

The Effect of Tax Minimization, Debt Covenant, and Foreign Ownership on Transfer Pricing

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ABSTRACT: The study aims to review, test, and analyze the effect of tax minimization, debt covenants, and foreign ownership on transfer pricing. This research focuses on mining companies listed on the Indonesia Stock Exchange (IDX) during the 2018-2022 period, with a population of 37 companies and a sample of 11 companies selected through purposive sampling technique. Data analysis was conducted using multiple linear regression through the SPSS version 25 application after going through classical assumption tests such as normality, multicollinearity, heteroscedasticity, autocorrelation, coefficient of determination (R²), and t test. The results of this study indicate that tax minimization, debt covenant, and foreign ownership have a positive and significant effect partially on transfer pricing. Overall, these three variables make a significant contribution to transfer pricing. This research is expected to be a reference for readers who are interested in understanding more about transfer pricing taxation. It is recommended for future researchers to expand the scope of the year and object of the research, as well as add or change independent variables that have the potential to affect transfer pricing.

Keywords: Tax Minimization, Debt Covenant, Foreign Ownership, and Transfer Pricing



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INTRODUCTION

Globalization has led to rapid development and progress in the economic and business fields. This allows the company to open branches or create subsidiaries in other countries, in other words the company becomes a multinational company. Multinational companies often conduct various international transactions between their divisions, including the sale of goods or services. The majority of these business transactions occur between companies that have special relationships. For multinational companies that have a network of operations in various countries, The transfer pricing scheme is the best alternative to achieve competitive advantage in managing risks and costs arising from imperfect market structures in partner countries(Sitanggang & Munther, 2018).

Based on data from the Ministry of Finance of the Republic of Indonesia, Indonesia's tax revenue in 2022 reached IDR 1,450.6 trillion, or 81.1% of total state revenue. This figure shows that tax revenue is the largest source of state revenue in (Indonesia, 2023). The government has made various efforts to increase tax revenue, but still faces many obstacles, one of which is tax avoidance activities. This happens because of the difference in interests between the government and the company. The government wants to get large and sustainable tax revenues, while companies want to reduce their tax burden so that their net profit increases.

The practice of transfer pricing is not only caused by tax factors, but also non-tax factors, such as debt covenants and foreign ownership. Transfer pricing related to debt covenants aims to increase the company's profits so as not to violate debt agreements. This is different from transfer pricing which is used for tax minimization, which is transferring company profits to other countries to reduce taxes. Debt covenant can be proxied through the calculation of DER (Debt to Equity Ratio)(DDTCNews, 2022).

Foreign ownership may have an impact on the practice of transfer pricing, according to Law Number 25 of 2007's Article 1 Paragraph 8. The percentage of shares that individuals, organizations, governments, and entities with foreign status own in a firm is known as foreign ownership. In defining company policies, foreign investors have a larger voice and influence the more shares in the company they control. Investors put money into the selected company in the hopes that it will be able to meet their expectations for a rate of return. As a result, foreign parties are increasingly determining corporate practices that help minimize tax liabilities if a company has a large percentage of foreign shareholding (Rasa et al., 2023).

Mining companies are particularly vulnerable to the practice of transfer price manipulation, especially due to the dominance of foreign capital that causes mining products to be exported to the investor's home country. This provides opportunities for transfer price manipulation, especially with overseas affiliates. The choice of the research subject is mining companies due to their popularity among foreign investors and their strong relationships with overseas holding companies and subsidiaries.

Three important components of taxation and transfer pricing are discussed in this study: tax deductions, debt agreements, and foreign ownership. Knowing how these three elements interact can help one have a better grasp of transfer pricing strategies and how they impact tax laws. It is anticipated that this research will support academics, tax professionals, and policymakers in increasing the efficiency of transfer pricing agreements and optimizing state tax revenues(*Peraturan Menteri Keuangan Nomor 22/PMK.03/2020 tentang Tata Cara Pelaksanaan Kesepakatan Harga Transfer (Advance Pricing Agreement, 2020)*). This background caused the writer to become interested in the author's work, "Tax minimization, Debt Covenant, and Foreign Ownership of Transfer Pricing".

Theory And Hypothesis

Agency Theory

This research is based on the theory of agencies that play an important role in the company's business practice. This theory was introduced by (Jensen & Meckling, 1976) . This agency theory explains that agency relationships arise when one or more people (principal) hire another person (agent) to provide a service and then delegate decision-making authority to the agent. The management is a professional (agent) who understands more about running company management so that the company owner can get the maximum profit possible at the most efficient cost. Meanwhile, the principal is the owner of the company (shareholder) who wants the maximum profit possible with the costs it has incurred and will provide incentives to agents of various facilities, both financial and non-financial (Anggraeni, 2011).

Positif Accounting Theory

Accounting theory according to Watt & Zimmerman (1990) Explains the reasons why companies and stakeholders use accounting policies to predict the choice of accounting policies that will be adopted by the company under certain conditions (Watts & Zimmerman, 1990). The variables used in the study largely reflect management's motivation to choose accounting methods based on bonus plans, debt contracts, and political procedures. According to positive accounting theory, the accounting procedure chosen by the company does not have to be the same as the others, but the company is given the freedom to choose the alternatives that exist to minimize contract costs and maximize the value of the company.

Transfer Pricing

According to DDTC (Darussalam, Danny Septriadi, 2022) says in tax terms, transfer pricing refers to pricing when making a sale and purchase transaction between affiliates. The general strategies used by multinationals to manipulate transfer pricing are as follows: in jurisdictions with lower tax rates, companies often transfer taxable income to the country; or in high-tax jurisdiction, efforts are made to charge tax-deductible costs in order to reduce taxable earnings. In order to prevent negative bias from a neutral point of view, it is necessary to produce a transfer pricing document that can be used as a comparison in analyzing transfer price transactions that occur within a group of companies. In assessing the validity of transfer pricing methods, careful analysis is required.

Tax Minimization

Tax minimization is a strategy to minimize the tax burden. Many companies often use transfer pricing as a tool to minimize taxes to be paid. Through transfers pricing, companies transfer their tax obligations from high-tax countries to countries with low taxes (Devi & Suryarini, 2020; Marfuah & Azizah, 2014). Tax Minimization is a strategy a company pursues to minimize the tax burden on the company(Nuradila & Wibowo, 2018). Tax minimization in this study is projected

with an effective tax rate which is an effective corporate tax rate that can be calculated from the tax burden then divided by profit before tax. The tax minimization measurement in this study refers to measurements that have been used in (Maulida & Wahyudin, 2020; Nofryanti & Arsjah, 2019; Riska & Anwar, 2021).

ETR	=	$\frac{\text{Total Beban Pajak Penghasilan}}{\text{Laba Sebelum Pajak}}$
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Debt Covenant

According to Cochran in Maulida & Wahyudin (2020), a debt covenant is an agreement between a manager and a creditor to restrict activities that may affect the value of a loan and repay the loan. The Debt to Equity Ratio (DER) is a financial ratio that measures how much a company's debt is compared to its equity. The higher the DER, the higher the risk of failure to pay the company. The measurement of debt covenant in this study refers to measurements that have been used in the research (Ferradiansyah, 2023; Sari et al., 2022; Solikhah et al., 2021; Sujana et al., 2022) using the following formula:

DER	=	$\frac{\text{Total Liabilitas}}{\text{Total Ekuitas}}$
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Foreign Ownership

Foreign ownership of shares refers to shares owned by individuals or institutions from abroad. (Refgia, 2017). Foreign ownership is measured using a proxy with a 20% or more foreign ownership presentation. According to the Capital Markets Act No. IX.H.1, the concentrated ownership structure is determined by the shareholder or equity effect of 20% or more. The structure of foreign ownership can be measured on the basis of the proportion of ordinary shares held by foreign investors, which can be formulated in the following way:

KA	=	$\frac{\text{Jumlah Kepemilikan Saham Asing}}{\text{Total Saham Beredar}}$
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HYPOTHESIS

The Effect of Tax Minimization on Transfer Pricing

Profitable multinationals will shift their income from positive with high tax rates to positive with low tax rates. Therefore, the positive the tax rate in a country, the greater the effort of corporate tax planning through tax positive on by implementing transfer pricing. According to Septiyani in Maulida & Wahyudin (2020), tax minimization can lead to agency conflict between multinational corporations (agencies) and governments. (positive). Where positive will avoid paying high taxes because taxes are seen as a reduction of profits, the company will thus minimize taxes in order to reduce the tax burden to be paid, one way is through transfer pricing practices. (Devi & Suryarini, 2020).

The greater the company's efforts to minimize taxes, the more likely it will be to transfer pricing. This is in line with research positive out by Devi & Suryarini (2020) and Nofryanti & Arsjah (2019) that shows that tax minimization has a positive impact on transfer pricing. Based on the explanation above, then the hypothesis formulated in this study is as follows.

H1 : Tax Minimization Affects Transfer Pricing

The Effect of Debt Covenant on Transfer Pricing

One of the positive accounting theory hypotheses, the debt covenant hypothesis, explains that the more debts a company holds, the stricter the requirements that the creditor will offer. (Maulida & Wahyudin, 2020). So this gives management a greater opportunity to choose accounting methods that can increase the profitability of the company, one of which is by practicing transfer pricing.

A study by Rosmawati & Ginting (2022), explains that the probability of a company performing transfer pricing will be higher if the company has a high Debt to Equity Ratio (DER) value (Rosmawati & Ginting, 2022). Therefore, to lower the debt to equity ratio in the company then perform the practice of transfer pricing, this is done to increase the company's value and so that the company can gain the trust of both investors, creditors, or other parties. This means that the higher the debt covenant, the more likely the company is to transfer pricing. This is in line with the research carried out by Sari et al., (2022) and Solikhah et al., (2021) which shows that debt covenant has a positive influence on transfer pricing. Based on the explanation above, then the hypothesis formulated in this study is as follows.

H2 : Debt Covenant Affects Transfer Pricing

The Effect of Foreign Ownership on Transfer Pricing

Companies with high foreign ownership, then the investor's voice in corporate policy determination is becoming stronger. Investors hope to get a suitable rate of return. It'll raise the agency theory between the principal and the agent. Research results (Idzni & Purwanto, 2017; Luthfy, 2019) indicate that foreign ownership structures have a positive impact on tax avoidance. The government hopes that the number of foreign investors entering Indonesia every year will continue to increase, not only by investing capital, but also by paying taxes in accordance with the rules in force. Research by (Indrasti, 2016; Refgia, 2017; Sterphanier & Simanjuntak, 2017) showed that foreign ownership has an influence on transfer pricing. This indicates that the higher the level of foreign ownership in a company, the greater the influence of foreign shareholders in determining company decisions, including pricing policies. This policy could benefit foreign shareholders, allowing them to sell or buy at unreasonable prices to their own private companies, thus benefiting themselves. Based on the description above, the hypothesis in this study is as follows.

H3 : Foreign Ownership Affects Transfer Pricing

Population And Sample

Population is a generalization area consisting of objects or subjects that have certain qualities and characteristics set by researchers to study and then draw conclusions (Sugiyono, 2016: 80). The population used in this study is mining companies listed on the Indonesia Stock Exchange (IDX) for the period 2018-2022. This study only uses companies that meet the criteria described in the sample, these criteria are set to ensure that the data used in this study are of high quality and representative.

Table 1 Sampling Procedure

No	Criteria	Amount
1	Mining Sector Companies listed on the Indonesian Stock Exchange consecutively in 2018-2022.	37
2	Mining Sector companies that publish financial reports or annual reports consistently both through the Indonesia Stock Exchange website and their respective company websites for 2018-2022.	25
3	Mining Sector companies that did not experience losses in 2018-2022.	16
4	Mining Sector Company that disclosed debt data with affiliates in 2018-2022.	11
5	Mining Sector Companies that have the financial reporting data required researchers in the year 2018-2022.	11
Number of Samples Selected		11
Total Samples in 5 Years (11 x 5 years)		55

Source: Processed by Researchers, 2023

In accordance with the above criteria, this study used a sample of 11 companies that met all the predetermined criteria, namely criteria related to the publication of financial statements, losses, accounts receivable data with related parties, and completeness of financial statement data. Researchers took a research period of 5 years, thus the number of samples taken was 55 companies.

Data Type And Source

In this study, the type of data used is quantitative data. The data source in this study is secondary data, secondary data obtained through intermediary media or not directly such as books, internet media, published journals. The data obtained from this research is data obtained in a finished form in the form of documents. This data is obtained through the official website www.idx.co.id or from the website of each company that has been published on the Indonesia Stock Exchange for the period 2018-2022.

METHOD

Descriptive Statistical Analysis

When analyzing data, descriptive statistical analysis is static and is used to describe the data obtained as it is, without the intention of generalizing or drawing conclusions that apply to the entire population (Sugiyono, 2016). Results from descriptive statistics include the maximum value, minimum value, average value, standard deviation and number of observations. According to (Ghazali, 2016) Descriptive statistical analysis is an analysis that describes the data collected as it is through standard values of deviations, variants, minimum, maximum, mean, range, sum, skewness, and curtosis.

Classical Assumption Test

The researchers tested the classical assumptions, covering multicollinearity, heteroscedasticity, normality, and autocorrelation, to ensure that the regression model is free from excessive

relationships between independent variables, unconstant error variance, abnormal residual distribution, and dependencies between errors.

Normality test

Normality tests ensure that the research variables are normally distributed in regression. Since many statistical methods, including linear regression, depend on this normal distribution, it is very important. Normality tests are performed by looking at the data spread on the graph (e.g., histogram or QQ-plot), checking the skewness and kurtosis values, or using the Kolmogorov-Smirnov test. The purpose of the normality test is to ensure that the data is concentrated around the normal distribution, so that the regression model remains valid and the results of the analysis can be interpreted accurately. The importance of deciding whether the data is processed normally or not is that if the significance value is greater than 0.05, the distribution of such data is normal, and if the significant value is less than 0.05 such distribution is non-normal.(Ghozali, 2018).

Multicollinearity test

The multicollinearity test is intended to test whether there is a correlation between free variables in a regression model. A good regressive model should not experience colleration between independent variables. Multicollinearity can be observed through values of tolerance and variance inflation factor (VIF). Tolerance measures the extent to which an independent variable is selected that is not described by other independent variables. Make sure the tolerance and VIF values match the applicable standard. So the low tolerance values are equal to the high VIF value (because $VIF = 1/Tolerance$). No multi-coloniality occurs when the tolerance value is > 0.1 and the VIF value is < 10 . (Ghozali, 2018).

Heteroscedasticity test

The heteroskedasticity test aims to determine whether there is a variance difference from a residual between one observation and another in a regression model. To test this, the Glejser test is used, which involves the regression of each independent variable against the absolute residual as a dependent variable. Residual is the difference between the observed value and the predicted value, whereas absolute value refers to the absolute. Glejser tests are performed to see the relationship between absolute residual and independent variable. If the results of the Glejser test are > 0.05 , then there is no indication of heterocadastasis. (Ghozali, 2018).

Autocorrelation Test

The autocorrelation test aims to evaluate the linear regression model in order to detect a correlation between interference errors in the period t and the error in the previous period $t-1$. (Ghozali, 2018:111). If there is a correlation between sequential observations all the time, then there will be an autocorrelation problem. A regression model considered well is a model free of autocorrelation. The autocorrelation test in this study uses the Durbin-Watson method which aims to

determine whether there is an autocorrelation problem. The following are the terms used in the autocorrelation test:

- 1) $DW < DL$ or $DW > 4-DL$, which means there is an autocorrelation.
- 2) $DU < DW < 4-DU$, meaning there is no autocorrection.
- 3) $DL < DW < DU$ or
- 4) $4-DU < DW < 4DL$, meaning no conclusion.

Description:

DW : Durbin Watson value

DU : upper limit DW

DL : lower limit DW

Double Linear Regression Analysis

This study uses the method of double linear regression analysis, i.e. regression used to show the relationship between one dependent variable (Y) and two or more independent variables (X). This regression model is often used in research involving more than one independent variable. The regression equations that are structured based on the hypothesis in this study are as follows:

$$Y = \alpha + \beta_1 T_{Mit} + \beta_2 D_{Cit} + \beta_3 K_{Ait} + e$$

Description:

Y : *Transfer pricing*

α : Constanta

β : Regression coefficient

TMit : *Tax minimization*

Dcit : *Debt covenant*

KAit : *Foreign ownership*

e : Error item

Hypothesis Test

In the analysis of hypotheses, a test-test is used or known as a partial test. This test aims to understand how significant the influence of independent variables on dependent variables is. The objective of this experiment is to measure the degree of significance or significance of each independent variable against dependant variables in a regression model. There are two hypothesis tests used in this study, namely as follows:

Determination Coefficient Test (R^2)

The determination coefficient (R^2) is used to measure the ability of a model to describe a number of dependent variables (Fahlevi, 2013). From this percentage can be seen how much free (independent) variables can explain bound variables. (dependen). The larger the percentage means the greater the ability of the independent variable to influence the dependent variable, and so on

the contrary, the smaller the proportion means that the independence variable's ability in influencing the dependant variable is very limited.

Partial Test (uji T)

Hypothesis testing is used to test each existing hypothesis through proper statistical testing. The correct test in this case is the statistical test t. The results of such testing will determine whether the hypothesis put forward is acceptable or unacceptable. Hypothesis testing using the statistical test t is intended to provide evidence as to whether an independent variable has a significant or non-significant influence on the dependent Variable (Ghozali, 2016)

The significance side is the tolerance limit in accepting the error of the result of the hypothesis against the parameter value of the population. The signification side that becomes the basis is 5% ($\alpha = 0.050$) with the following provision:

- 1) If the significance value ≤ 0.050 then H_0 is not accepted or, in other words, alternative hypotheses are accepted, meaning that the partially independent variable has a significant influence on the dependent variable.
- 2) If the value of significance > 0.05 , then H_0 , or in another word, alternative hypotheses are not acceptable, means that the partly independent variables do not have a significant effect on the depending variables.

RESULT AND DISCUSSION

Descriptive Statistical Analysis

Here are the results of descriptive statistical testing on the sample studied:

Table 2 Descriptive Statistical Analysis Test Results

	Descriptive Statistics				
	N	Minimum	Maximum	Mean	Std.Deviation
Tax Minimization (X1)	55	0,260	1,390	0,54618	0,145430
Debt Covenant (X2)	55	0,370	1,270	0,74455	0,205992
Kepemilikan Asing (X3)	55	0,220	0,990	0,62164	0,244493
Transfer Pricing (Y)	55	0,09	0,730	0,2764	0,141820
Valid N (listwise)	55				

Source: Primary data processed, Researchers 2024

Classical Assumption Test

Normality test

Table 3 below displays the findings of the Kolmogorov-Smirnov test-based normalcy test:

Table 3 Results of the Kolmogorov-Smirnov Test

One-Sample Kolmogorov-Smirnov Test
Unstandardized Residual

N	55
Asymp. Sig. (2-tailed)	0,200c,d

Source: Primary data processed, Researchers 2024

The normality test results showed that the data is distributed normally, with an Asymp. Sig. (2-tailed) value of 0.200, which is greater than $\alpha = 0.05$.

Multicolonality test

The purpose of the multicollinearity test is to determine whether there is a correlation between free variables in a regression model, a good regression models will not show the existence of correlations between independent variables. Tolerance values and inflation variation factor (VIF) can be used to see multi-linearity. Tolerant values greater than 0.1 and lower VIF indicate multicollinearity because VIF is larger than tolerance. The results of the multicollinearity test are presented in table 4 below.

Table 4 Multi-Linearity Test Results

Coefficients			
	Variabel	Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Tax Minimization	0,967	1,034
	Debt Covenant	0,894	1,119
	Kepemilikan Asing	0,914	1,094
a. Dependent Variable: Transfer Pricing			

Source: Primary data processed, Researchers 2024

If the independent variable has a tolerance value of more than 0.10, then the tax reduction variable (X1) has a tolerance value of 0.967 and a VIF value of 1.034. Conversely, the debt covenant variable (X2) has a tolerance value of 0.894 and a VIF value of 1.119, and the salty ownership variable (X3) has a tolerance value of 0.914 and a VIF value of 1.094. Therefore, it can be concluded that the regression model used does not show symptoms of multicollinearity.

Heteroscience test

The results of the heteroscedasticity test are listed in table 5 below.

Table 5 Heteroskedasticity Test Results

Coefficients		
	Variabel	Sig.
1	(Constant)	0,329
	Tax Minimization	0,458
	Debt Covenant	0,050
	Kepemilikan Asing	0,871
a. Dependent Variable: ABS_RES		

Source: Primary data processed, Researchers 2024

Based on the results of the heteroscedasticity test in Table 5, it can be seen that the variable (X1) has a significance value of 0.458. The variable (X2) has a significance value of 0.050, while the variable (X3) has a significance value of 0.871. A significance value greater than 0.05 indicates that there are no symptoms of heteroscedasticity in the regression model in this study.

Autocorrelation Test

To test for autocorrelation, this study used the Durbin-Watson test tool. This is a tool that can identify autocorrelation problems. The results of the autocorrelation test conducted in this study are presented in Table 6 below.

Table 6 Autocorrelation Test Results

Model Summary	
Variabel	Durbin-Watson
1	2,113
a. Predictors: (Constant), Tax Minimization, Debt Covenant, Kepemilikan Asing	
b. Dependent Variable: Transfer Pricing	

Source: Primary data processed, Researchers 2024

Based on the above table, the Durbin-Watson value can be known as 2,113, this value will be compared to the table value DW. Seeing from the table DW with the sum of samples 55 (n) and the number of independent variables 3 ($k = 3$), then obtained the DU value of 1,6830 and the DW value of 2,113 based on Durbin Watson's test provisions that $dU < DW < 4 - dU$, means no positive or negative autocorrelation symptoms. It can be concluded that there were no autocorrelation symptoms in this study.

Double Linear Regression Analysis

Double linear regression analysis is carried out with the aim of testing the impact of tax minimization (X1), debt covenant (X2), and foreign ownership (X3) on transfer pricing (Y).

Table 7 Double Linear Regression Analysis

Coefficients	
Variabel	Unstandardized Coefficients B
1 (Constant)	-0,224
Tax Minimization	0,189
Debt Covenant	0,305
Kepemilikan Asing	0,274
a. Dependent Variable: Transfer Pricing	

Source: Primary data processed, Researchers 2024

The regression equations that are structured based on the hypothesis in this study are as follows:

$$RPT = -0,224 + 0.189ETR + 0.305DDER + 0.274KA + e$$

Determination Coefficient Test (R^2)

The purpose of this coefficient of determination (R^2) test is to show the percentage of the influence of all independent variables on the dependent variable. The results of the coefficient of determination (R^2) test can be seen in table 8 below.

Table 8 Coefficient of determination (R^2)

Model Summary				
Variabel	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,790	0,624	0,602	0,08943
a. Predictors: (Constant), Tax Minimization, Debt Covenant, Kepemilikan Asing				
b. Dependent Variable: Transfer Pricing				

Source: Primary data processed, Researchers 2024

The coefficient of determination (R^2) is a measure of how well the variability in the dependent variable transfer pricing (Y) can be explained by the independent variables included in the regression model. With an R square value of 0.62, this means that about 62% of the variability in transfer pricing can be explained by tax minimization (X1), debt covenant (X2), and foreign ownership (X3) entered into the model. The remaining 38% is explained by other factors not included in the model.

Partial Test (uji T)

The t test results can be seen in table 7. The interpretation of these values is as follows:

The first hypothesis testing shows that the tax minimization variable (X1) has a positive and significant effect on transfer pricing. This can be seen from the positive parameterized coefficient value of 0.189 and a significant value of 0.031. Because the significant level of $0.031 < 0.05$, which means H1 is accepted and H0 is rejected. Thus the hypothesis stating that the variable tax minimization (X1) affects transfer pricing (Y) is accepted.

The second hypothesis testing shows that debt covenant variable (X2) has a positive and significant effect on transfer pricing. This can be seen from the positive parameterized coefficient value of 0.305 and a significant value of 0.000. Because the significant level of $0.000 < 0.05$, which means H1 is accepted and H0 is rejected. Thus the hypothesis that debt covenant variable (X2) has an effect on transfer pricing (Y) is accepted.

The third hypothesis testing shows that foreign ownership variable (X3) has a positive and significant effect on transfer pricing. This can be seen from the positive parameterized coefficient value of 0.274 and a significant value of 0.000. Because the significant level of $0.000 < 0.05$, it means that H1 is accepted and H0 is rejected. Thus, the hypothesis stating that foreign ownership variable (X3) affects transfer pricing (Y) is accepted.

Tax Minimization affects transfer pricing.

Based on the results of the hypothesis test carried out in this study, the tax minimization variable regression coefficient showed a positive value of 0.189 with a significance rate of 0.031 or less than 0.05. This suggests that tax minimization has a positive and significant impact on transfer pricing. Thus, the first hypothesis that states that tax minimization affects transfer pricing is supported. It shows that the greater the tax burden that mining companies have to pay to the state, increasingly prompting profit-focused mining firms to find ways to reduce the amount of tax to be paid. One way it can be done is by implementing transfer pricing.

Debt Covenant affects transfer pricing.

Based on the results of the hypothesis test carried out on this study, it was found that the regression coefficient of the variable debt covenant was positive at 0.305 with a significance rate of 0.000 or less than 0.05. It shows that the debt covenant has a positive and significant influence on transfer pricing. This suggests that mining companies listed on the Indonesian Stock Exchange from 2018 to 2022 have a fairly high debt ratio. Thus, companies with higher debt ratios tend to make larger decisions for transfer pricing. One of the accounting methods that can boost a company's profits is transfer pricing, as increased corporate profits can loosen the limits of credit agreements and reduce technical negligence costs.

Foreign Ownership affects transfer pricing.

Based on the results of testing the research hypothesis, the regression coefficient of foreign ownership variable is found to be positive value of 0.274 with a significance level of 0.000 or less than 0.05, which indicates that foreign ownership has a positive and significant effect on transfer pricing. The effect of foreign ownership on transfer pricing practices has been an interesting subject of research in accounting and finance as these studies show that the influence of foreign ownership on various corporate decisions, including pricing policies, increases with the level of foreign ownership in the company. Previous studies found that businesses with foreign ownership use transfer pricing practices more frequently than wholly domestically owned businesses (PER DIRJEN PJK no per-32/PJ/2011 Pajakku. Aplikasi Pajak Online Terintegrasi, 2011).

CONCLUSION

The results of hypothesis testing show that tax minimization has a positive and significant effect on transfer pricing. This is indicated by the regression coefficient value of the tax minimization variable is positive at 0.189 with a significance level of 0.031 or less than 0.05, so that the first hypothesis (H1) which states that tax minimization affects the transfer pricing of mining companies is **accepted** and H0 is **rejected**. Testing the second hypothesis shows that debt covenant has a positive and significant effect on transfer pricing. This is indicated by the regression coefficient value of the debt covenant variable is positive at 0.305 with a significance level of 0.000

or less than 0.05, so the second hypothesis (H2) which states that debt covenants affect the transfer pricing of mining companies is **accepted** and H0 is **rejected**.

Based on the third hypothesis testing, it shows that foreign ownership has a positive and significant effect on transfer pricing. This is indicated by the value of the regression coefficient of foreign ownership variable is positive at 0.274 with a significance level of 0.000 or less than 0.05, so the third hypothesis (H3) which states that foreign ownership affects the transfer pricing of mining companies is **accepted** and H0 is **rejected**.

Research into the impact of tax minimization, debt covenants, and foreign ownership on transfer pricing in the future is expected to provide a more comprehensive insight. Advanced research can cover various types of companies, including subsectors such as the chemical industry or food and beverage, as well as comparing transfer pricing rates in each subsector and in multinationals that tend to carry out high pricing transfer. In addition, it is recommended to add other independent variables such as independent board of commissioners, corporate size, audit committees, and bonus mechanisms. Alternative measurements of transfer pricing can also be considered using Related Parties Assets and Liability (RPTAL). For the tax minimization variable, the use of loss compensation can more describe tax savings. Meanwhile, the debt covenant variable can be measured with the Debt to Assets Ratio (DAR) (*Peraturan Menteri Keuangan Nomor 213/PMK.03/2016 tanggal 30 Desember 2016 tentang Jenis Dokumen dan/atau Informasi yang Wajib Disimpan oleh Wajib Pajak yang Melakukan Transaksi dengan Para Pihak yang Mempunyai Hubungan Istimewa*, 2016).

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