

The Effect Of Taxes, Bonus Mechanism, And Debt Covenant On Transfer Pricing Decisions

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Abstract

The phenomenon of globalization is shown by increasingly rapid technological advances, companies are encouraged to expand and become multinational companies in order to get more profit potential. As a result, special relationships and transactions are created between the company and related parties, both local and foreign. As for the problems arising from differences in regulations, economic conditions, and international market conditions that are not fixed for multinational companies. Transfer pricing is one of the company's choices to get prices that do not change (internally) or even help transmit financial data and evaluate division/branch performance. However, there is a possibility that transfer pricing is misused as tax minimization in order to obtain optimal profits or benefits for several stakeholders. Therefore, it is estimated that several factors can trigger companies in deciding the application of transfer pricing practices, for example, taxes, bonus mechanisms and debt covenants in this study. This research was conducted because there were gaps or research areas (research gaps) from previous studies. The purpose of this study was to determine the effect of taxes, bonus mechanisms, and debt agreements on the company's transfer pricing decisions. The research sample was selected using a purposive sampling method for all manufacturing sector companies listed on the Indonesia Stock Exchange for the 2016 – 2019 period. The number of sample companies that match the research criteria are 42 companies or 168 units of observation. The hypothesis testing method of this study was logistic regression analysis with the help of the SPSS version 23 application program. The results showed that the tax variable had no significant effect on transfer pricing decisions. Meanwhile, the bonus mechanism and debt covenant variables have a positive and significant impact on transfer pricing decisions. The size of the tax variable, bonus mechanism variable, and debt agreement in explaining transfer pricing research is 15.7%, while the remaining 84.3% is from other variables or factors outside the research model.

Key Words: Transfer Pricing, Tax, Bonus Mechanism, Debt Covenants

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