

# **THE INFLUENCE OF LEVERAGE, TAX AVOIDANCE, PROFITABILITY, AND CORPORATE GOVERNANCE ON TRANSFER PRICING PRACTICES IN MULTINATIONAL COMPANIES**

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**Abstract.** This study aims to analyze the effect of leverage, tax avoidance, profitability, and corporate governance on transfer pricing practices. The study focuses on multinational companies listed on the Indonesia Stock Exchange, using a purposive sampling method that resulted in 100 samples. In this research, the panel data regression model was applied using multiple linear regression analysis to obtain more accurate and relevant results. The findings reveal that only corporate governance has a negative impact on transfer pricing, while leverage, tax avoidance, and profitability do not show any significant influence. The implication of this study is the need to strengthen the implementation of corporate governance in multinational companies as an effort to minimize transfer pricing practices that harm the state in terms of tax revenue. Furthermore, these findings serve as an important consideration for regulators in formulating tax supervision and corporate governance policies.

**Keywords:** Transfer Pricing Practices, Leverage, Tax Avoidance, Profitability, Corporate Governance

## I. INTRODUCTION

Differences in tax rates between countries have become one of the main drivers of aggressive tax planning practices, including transfer pricing (Adelia & Santioso, 2021). Transfer pricing is a pricing policy for transactions between entities in one business group, especially in multinational companies that operate across jurisdictions (Sa'diah & Afriyenti, 2021). This practice is used to move profits to countries with lower tax rates, thereby significantly reducing the tax burden (Mayzura & Apriwenni, 2023). Although not always illegal, transfer pricing is of particular concern to tax authorities because it has the potential to weaken the national tax base and create fiscal imbalances.

Multinational companies in Indonesia face a dilemma between tax efficiency and compliance with domestic regulations. The complexity of cross-border transactions opens up opportunities to manipulate prices, especially in related party transactions (Wulandari et al., 2021). This is exacerbated by the weak supervision and application of the fairness principle in transfer pricing. The case study of PT Adaro, which allegedly practiced transfer pricing by transferring profits to a subsidiary in Singapore, is a clear illustration of the challenges faced by tax authorities in following up on this practice (Tribunsumbar, 2022).

Various factors are believed to influence a company's decision to apply transfer pricing, including leverage, tax avoidance, profitability, and corporate governance (Firmansyah & Yunidar, 2020). Companies with high leverage levels tend to have an incentive to minimize

their tax burden in order to maintain cash flow and financial stability (Apriani et al., 2020). Likewise, tax avoidance practices carried out legally can provide loopholes for manipulating transaction prices between entities (Fitriya, 2023). On the other hand, according to Rahayu et al., (2020) company profitability can encourage management to seek tax efficiency strategies, while corporate governance plays an important role as a monitoring mechanism for policies that have the potential to cause conflicts of interest (Wijaya & Amalia, 2020).

A number of previous studies have examined the relationship between these variables and transfer pricing practices, but the results still show inconsistencies. Differences in methodology, observation period, and industry characteristics are factors that cause variations in empirical findings. Therefore, a more comprehensive study is needed, especially on multinational companies listed on the Indonesia Stock Exchange, given the scale and scope of their operations have a high relevance to cross-border taxation issues.

This study aims to examine the effect of leverage, tax avoidance, profitability, and corporate governance on transfer pricing practices in multinational companies listed on the IDX during the period 2020-2023. The period was chosen because it reflects the post-COVID-19 pandemic economic dynamics that affect corporate finance and taxation policies (Hayani & Darmawati, 2023). By using a quantitative approach and purposive sampling method, it is hoped that the results of this study can make an empirical contribution to the development of academic literature and become a reference in the formulation of more effective and fair fiscal policies.

## II. LITERATURE REVIEW

### A. Agency Theory

Agency theory explains the relationship between principals (government) and agents (managers), which is often colored by conflicts of interest due to differences in objectives (Jensen and Meckling, 1976). Asymmetric information between management and the government can increase the costs that companies must bear to monitor and control management actions. By increasing transparency through disclosure of intangible assets, companies can reduce information asymmetry which is expected to reduce potential conflicts of interest and increase investor confidence (Bhudiyanti & Suryarini, 2022).

### B. Leverage

Leverage can be used to see the extent to which the company's assets are financed with debt, in other words, the extent to which the company's ability to pay all its obligations (Cledy & Amin, 2020). Multinational companies that have high leverage tend to avoid taxes by structuring debt (Roslita, 2020).

### C. Tax Avoidance

Tax avoidance is used to reduce the tax burden by manipulating the price of internal transactions between affiliated companies by shifting profits to jurisdictions with lower tax rates. To address this, various countries and international organizations such as the OECD have developed stricter guidelines and rules regarding transfer pricing that aim to strengthen the legitimacy of OECD analysis and ensure that the results of the analysis reflect the interests of the wider community.

#### D. Profitability

Profitability reflects a company's ability to generate profits from its assets. Companies with high profitability tend to have a larger tax burden, so they are encouraged to look for tax efficiency strategies, one of which is transfer pricing (Hariaji & Akbar, 2021). By moving some of the profits to entities in low-tax countries, companies can reduce their tax burden, making profitability an influential factor in transfer pricing decisions.

#### E. Corporate Governance

Corporate governance is a company management and supervision system that involves the role of the board of commissioners, directors, and shareholders. Good corporate governance can minimize conflicts of interest and increase transparency, thus playing an important role in preventing abuse of transfer pricing policies (Mayasari & Al-Musfiroh, 2020). With an effective supervisory mechanism, the opportunity to conduct improper transfer pricing can be suppressed.

#### F. Transfer Pricing

Transfer pricing is a pricing policy for transactions of goods, services, or intangible assets between entities that have a special relationship within a business group, especially in multinational companies (Henry Simamora, 1999). This practice is of concern to tax authorities because it can be used to move profits from countries with high tax rates to countries with low rates, thereby reducing overall tax liabilities.

In Indonesia, transfer pricing practice is regulated through Director General of Taxes Regulation No. PER-32/PJ/2011 which requires transactions between related parties to be conducted based on arm's length principle. In the context of this study, transfer pricing is treated as a dependent variable that reflects the extent to which companies utilize affiliate relationships for tax efficiency purposes.

#### G. Research Framework

This study uses the following framework:

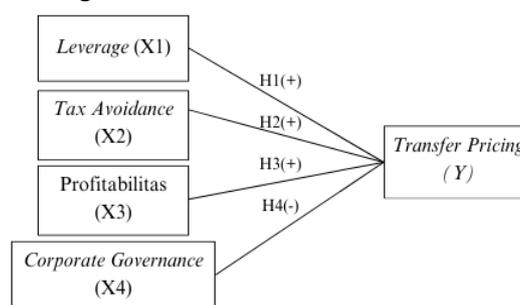


Figure 1 Research Framework

#### H. Hypothesis Development

##### Leverage Effect on Transfer Pricing Practices

Leverage reflects the company's funding structure that comes from debt. Companies with high leverage tend to use transfer pricing strategies to reduce the tax burden by charging loan interest to affiliated entities in countries with low tax rates (Roslita, 2020). This is in accordance with agency theory which explains that managers, as agents, can have a tendency to maximize

their own interests, including through financial statement engineering (Jensen & Meckling, 1976). So, the first hypothesis proposed in this study is:

H1: Leverage has a positive effect on transfer pricing practices.

#### The Effect of Tax Avoidance on Transfer Pricing Practices

Tax avoidance is an illegal strategy carried out by companies to reduce the tax burden that must be paid, one of which is through transfer pricing. By utilizing differences in tax rates between countries, companies can move profits to low tax jurisdictions through affiliate transactions (Sa'diah & Afriyenti, 2021). Agency theory explains that there is a conflict of interest between the principal and the agent which can encourage the agent to take advantage of information asymmetry for personal gain, including through tax avoidance (Susanto & Andia, 2023). Then the second hypothesis in this study is:

H2: Tax avoidance has a positive effect on transfer pricing practices.

#### The Effect of Profitability on Transfer Pricing Practices

Profitability shows the company's ability to generate profits from its assets. Companies that are more profitable have the potential to pay more taxes, so they are encouraged to use transfer pricing to reduce their tax burden (Hariaji & Akbar, 2021). In the context of agency theory, company managers can use this policy to maintain net profit performance which can affect compensation and reputation (Putri, Damayanti & Heriansyah, 2023). Therefore, the third hypothesis proposed in this study is:

H3: Profitability has a positive effect on transfer pricing practices.

#### The Effect of Corporate Governance on Transfer Pricing Practices

Corporate governance is a company supervision system that aims to safeguard the interests of stakeholders through control mechanisms such as the board of commissioners and independent commissioners. Companies with good governance tend to be more transparent and accountable in preparing financial statements, so as to prevent deviant transfer pricing practices (Yadnya & Indrayani, 2025). According to agency theory, the existence of an effective supervisory mechanism can reduce information asymmetry and suppress management's opportunistic behavior (Jensen & Meckling, 1976). Therefore, the fourth hypothesis proposed in this study is:

H4: Corporate governance negatively affects transfer pricing practices.

### III. RESEARCH METHODOLOGY

#### A. *Type of Research*

This research uses a quantitative approach, which aims to test hypotheses through objective measurements of research variables and numerical data analysis. The quantitative approach is used to explain the causal relationship between the independent variable and the dependent variable based on statistically analyzed data. This research is explanatory research, because it focuses on empirical testing of the influence of leverage, tax avoidance, profitability, and corporate governance on transfer pricing practices. This method is in line with Sugiyono's (2017) view that quantitative research is used to test theories and hypotheses with measured and standardized data.

### *B. Research Object*

The object of this research is multinational companies listed on the Indonesia Stock Exchange (IDX) during the period 2020 to 2023. The sample selection was carried out using non-probability sampling techniques, namely the purposive sampling method, where the sample was selected based on certain criteria relevant to the research objectives. The sample selection criteria in this study are as follows:

1. Multinational companies that represent the main sectors and are listed on the Indonesia Stock Exchange (IDX) during the 2020-2023 period and have an ownership structure with affiliated entities abroad.
2. Companies that consistently publish annual financial reports during the 2020-2023 research period.
3. Companies that have complete data related to leverage, tax avoidance, profitability, corporate governance, and transfer pricing variables, including data on the number of board of commissioners during the research period.
4. Companies that did not experience losses (made a profit) during the 2020-2023 research period.
5. These criteria are set to ensure that the data used is worth analyzing and reflects the condition of the company that is relevant to transfer pricing practices.

### *C. Data Source and Collection Method*

The data used in this study is secondary data, which is obtained from the annual financial statements and annual reports of multinational companies listed on the Indonesia Stock Exchange during the period 2020-2023. The data was collected through the official website of the Indonesia Stock Exchange as well as other supporting sources that are credible and accountable.

The data collection method is carried out using documentation techniques, namely collecting, recording, and processing quantitative data related to research variables in accordance with the needs of statistical analysis.

### *D. Operational Definition and Variable Measurement*

The operational definition of variables is an explanation of the meaning of a research variable by determining the measurement method and indicators used, so that these variables can be measured empirically and avoid differences in perception (Sugiyono, 2019).

In this study, the variables used consist of dependent variables and independent variables, which are as follows:

#### *Dependent Variable*

Transfer pricing is the practice of pricing transactions between entities that have special relationships, especially between companies in a multinational group. This variable is measured using indicators that reflect the intensity of related party transactions as stated in the financial statements.

#### *Independent Variables*

The first independent variable is leverage, which describes the extent to which a company uses debt-based funding in its capital structure. Leverage is measured by comparing total liabilities to total assets, which reflects the company's level of dependence on external funds

as well as potential financial pressures that can influence managerial decisions, including transfer pricing practices.

The second independent variable is tax avoidance, which refers to the company's efforts to minimize the tax burden through tax planning that is still within the corridor of applicable tax provisions. Tax avoidance is measured using the effective tax rate, which shows the ratio between the tax expense paid and profit before tax, thus reflecting the level of aggressiveness of the company in managing its tax obligations.

The third independent variable is profitability, which reflects the company's ability to generate profits from its resources. Profitability is measured using return on assets (ROA), which shows the effectiveness of management in utilizing company assets to generate profits. A high level of profitability can affect the company's incentive to set earnings through transfer pricing.

The last independent variable is corporate governance, which represents the company's internal monitoring and control mechanism in order to protect the interests of stakeholders. Corporate governance is operationalized through the indicator of corporate governance structure, especially the number of board of commissioners, which plays a role in performing the supervisory function of management policies and decisions, including policies related to related party transactions and transfer pricing practices.

#### *E. Data Analysis Method*

As a relevant methodological addition, this study uses descriptive statistical analysis, classical assumption test, and multiple linear regression analysis. The regression model used is formulated as follows:

$$TP = \beta_0 + \beta_1 LEV_{it} + \beta_2 TA_{it} + \beta_3 PROF_{it} + \beta_4 CG_{it} + \epsilon$$

Description:

TP = *Transfer Pricing Practice*

LEV = *Leverage*

TA = *Tax Avoidance*

PROF = *Profitability*

$\beta_0$  = *Intercept (constant)*

$\beta_1, \beta_2, \beta_3, \beta_4$  = Regression coefficients that describe the effect of each independent variable on the dependent variable

$\epsilon$  = *Error term or disturbance (residual)*

## IV. RESULT AND DISCUSSION

### *A. Overview of Research Objects*

This study uses companies that are included in the category of multinational companies during the period 2020 to 2023. There are 25 companies that meet the sample selection criteria. The total sample obtained is 100 observation data, using purposive sampling technique for 4 years of observation. The sample selection stages in this study are described in the following table:

Table 1. Validity and Reliability Test Results

No	Sampling Criteria	Number
1	Multinational companies representing each major sector listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023 and have ownership structures with related entities abroad.	35
2	Companies that did not publish regular annual financial reports during the 2020 to 2023 research period.	(0)
3	Companies that do not have complete data related to <i>leverage</i> , <i>tax avoidance</i> , <i>profitability</i> , <i>corporate governance</i> and <i>transfer pricing</i> including the number of boards of commissioners in each research year from 2020 to 2023.	(4)
4.	Companies that did not experience profit during the research period from 2020 to 2023 .	(6)
Total Sample (N)		25
Number of Research Years (t)		4
Final Sample Size (N x t)		100

Source: Secondary Data Processing (2024)

### B. Descriptive Statistical Analysis

Descriptive statistical analysis is applied in this study to provide a comprehensive overview of the characteristics of the data that has been collected. Through the calculation of the average, maximum value, minimum value, and standard deviation of each variable, a deep understanding of the distribution and distribution of data is obtained. The results of the descriptive statistical analysis obtained are as follows:

Table 2. Descriptive Statistical Analysis

	Leverage	Tax Avoidance	Profitability	Corporate Governance	Transfer Pricing
Mean	0.942210	0.247814	0.088326	0.440322	19.42041
Median	0.744050	0.226050	0.072750	0.400000	2.622100
Maximum	3.928400	0.792800	0.348900	0.833300	94.69410
Minimum	0.140200	0.017400	0.001500	0.250000	0.000700
Std. Dev.	0.770166	0.110311	0.071970	0.137035	30.08070
Observation	100	100	100	100	100

Source: Data Processed (2024)

The independent variable shows that the maximum value of leverage is 3.9284 and the minimum value is 0.1402. In 2023, PT Unilever Indonesia Tbk (UNVR) became the company with the highest debt and PT Samindo Resources Tbk (MYOH) became the company with the lowest debt in 2022. The average (mean) leverage is recorded at 0.94221 per year, which indicates that multinational companies have a debt of 0.94221 of their total equity and a standard deviation value of 0.770166 per year.

The independent variable tax avoidance shows that tax avoidance has a maximum value of 0.7928 and a minimum value of 0.0174. In 2022, PT Barito Pacific Tbk (BRPT) became the company that had the highest tax avoidance and PT Global Mediacom Tbk (BMTR) became

the company that had the lowest tax avoidance in 2023. Meanwhile, tax avoidance shows an average (mean) of 0.247814 per year which illustrates that multinational companies are able to reduce the tax burden by 0.247814 of their taxable income. The standard deviation value of 0.110311 per year indicates the variation in tax avoidance strategies between companies.

The independent variable profitability shows that profitability has a maximum value of 0.3489 and a minimum value of 0.0155. In 2020, PT Unilever Indonesia Tbk (UNVR) became the company with the highest profit and PT Indopoly Swakarsa Industry Tbk (IPOL) became the company with the lowest profit in 2023. The average (mean) profitability is recorded at 0.088326 per year which indicates that multinational companies are able to generate profits of 0.088326 from their total assets. The standard deviation value of 0.07197 per year indicates the variation in the level of profitability between companies.

The independent variable corporate governance shows that corporate governance has a maximum value of 0.8333 and a minimum value of 0.25. In 2023, PT Unilever Indonesia Tbk (UNVR) became the company with the highest governance and PT Solusi Bangun Indonesia Tbk (SMCB) became the company with the lowest governance in 2021. The average (mean) corporate governance is recorded at 0.440322 per year, which indicates that multinational companies are able to apply governance principles by 0.440322 of the standard governance indicators they have. The standard deviation value of 0.137035 per year reflects the variation in the level of implementation of corporate governance among these multinational companies.

The dependent variable transfer pricing shows that transfer pricing has a maximum value of 94,69410 and a minimum value of 0.0007. In 2020, PT Mayora Indah Tbk (MYOR) became the company that had the highest value of transactions between entities and PT Samindo Resources Tbk (MYOH) became the company that had the lowest governance in 2020. The average (mean) transfer pricing is recorded at 19.42041 which indicates that multinational companies are able to generate a transaction value between entities of 19.42041 of their total receivables and a standard deviation value of 30.0807 per year.

### C. Panel Data Regression Testing

#### Chow Test

If the F-statistic value is greater than the F-table, then the null hypothesis (H0) stating that the *Common Effect Model* is more appropriate is rejected, so that the *Fixed Effect Model* becomes a more appropriate choice. The calculation results of the *Chow Test* are presented in the following table:

Table 3. Chow Test Results

Redundant Fixed Effects Tests			
Equation: Untitled			
Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	110.639407	(24,71)	0.0000
Cross-section Chi-Square	364.803756	24	0.0000

Source: Data Processed (2024)

The test results show that the *Probability Crossection Chisquare* value is 0.0000, which is smaller than the significant limit of 0.05. Thus, it can be concluded that the *Fixed Effect Model* is a more suitable choice than the *Common Effect Model*.

### Hausman Test

If the test results show a probability value smaller than the significance level of 0.05, then the null hypothesis (H0) stating that the *Random Effect Model* is more suitable is rejected and the *Fixed Effect Model* is selected. Conversely, if the probability value is greater than the significance level, then the *Random Effect Model* is considered more appropriate.

Table 4. Hausman Test Results

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.867682	4	0.4242

Source: Data Processed (2024)

Based on the calculation results, the *cross-section random probability* value is 0.4242. Thus, the decision on the *Hausman Test* is to accept the null hypothesis (H0) because the *P-value* is greater than 0.05. From these test results, it can be concluded that the *Random Effect Model* is more appropriate than the *Fixed Effect Model*.

### Lagrange Multiplier Test

If the probability value of the test is smaller than 0.05, then the null hypothesis (H0) stating that the *Common Effect Model* is more appropriate is rejected, so the *Random Effect Model* is selected. The calculation results of the *Lagrange Multiplier* test are presented in the following table:

Table 4. Lagrange Multiplier Test Results

Lagrange Multiplier Tests for Random Effects			
Null hypotheses: No effects			
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives			
	Cross-section	Test Hypothesis Time	Both
Breusch-Pagan	131.4846 (0.0000)	2.006988 (0.1569)	133.4916 (0.0000)

Source: Data Processed (2024)

Based on the calculation results, the *random cross-section probability* value is 0.0000. Thus, the decision on the *Lagrange Multiplier* test is to accept the null hypothesis (H0) because the *P Value* is smaller than 0.05. From these test results, it can be concluded that the *Random Effect Model* is more appropriate than the *Common Effect Model*.

*D. Multicollinearity Test*

In this study, multicollinearity testing was carried out by calculating the correlation coefficient value between independent variables. If the correlation coefficient value of each variable is less than 0.85, it can be concluded that there is no multicollinearity. The multicollinearity test results are presented in the following table:

Table 5. Descriptive Statistical Test Results

	X1	X2	X3	X4
X1	1.000000	-0.014314	0.305029	0.433741
X2	-0.014314	1.000000	-0.274361	-0.117428
X3	0.305029	-0.274361	1.000000	0.340826
X4	0.433741	-0.117428	0.340826	1.000000

Source: Data Processed (2024)

Based on the test results displayed in table 5, it is found that the correlation coefficient value between variables is below 0.85. This is in accordance with the provisions of the multicollinearity test where there is no correlation coefficient between variables that exceeds the 0.85 limit. Therefore, it can be concluded that the data does not experience multicollinearity problems or passes the multicollinearity test (Napitupulu et al., 2021).

*E. Heteroscedasticity Test*

The heteroscedasticity test is carried out to determine whether there are differences in residual variances between one observation and another in the regression model. If the residual variance is consistent between observations, this condition is called homoscedasticity. Conversely, if the variance is different, it is called heteroscedasticity (Ghozali, 2013).

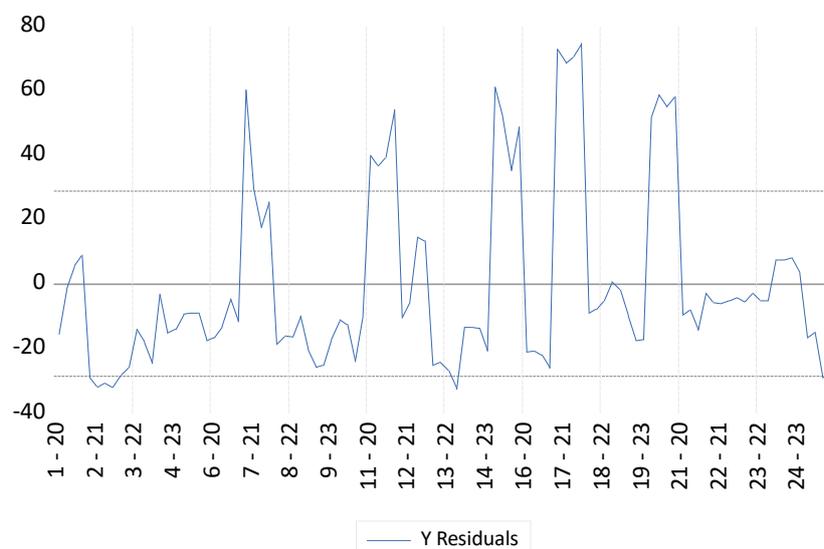


Figure 1. Residual Graph

In Figure 1, the residual graph is visible (in blue) between the upper limit of 500 and the lower limit of -500. Therefore, there is no heteroscedasticity problem or passes the heteroscedasticity test (Napitupulu et al., 2021).

*F. Panel Data Regression Results*

Table 6. Panel Data Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	57.15460	12.67531	4.509129	0.0000
X1	7.826497	4.259064	1.837610	0.0692
X2	-29.83267	27.38794	-1.089263	0.2788
X3	-26.59270	45.08924	-0.589779	0.5567
X4	-80.31988	24.18667	-3.320832	0.0013
Weighted Statistics				
R-Squared	0.121949	Mean dependent var	19.42041	
Adjusted R-squared	0.084979	S.D. dependent var	30.08070	
S.E of regression	28.77422	Akaike info criterion	9.605543	
Sum squared resid	78655.79	Schwarz criterion	9.735802	
Log likelihood	-475.2772	Hannan-Quinn criterion	9.658261	
F-statistic	3.298552	Durbin Watson stat	0.081202	
Prob (F-statistic)	0.014100			

Source: Data Processed (2024)

From the regression results that have been presented, the regression line equation can be formulated as follows:

$$TP = 57.15 + 7.82LEV_{it} - 29.83TA_{it} - 26.6PROF_{it} - 80.31CG_{it} + \epsilon$$

The above equation can be explained or interpreted as follows:

1. The constant value obtained is 57.15, meaning that without the variables X1, X2, X3 and X4, the variable Y will increase by 5,715%.
2. The regression coefficient value of variable X1 is positive (+) of 7.82, if the value of other variables is constant and variable X1 has increased by 1%, then variable Y will increase by 782%. Vice versa, if the value of other variables is constant and the X1 variable decreases by 1%, the Y variable will decrease by 782%.
3. The regression coefficient value of the X2 variable is negative (-) amounting to -29.83, if the value of other variables is constant and the X2 variable increases by 1%, the Y variable will decrease by 2,983%. Vice versa, if the value of other variables is constant and the X2 variable decreases by 1%, the Y variable will increase by 2.983%.
4. The regression coefficient value of the X3 variable is negative (-) amounting to -26.6 if the value of other variables is constant and the X3 variable increases by 1%, the Y variable will decrease by 266%. Vice versa, if the value of other variables is constant and variable X3 decreases by 1%, then variable Y will increase by 266%.
5. The regression coefficient value of variable X4 is negative (-) amounting to -80.31 if the value of other variables is constant and variable X4 has increased by 1%, then variable Y will decrease by 8,031%. Vice versa, if the value of other variables is constant and the X4 variable decreases by 1%, the Y variable will increase by 8,031%.

### *G. Partial Test (t Test)*

1. The independent variable which states that leverage (DER) has a significance value of  $0.0692 > 0.05$ . This result shows that leverage does not have a significant positive influence on transfer pricing.
2. The independent variable stating that tax avoidance (ETR) has a significance value of  $0.2788 > 0.05$ . This result shows that tax avoidance does not have a significant positive influence on transfer pricing.
3. The independent variable stating that profitability (ROA) has a significance value of  $0.5567 > 0.05$ . This result shows that profitability does not have a significant positive influence on transfer pricing.
4. The independent variable stating that corporate governance has a significance value of  $0.0013 < 0.05$ . This result shows that corporate governance has a significant negative influence on transfer pricing.

### *H. Simultaneous Test (Test f)*

Based on the table on panel data regression, the result shows the F value of 3.298552 which is greater than the F table of 2.467493623 with a significance value of 0.014100 which is smaller than 0.05. Therefore, it can be concluded that the independent variables simultaneously have a significant influence on the dependent variable, so that the variable composition is feasible to use.

### *I. Determination Coefficient Test ( $R^2$ )*

Based on the table on panel data regression, the adjusted R<sup>2</sup> value is 0.084979. This indicates that leverage, tax avoidance, profitability, and corporate governance are only able to explain 8.5% of the transfer pricing dependent variable, while the remaining 91.5% is influenced by other factors not included in this research model.

### *J. Discussion*

#### *Leverage Effect on Transfer Pricing*

Based on the table on panel data regression, the research results are in accordance with research conducted by Rahayu, Wahyuningsih & Wijayanti (2020) and Hariaji & Akbar (2021) which say that leverage has no effect on transfer pricing. The reason is that low or high leverage does not directly affect transfer pricing practices because debt limitation regulations can limit their effect on tax avoidance, and companies tend to use other strategies that are more effective in moving profits.

Strict supervision from the government makes companies with high debt levels focus more on fulfilling financial obligations rather than transfer pricing strategies for tax avoidance. In addition, companies with high leverage also face pressure to maintain financial transparency so that the opportunity to manipulate transfer prices becomes smaller.

#### *Effect of Tax Avoidance on Transfer Pricing*

Based on the table on panel data regression, the research results are in accordance with research conducted by Sa'diah & Afriyenti (2021) which states that tax avoidance has no effect on transfer pricing because companies use other tax avoidance strategies that are more suitable for the company's conditions, such as tax incentives, financial engineering or the use

of tax havens. The reason is that companies tend to choose tax management methods that are considered more effective and less risky than transfer pricing. In addition, increasingly stringent tax regulations may also limit the use of transfer pricing as the main strategy in tax avoidance.

The existence of strict tax regulations and strong corporate governance mechanisms can limit management's ability to use transfer pricing as a tax avoidance tool, thus weakening the assumption that conflicts of interest between the government and companies can encourage tax avoidance practices through mechanisms such as transfer pricing.

#### Effect of Profitability on Transfer Pricing

Based on the table on panel data regression, the research results are in accordance with the research conducted by Afifah & Agustina (2020), Amanah & Suyono (2020) and Putri et al. (2023) who said that profitability has no effect on transfer pricing because companies that have high profits do not necessarily have an incentive to transfer profits to other entities, especially if they operate in countries with favorable tax policies. The reason is that companies with high profitability tend to focus more on business growth and regulatory compliance rather than undertaking risky transfer pricing strategies.

Some companies also have other factors that can influence transfer pricing decisions such as ownership structure, financial transparency, and stakeholder pressure. In addition, companies that have strong corporate governance can also limit management in conducting excessive transfer pricing due to higher transparency and supervision in profitable companies.

#### Effect of Corporate Governance on Transfer Pricing

Based on the table on panel data regression, the research results are in accordance with the research conducted by Wijaya & Amalia (2020) which says that corporate governance affects transfer pricing which shows that the higher the level of existence of the number of independent commissioners and the board of commissioners in a company, it will improve the quality of corporate governance in carrying out its activities in the company. The reason is that the presence of independent commissioners and a strong board of commissioners can tighten supervision of management policies, including in transfer pricing practices.

Companies that implement effective corporate governance serve to reduce these conflicts by ensuring that company management acts in accordance with the interests of the government and minimizes opportunistic actions such as transfer pricing manipulation. Thus, strong corporate governance negatively affects improper transfer pricing practices because it increases transparency and accountability in financial reporting.

## V. CONCLUSION

This study concludes that of the four variables analyzed, only corporate governance is proven to have a significant effect on transfer pricing practices in multinational companies listed on the IDX in 2020-2023. Corporate governance has a negative effect, which indicates that the better the corporate governance, the lower the tendency of companies to practice transfer pricing. Meanwhile, leverage, tax avoidance, and profitability do not show a significant effect. This result confirms that transfer pricing practices are more influenced by internal control factors than company financial characteristics.

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