability and zakat payment: The role of firm size. Jurnal Riset Manajemen dan Bisnis, 8(1), 33-40.
[10] Musfiroh, S., Herdiyatna, H., Saritah, S., Mais, R. G., & Sunarsih, U. (2024). Pengaruh profitabilitas, ukuran perusahaan dan analisis good corporate governance terhadap tax avoidance. Jurnal Riset Ekonomi dan Manajemen, 15(6), 1-15.