

## Differences in Transfer Pricing, Tunneling Incentives and Bonus Mechanisms Moderated by Tax Minimization Before and After the Covid-19 Pandemic

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**Abstract:** This research proves the concept (proof-of-concept) of important functions and/or properties analytically and experimentally. Transfer pricing is a company action that can increase potential tax losses for state revenues. The aim of this research is to analyze the influence of incentive and bonus tunneling mechanisms on transfer pricing during the pandemic and the period after the Covid 19 pandemic. In addition, this research also examines differences in tax minimization as a moderating variable, incentive tunneling mechanisms, bonus mechanisms, transfer pricing before pandemic and after. The sample used in this research is manufacturing companies listed on the Indonesia Stock Exchange for the 2018-2021 period. This research uses different test analysis with product and service solution statistics version 23. The benefit of this research is to add to the literature related to transfer pricing. The results of this research are that there are no differences in transfer pricing, incentive tunneling, bonus mechanisms, tax minimization, incentive tunneling which is moderated by tax minimization, and bonus mechanisms which are moderated by tax minimization.

**Keywords:** bonus mechanism, tax minimization, transfer pricing, tunneling incentives

### PRELIMINARY

#### Research Background

Globalization also supports developments in other fields such as technology, transportation, communication and information which have a huge impact on business people. This situation or phenomenon makes companies that carry out international trade transactions, most of which involve multinational companies in one group (intra-group transactions), need to have tips or ways to explore potential revenue from these activities. On the other hand, they face increasingly complex conditions because not only implies capital goods, services and immovable assets but also the complexity of analyzing them for the purposes of taxation issues. Multinational companies will be faced with problems regarding differences in tax rates that apply in each country, one of the main problems faced relating to foreign investment is transfer pricing (Nuradila & Wibowo, 2018)

Since the World Trade Organization was formed to replace GATT, trade flows between countries have increased. Various obstacles that interfere with the smooth running of international trade transactions and investment between countries are reduced and eliminated. This has resulted in increasingly globalization and borders between one country and another almost non-existent.

According to (Melmusi, 2016) related to this statement, transfer pricing is generally a company policy in determining the price of a transaction between parties who have a special relationship. (Melmusi, 2016)

Management in its decision to carry out transfer pricing can be influenced by share ownership. The ownership structure in Indonesia is concentrated in a few owners, resulting in agency conflicts between majority shareholders and minority shareholders. Share ownership in Indonesia tends to be concentrated, causing the emergence of controlling and minority shareholders (La Porta et al., 2000 in Winda Hartati, Desmiyawati, 2015)

This is based on Law Number 36 of 2008 concerning Income Tax Article 18 paragraph (4), namely: concerning the special relationship between Taxpayers

Entity can occur due to ownership or control of the share capital of an entity by another entity of 25% (twenty five percent) or more, or between several entities whose shares are 25% or more owned by an entity.

An example of a recent transfer pricing case is PT Toyota Motor Manufacturing Indonesia. The Directorate General of Taxes considers that Toyota carries out transfer pricing to avoid taxes. They use the method of making sales at transfer prices outside the principles of fairness and business practices to their affiliated companies in Singapore. Apart from Toyota, the transfer pricing case was also carried out by PT Adaro Energy Tbk. According to Stuart McWilliam, Climate Change Campaign Manager for Global Witness quoted by CNBC Indonesia (2019), Adaro moved large amounts of money through tax havens. So it can reduce its tax bill by almost US \$ 14,000,000 every year. Adaro uses one of its subsidiaries in Singapore, namely Coaltrade Service International, to move a number of profits from its coal business to a network of overseas companies to cut tax payments (Amanah & Suyono, 2020).

The transfer pricing phenomenon itself is a form of tax avoidance. According to (Setiawan, 2014) the term transfer pricing connotes something that is not good (often called abuse of transfer pricing), namely a transfer of income from a company in a country with a higher tax rate to another company in the same group in a country with a higher tax rate. lower taxes thereby reducing the total tax burden of the company group.

Conglomerate companies are owned by majority shareholders who also own shares in other related companies, this causes tunneling activities to provide benefits to majority shareholders (Susanti & Firmansyah, 2020)

(Tang, 2016) states that tunneling can be an incentive for tax avoidance. Companies can save taxes by shifting profits from companies in countries with high tax rates to countries with low tax rates. If companies have demonstrated tunneling practices, they will do so by sacrificing the rights of minority shareholders with transfer pricing, this will be strengthened by the motivation of tax minimization.

Research on the effect of incentive tunneling on transfer pricing with tax minimization as a moderating variable has been carried out previously but with different results. Research results (Suryarini, Mega Cahyaningrum, & Hidayah, 2020) show that tunneling incentives have a positive and insignificant effect on transfer pricing decisions. Meanwhile, tax minimization significantly moderates the incentive tunneling effect on transfer prices. Meanwhile, research results (Amanah & Suyono, 2020) show that profitability, bonus mechanisms, tunneling incentives and debt covenants have no effect on transfer pricing. Tax minimization is unable to moderate profitability, bonus mechanisms, tunneling incentives and debt convenience towards transfer pricing.

Furthermore, another factor that can influence transfer pricing decisions is the bonus mechanism. The bonus compensation system has an influence on management performance. By using the bonus mechanism in agency theory, it explains that management ownership below 5% means there is a desire on the part of managers to carry out earnings management in order to get large bonuses. With management ownership of 25%, management has quite large ownership with the right to control the company, so information asymmetry is reduced. If management manages profits opportunistically, then the profit information can lead to wrong investment decisions for investors (Purwanto & Tumewu, 2018). This bonus compensation system can make actors, especially managers in the company, carry out engineering of the company's financial reports in order to obtain a mechanism. maximum bonus.

Research on the influence of the bonus mechanism on management decisions in carrying out transfer pricing was carried out by Zerni Melmusi in 2016 which stated that the bonus mechanism had an influence on management's decision to carry out transfer pricing. However, this is different from the opinion of (Ayu, Surya, & Sujana, 2017) who denies that there is any influence between the bonus mechanism and transfer pricing practices.

### Formulation of the problem

Based on the background that has been described, the problem formulations in this study are:

1. Is there a difference in tunneling incentives affecting transfer pricing decisions during the pandemic and after the Covid-19 pandemic?
2. Are there different bonus mechanisms that influence transfer pricing decisions during the Covid-19 pandemic and after the pandemic?
3. Is there a difference in Tax Minimization moderating the influence of tunneling incentives on transfer pricing decisions during the Covid 19 pandemic and after the pandemic?
4. Is there a difference in Tax Minimization moderating the influence of the bonus mechanism on transfer pricing decisions during the pandemic and after the Covid-19 pandemic?

### Research purposes

The purpose of this study is to determine whether:

1. To analyze whether there are differences in tunneling incentives that influence transfer pricing decisions during the pandemic and after the Covid-19 pandemic?
2. To analyze whether there are different bonus mechanisms that influence transfer pricing decisions during the Covid-19 pandemic and after the pandemic?
3. To analyze whether there is a difference in Tax Minimization moderating the influence of tunneling incentives on transfer pricing provisions during the Covid 19 pandemic and after the pandemic?
4. To analyze whether there is a difference in Tax Minimization moderating the influence of the bonus mechanism on transfer pricing decisions during the pandemic and after the Covid 19 pandemic?

## LITERATURE REVIEW, FRAMEWORK AND HYPOTHESIS

### System for using Financial Technology, Knowledge, Security, Convenience, and Trust

#### Financial Technology Usage System

Bank Indonesia defines Fintech as a phenomenon of a combination of technology and financial features that change business models and barriers to weak financial models. It aims to enter which leads to increasing players in running services and assisting financial inclusion. Fintech is one that represents a new industry that combines all innovations in the field of financial services that have been implemented through new developments in technology.

One of the latest technological developments in Indonesia is financial technology or Financial Technology (FinTech). This industry is one of the methods of financial services that is gaining popularity in today's digital era. And digital payments are one of the fastest growing sectors in the FinTech industry in Indonesia.

#### Knowledge

Age The more mature the level of maturity and strength of a person will be more mature in thinking and working in terms of trust, people who are more mature will have more confidence than people who are not yet mature enough. This is as a result of the experience of the soul (Nursalam, 2011).

Maya (2014) The next knowledge that must be known is usage knowledge. Usage knowledge represents the third category of consumer knowledge. This kind of knowledge includes information available in memory about how a product can be used and what it takes to actually use the product.

#### Security

Desmayanti (2012) An information system can be said to be good if the security of the system is reliable. The security of this system can be seen through user data that is securely stored by an information system. In the case of any reporting, everyone really expects confidentiality and security. They all reported

**Convenience**

Fardinal (2013). The effect of the effectiveness of the internal control system (general and application controls) on the quality of accounting information systems (ease of use, usability and use) and its impact on the quality of accounting information (relevance, accuracy, and verifiability), explains that a good quality system will prioritize ease of use. for its users so that the impact on the quality of information for its users

**Trust**

According to Lee (2009), trust is belief in others in the hope that others will not behave opportunistically. This is a belief that the other party will behave according to social ethics and there is confidence. From a marketing point of view (Maharani, 2010), where it is stated that the development of trust or positive expectations from customers, should be a fundamental component of a marketing strategy aimed at leading to the creation of true customer relationships.

**RESEARCH METHODS**

**Types of research**

This study uses a causal research method that aims to examine the influence of the behavior of the Fintech use system on online-based payment users. This research requires hypothesis testing with statistical tests.

**Data collection technique**

The type of data obtained in this study is documentary data, namely data obtained by researchers indirectly through intermediary media (obtained and recorded by other parties), generally in the form of evidence of records or historical reports that have been compiled in published archives (documentary data). and unpublished. Sources of data used in this study are secondary data, namely data that has been processed by primary data collectors and through literature studies related to the problems faced and analyzed, presented in the form of information.

**Method of Analysis**

**Descriptive statistical data**

Descriptive statistics are used to describe the variables in this study. The analytical tool used is the average (mean), maximum and minimum (Ghozali, 2013). This analysis tool is used to describe the variables of managerial ownership, institutional ownership, and liquidity.

**Hypothesis testing**

The test conducted in this study was a different test. Testing the hypothesis in this study depends on the normality results if the classical assumption test is used to test the data used, whether it will be normally or not normally distributed using the normality test.

**Research Results and Discussion**

**Results of Data Analysis**

A. Statistical Description Test

**Group Statistics**

	Keterangan	N	Mean	Std. Deviation	Std. Error Mean
Transfer Pricing	Before the Pandemic	84	,10	,295	,032

	After the Pandemic	84	.07	.259	.028
Tunneling Incentive	Before the Pandemic	84	.7738175	1.01499509	.11074504
	After the Pandemic	84	.7873488	1.27673135	.13930281
Bonus Mechanism	Before the Pandemic	84	1.2248146	.91911164	.10028330
	After the Pandemic	84	1.6770572	1.97973693	.21600701
Tax Minization	Before the Pandemic	84	.2105994	.52673466	.05747146
	After the Pandemic	84	.2657640	.26652909	.02908071
Tnc*TM	Before the Pandemic	84	.2122632	.33381132	.03642180
	After the Pandemic	84	.2127417	.43165642	.04709758
BM*TM	Before the Pandemic	84	.3248051	.29510069	.03219813
	After the Pandemic	84	.3636157	.50540939	.05514469

From the results above it is known:

1. In the transfer pricing variable, there are 84 samples before and after the pandemic. The mean value was 0.10 before the pandemic and 0.07 after the pandemic, so it can be said that there is a difference between before and after the pandemic in transfer pricing.
2. In the tunneling incentive variable, there are 84 samples before and after the pandemic. The mean value is 0.7738175 for before the pandemic and 0.7873488 for after the pandemic, so it can be said that there is a difference between before and after the pandemic in tunneling incentives.
3. For the sample bonus mechanism variable, there are 84 samples before and after the pandemic. The mean value is 1.2248146 for before the pandemic and 1.6770572 for after the pandemic, so it can be said that there is a difference between before and after the pandemic in the bonus mechanism.
4. In the tax minimization variable, there are 84 samples before and after the pandemic. The mean value is 1.2248146 for before the pandemic and 1.6770572 for after the pandemic, so it can be said that there is a difference between before and after the pandemic in tax minimization.
5. For the Tnc\*TM variable, there are 84 samples before and after the pandemic. The mean value is 0.2122632 for before the pandemic and 0.2127417 for after the pandemic, so it can be said that there is a difference between before and after the pandemic in Tnc\*TM.
6. For the MB\*TM variable, there are 84 samples before and after the pandemic. The mean value is 0.3248051 for before the pandemic and 0.3636157 for after the pandemic, so it can be said that there is a difference between before and after the pandemic in MB\*TM.

B. Hypothesis Test

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Transfer Pricing	Equal variances assumed	1.242	.267	.555	166	.579	.024	.043	-.061	.108
	Equal variances not assumed			.555	163.237	.579	.024	.043	-.061	.108
Tunneling Incentive	Equal variances assumed	.036	.850	-.076	166	.939	-.013531313	.17795993	-.36488789	.33782526

	Equal variances not assumed			-.076	157.969	.939	-.013531313	.1779599	-.36501910	.33795648
Bonus Mechanism	Equal variances assumed	7.042	.009	-1.899	166	.059	-.452242603	.2381507	-.92243733	.01795214
	Equal variances not assumed			-1.899	117.191	.060	-.452242603	.2381507	-.92387961	.01939442
Tax Minization	Equal variances assumed	.210	.648	-.856	166	.393	-.055164687	.0644100	-.18233319	.07200384
	Equal variances not assumed			-.856	122.888	.393	-.055164687	.0644100	-.18266161	.07233226
Tnc*TM	Equal variances assumed	.510	.476	-.008	166	.994	-.000478483	.0595376	-.11802706	.11707010
	Equal variances not assumed			-.008	156.122	.994	-.000478483	.0595376	-.11808170	.11712473
MB*TM	Equal variances assumed	4.185	.042	-.608	166	.544	-.038810582	.0638565	-.16488621	.08726504
	Equal variances not assumed			-.608	133.700	.544	-.038810582	.0638565	-.16511024	.08748907

From the table above it can be concluded:

1. The Sig value in Levene's test for equality for transfer pricing is 0.267, tunneling incentive is 0.850, tax minimization is 0.648, tunneling incentive moderated by tax minimization is 0.476, which is greater than 0.05, so it can be interpreted that the variance of the data before and after the pandemic is homogeneous or the same.
2. The Sig value in Levene's test for equality for the bonus mechanism is 0.009 and the bonus mechanism moderated by tax minimization is 0.042, which is smaller than 0.05, so it can be interpreted that the data variance before and after the pandemic is heterogeneous or different.
3. The sig value for equality of means is 0.579 in transfer pricing or more than 0.05, which means  $H_0$  is rejected, which means there is no difference between transfer pricing before the pandemic or after the pandemic.
4. The sig value for equality of means is 0.939 for Tunneling Incentive or more than 0.05, which means  $H_0$  is rejected, which means there is no difference between Tunneling Incentive before the pandemic or after the pandemic.
5. The sig value for equality of means is 0.059 for the bonus mechanism or more than 0.05, which means that  $H_0$  is rejected, which means there is no difference between the bonus mechanism before the pandemic and after the pandemic.
6. The sig value for equality of means is 0.393 for tax minimization bonuses or more than 0.05, which means  $H_0$  is rejected, which means there is no difference between tax minimization before the pandemic or after the pandemic.
7. The sig value for equality of means is 0.994 for tunneling incentives moderated by tax minimization or more than 0.05, which means  $H_0$  is rejected, which means there is no difference between tunneling incentives moderated by tax minimization before the pandemic or after the pandemic.
8. The sig value for equality of means is 0.544 for the bonus mechanism moderated by tax minimization bonuses or more than 0.05, which means  $H_0$  is rejected, which means there is no difference between the bonus mechanism moderated by tax minimization bonuses before the pandemic or after the pandemic.

## Discussion

1. There is no difference in transfer pricing before the pandemic or after the pandemic
2. There is no difference in tunneling incentives before the pandemic and after the pandemic
3. There is no difference in the bonus mechanism before the pandemic or after the pandemic
4. There is no difference in tax minimization before the pandemic or after the pandemic
5. There is no difference in tunneling incentives moderated by tax minimization before the pandemic or after the pandemic

6. There is no difference in the bonus mechanism moderated by tax minimization before the pandemic or after the pandemic

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