Transfer Pricing Transaction: Solution Or Fraud

Suryana[1], Chandra Yudianto Gouw[2]

[1] Faculty of Economics and Business, Widyatama University, Bandung, Indonesia
[2] Faculty of Economics and Business, Widyatama University, Bandung, Indonesia
[1]suryana.se@widyatama.ac.id, [2]chandra.yudianto@widyatama.ac.id

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Abstract: This study aims to analyze whether this transfer pricing transaction is a solution for companies or a tool to commit fraud or avoid taxes imposed by the government on companies. This study also tested the effect of the variable tax expense on transfer pricing and the effect of the bonus mechanism on transfer pricing. The research method used is descriptive research method and verification with a quantitative approach. The sample used in analyzing the effect of tax expense and bonus mechanisms on transfer pricing was 13 coal sub-sector companies listed on the Indonesia Stock Exchange (IDX) with the period 2016-2018.The results showed that the tax expense and the bonus mechanism affected transfer pricing either partially or simultaneously. Thus, the subsidiary and the parent company can conduct transactions that can be regulated, just like the company suffered a loss in one country to reduce the tax expense in Indonesia. Multinational companies tend to shift their tax liabilities from countries with high rates to countries with lower tax rates by reducing the selling price between companies within a group. And companies have the potential to manipulate financial statements to maximize profits. The greater the overall company profit generated, the better the image of the directors in the eyes of the company owner. Therefore, the board of directors can do everything possible to maximize company profits, including transfer pricing practices.Thus transfer pricing transactions can be a solution for multinational companies but can also be a tool to commit fraud in making financial reports, especially concerning tax obligations.

Keywords : Tax Expense, Bonus Mechanism, and Transfer Pricing.

1. Introduction

Globalization is a new word that describes an old process: global economic integration that began in earnest with the start of the European colonial era five centuries ago Economic globalization is the latest development of the ability of the world's large corporations to expand market reach for their products and services. Economic globalization is the enhancement of economic integration and the interdependence of national, regional, and local economies worldwide through intensification of the movement of goods, services, technology, and capital across borders

The increasing number of international transactions is a result of economic globalization, where companies no longer limit their operations to their own countries, but also go abroad and become multinational companies A multinational company is a combination of companies of different nationalities that are linked through share ownership managerial or contractual control, and is an economic unit Multinational companies are companies that operate across borders between countries, which are bound by special relationships, either because of equity participation, management control, or use of technology, by opening corporate branches, organizing subsidiary companies, or entering into agency contracts, etc., with various purposes, among others, minimizing corporate taxes

Multinational companies will face the problem of differences in tax rates that apply in each country With this difference in tax rates, multinational companies make decisions to carry out transfer pricing. Transfer pricing is a price calculated for the delivery of goods, services, or other intangible assets from one company to another company that has a special relationship, in conditions based on the principle of fair market prices

The goals to be achieved in transfer pricing include evaluating the performance of the division and motivating the manager of the buying division towards decisions that are consistent with the overall goals of the company. Multinational transfer pricing policy, , namely :

1) Maximizing Global Income
2) Safeguarding the competitive position of subsidiaries/branches of the company and market penetration
3) Evaluation of the performance of subsidiaries/branches of foreign companies
4) Avoidance of foreign exchange controls
5) Control the credibility of the association
6) Increase the joint venture's profit share
7) Reducing monetary risk
8) Secure cash flow for children/branches abroad.

Transfer pricing is connoted with something that is not good (*abuse of transfer pricing*), which is a transfer from a company in a country with a higher tax rate to another company in a group in a country with a lower tax rate, thereby reducing the total group tax burden. the company. The issue of transfer pricing has received attention from tax authorities in various parts of the world. More and more countries in the world are starting to introduce regulations on transfer pricing. This transfer pricing can be a problem for companies, but it can also be an opportunity for abuse for companies that are chasing high profits. For companies that have subsidiaries in countries with high tax rates, it will be a problem because they will pay more taxes so that they get less profit. The company's profit is also affected by the bonus mechanism.

In Indonesia, the abuse of transfer pricing transactions has occurred, where multinational companies evade tax thereby reducing revenue for the Indonesian government.

Based on this description, this research begins by analyzing the effect of a tax burden on transfer pricing and analyzing the bonus mechanism on transfer pricing.

2. Literature review

Transfer Pricing

Transfer Pricing refers to a situation where an investor pays more for goods or services from a related entity, to transfer the net cash flow from a project in a relatively high tax jurisdiction. transfer price refers to the target cost, market price, full cost, or other price chosen to transfer goods or services *Transfer Pricing* is a special selling price or the value used in interdivisional exchanges to record sales division income and buying division costs

Simple examples of Abuse Transfer Pricing are Mark-Up, Avoidance, and Mark-Down. The multinational company "ABC" domiciled in country "A" has a subsidiary in Indonesia called PT XYZ which is engaged in clothing, PT XYZ obtains raw materials from the company "ABC" at a price already marked up from the market price. An example of transfer pricing is that a company avoids tax, namely company "ABC" sells raw materials to a subsidiary in country B, then the raw materials are sold to a subsidiary in country C, then sold to the company PT XYZ in Indonesia. And an example of transfer pricing with Mark_Down, where PT XYZ sells clothes not directly to the end seller. PT XYZ sells to country B which has a low tax rate, then sells to the final seller.

Tax expense

Tax expense (tax income) is the combined amount of current tax and deferred tax that is calculated in determining profit and loss for a period. Tax expense (tax income) consists of current tax expense (current tax income) and deferred tax expense (deferred tax income)

Bonus Mechanism

The bonus mechanism is the reward that the owner of the company gives to the manager for meeting the company's performance goals, a manager might earn based on net income, or according to the target of increasing net incom Bonus mechanism, namely lump sum payment is given because it meets performance targets

Hypothesis

a. Ho_1: $\beta_1 = 0$, means that there is no partial influence between the Tax Expense on the Transfer Pricing.

b. Ho_2: $\beta_2 = 0$, meaning that there is no partial influence between the Bonus Mechanism on Transfer Pricing.

c. Ho_3: $\beta_1 = \beta_2 = 0$, meaning that there is no simultaneous influence between the Tax Expense and the Bonus Mechanism on the Transfer Pricing.

3. RESEARCH METHODOLOGY

In this research, the research method used is descriptive and verification research methods with a quantitative approach. The sample used in analyzing the effect of the tax burden and bonus mechanisms on transfer pricing was 13 coal sub-sector companies listed on the Indonesia Stock Exchange (IDX) with the period 2016-2018.

4. Research results and discussion

Descriptive analysis aims to determine the description of each variable used in the study. Descriptive statistics used in this study include minimum, maximum, average value, standard deviation, skewness, and kurtosis. Based on the results of descriptive statistical testing, the following results were obtained:

Descriptive statistics

	TAX EXPENSE	MEAKNISME BONUS	TRANSFER_PRICING
Mean	0.340357	2.164586	0.274575
Maximum	0.801013	18.76309	0.986731
Minimum	0.165716	-4.465326	0.000426
Std. Dev.	0.139143	3.949269	0.301741
Skewness	1.824479	3.171436	0.949085
Kurtosis	6.041269	13.70562	2.538587

Source: Output Eviews 9

Based on the table above, it can be explained that the results of descriptive statistical testing are as follows:

1. The tax expense variable shows an average value of 0.340357. The maximum value of 0.801013 is at PT Darma Henwa Tbk in 2016. The minimum value of 0.165716 is at PT Harum Energy Tbk in 2018. The standard deviation value is 0.139143. The skewness value is 1.824479. The kurtosis value is 6.041269.
2. The bonus mechanism variable shows an average value of 2.164586. The maximum value of 18.76309 is at PT Bayan Resources Tbk in 2017. The minimum value of -4.465326 is at PT Delta Dunia Makmur Tbk in 2016. The standard deviation value is 3.949269. The skewness value is 3.171436. Kurtosis value of 13.70562.
3. The transfer pricing variable shows an average value of 0.274575. The maximum value of 0.986731 is at PT Samindo Resources Tbk in 2016. The minimum value of 0.000426 is at PT Adaro Energy Tbk in 2017. The standard deviation value is 0.301741. The skewness value is 0.949085. The kurtosis value is 2.538587.

Partial Hypothesis Testing (t-test)

Partial Hypothesis Testing

Dependent Variable: TRANSFER_PRICING				
Method: Panel EGLS (Cross-section random effects)				
Date: 04/17/20 Time: 17:25				
Sample: 2016 2018				
Periods included: 3				
Cross-sections included: 13				
Total panel (balanced) observations: 39				
Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.092614	0.102213	-0.906086	0.3709
Taxes Expense	0.943189	0.275585	3.422500	0.0016
Bonus Mechanism	0.021340	0.009548	2.234925	0.0317

Source: Output Eviews 9

1. Based on the results of partial hypothesis testing on the regression model, it can be concluded that H01 is accepted, meaning that partially the tax burden variable affects the transfer pricing variable. This means that the subsidiary and the parent company can conduct transactions that can be regulated, just as the company suffered losses in one country intending to reduce the tax burden in Indonesia. Multinational companies tend to shift their tax liabilities from countries with high rates to countries with lower tax rates by reducing the selling price between companies within a group. In tax courts, transfer pricing transaction cases are often won by taxpayers, due to the lack of evidence, experts, and standard regulations.
2. Based on the results of partial hypothesis testing in the regression model, it can be concluded that H02 is accepted, meaning that partially the bonus mechanism variable affects the transfer pricing variable. Thus the company has the potential to manipulate financial statements to maximize profits. The greater the overall company profit generated, the better the image of the directors in the eyes of the company owner. Therefore, the board of directors can do everything possible to maximize company profits, including transfer pricing practices

Simultaneous Hypothesis Testing (F-Test)

Simultaneous Hypothesis Testing

R-squared	0.399065	Mean dependent var	0.125677
Adjusted R-squared	0.365679	S.D. dependent var	0.175625
S.E. of regression	0.139876	Sum squared resid	0.704346
F-statistic	11.95330	Durbin-Watson stat	1.706211
Prob(F-statistic)	0.000104		

Source: Output Eviews 9

Based on the results of simultaneous hypothesis testing, it can be concluded that H03 is accepted, meaning that together or simultaneously the tax burden and bonus mechanisms affect the transfer pricing variable. The magnitude of the effect of the tax burden and the bonus mechanism in contributing to the effect of transfer pricing is 39.9%. The results of this study are also supported by the previous discussion which shows that companies that are generally commercial, aiming to obtain maximum profit, will feel very disadvantaged by the high tax rates set by the government. Where the profits earned will be smaller due to the tax costs that are borne.

Transfer pricing is a company policy related to tax planning. By transferring assets to companies under common control in countries with low tax rates, it will be possible to emphasize the tax burden. To increase the profit of a company, directors do not hesitate to manipulate financial statements to get the bonus promised by the company owner. This financial statement manipulation can be done by carrying out transfer pricing activities to increase sales at a certain time. Sales can be made by increasing the price (price up) or by reducing the price (price down). The results of these studies indicate that tax and bonus mechanisms have a strong influence on the company's decision to practice transfer pricing.

5. Conclusion

Based on the results of the research and discussion in the previous chapter, the following conclusions were obtained:

1. The results show that the tax burden affects transfer pricing. So the higher the tax burden, the higher the transfer pricing.
2. The results show that the bonus mechanism affects transfer pricing. So the higher the bonus mechanism, the higher the transfer pricing.

Thus transfer pricing transactions can be a solution for multinational companies but can also be a tool to commit fraud in making financial reports, especially concerning tax obligations.

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