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Tax Burden and Bonus Mechanisms on Transfer Pricing with Tunneling Incentive as a Moderating Variable

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Abstract

This study aims to investigate the effect of tax burden and bonus mechanisms on transfer pricing with incentive tunneling as a moderation variable. The population of this study consists of multinational manufacturing sector companies listed on the Indonesia Stock Exchange (IDX) for the 2021-2024 period. Samples were selected using purposive sampling, with a total of 52 samples with an outlier of 13 data points from the total. Therefore, the amount of data that will be used in this study is 39 samples. Data analysis methods include the Chow test, the Hausman test, and Moderate Regression Analysis (MRA). This study shows that tax burdens and bonus mechanisms have an influence on transfer pricing. The moderation variable of incentive tunneling cannot strengthen the influence of tax burden on transfer pricing. The moderation variable of incentive tunneling can strengthen the positive influence of the bonus mechanism on transfer pricing. The research provides relevant practical guidelines for corporate managers, investors, and policymakers. The main implication is the need for a more holistic approach in managing transfer pricing that balances the goals of tax optimization, performance motivation, and adherence to good corporate governance principles.

Keywords: Tax Burden, Bonus Mechanism, Incentive Tunneling, Transfer Pricing

INTRODUCTION

As a result of the impact of globalization, the world economy is growing very rapidly, with some countries becoming economically stronger. Due to this economic growth, businesses began to emerge and establish subsidiaries in other countries. This makes it easier for multinational companies to conduct cross-border transactions to strengthen strategic alliances and increase market share (Hidayat et al., 2019). Transactions between businesses that have established reputations or relationships, such as the sale of goods or services, occur between multinational companies.

If there is a relationship between a company and another company, or even between a company and its employees who are domiciled in another country, then it can be concluded that there will be certain activities between the companies concerned in running their business. Therefore, in the transaction there is a transfer activity in which the price of the goods or services to be transferred is determined, which is commonly referred to as transfer pricing. Transfer pricing is the price calculated on the delivery of goods/services or other intangible property from one company to another that has a special relationship, under the condition that it is based on the principle of fair market price (Pohan, 2018). Businesses often have subsidiaries in several countries. They transact internationally to minimize their tax liabilities, expenses, and income. Pricing of products, services, and intangible assets exchanged between parties with special relationships, for example,

subsidiaries or divisions in multinational companies. In applying transfer pricing, the principle of fair price should be observed. Business fairness is an important factor. In addition, the transfer price needs to consider the approach taken.

In the context of taxation and transfer pricing policy, tax burdens and bonus mechanisms are often intertwined, creating complex dynamics for multinational corporations operating in different countries. According to Khotimah (2020), transfer pricing refers to the determination of the selling price of goods, services, or assets that are transferred between entities that are in a group of companies (e.g., between parent companies and subsidiaries) operating in different countries. This practice, although legally permissible, can be misused for tax avoidance purposes by manipulating the transaction prices between companies in the group to shift profits from high-tax countries to lower-tax countries. According to Yudhistira et al. (2023), one of the mechanisms that are often considered in transfer pricing settings is the use of bonuses as an incentive tool for managers or executives of the entities involved in the transaction, in the hope that this will encourage better performance or minimize the taxes that must be paid by the company.

However, in reality, the business world is implementing transfer pricing to avoid taxes. They transfer profits to countries with lower tax rates or losses by relocating deductible expenses to countries with higher tax rates. Taxable income is believed to be fictitiously transferable to jurisdictions with low tax rates. Therefore, transfer pricing cases are often referred to as bad practices because they present opportunities to conduct studies with the aim of increasing the company's personal wealth (Novianti & Hermawan, 2018). However, according to Sa'diah & Afriyenti (2021), transfer pricing is a strategy that is reasonable for companies that have special relationships with the aim of motivating companies that have subsidiaries by transferring assets and services within the group of companies.

In Indonesia, an example of a transfer pricing case occurred in 2008 where there were indications of price manipulation cases in coal sales of PT. Adaro Indonesia (PT. Adaro Energy, Tbk), which was then handled by the Attorney General's Office. The company was suspected of selling coal at substandard prices. At that time, the case emerged due to the conflict between the Sukanto Tanoto conglomerate and Edwin Soeradjaya. From there, there were allegations that PT Adaro Indonesia sold coal below market price to its affiliated company in Singapore, Coaltrade Services International Pte, Ltd in 2005 and 2006. Coaltrade then sold the coal again to the market according to market price. This was intended to avoid the payment of royalties and taxes that should be paid to the state treasury. In Coaltrade's financial statement documents from 2002-2005, it can be seen that Coaltrade's profit was higher than Adaro's. The financial statements raised suspicions about how Adaro, which owned the mine, could lose to traders. The case ended after the Attorney General's Office itself stopped the investigation of PT Adaro Indonesia's

transfer pricing case due to a lack of evidence and also escaped DPR investigation after nine factions in the DPR rejected the investigation into alleged transfer pricing carried out by PT Adaro Indonesia. They agreed to hand over the case to the Attorney General's Office and the Directorate General of Taxes (Monica Wareza, 2019).

PT. Bentoel International Investama Tbk transferred part of its income through two methods: through intra-company loans and payment of royalties, fees, and services to the parent company. There was an agreement between Indonesia and the Netherlands that stated there was no imposition of taxes on interest costs from loans. PT. Bentoel decided to take advantage of this by borrowing funds of US$ 983 million or Rp 12 trillion from a company in the Netherlands, namely Rothmans Far East BV. Meanwhile, it was known that the money was sourced from Pathway Four (Jersey) Limited, a subsidiary of the BAT company in the UK. Therefore, PT. Bentoel was obliged to pay loan interest totaling US$ 164 million or Rp 2.25 trillion. This resulted in a loss of 27.3% that had to be experienced by PT. Bentoel International Investama Tbk. Furthermore, PT. Bentoel reported a payment to the parent company of US$ 19.7 million. The transaction can be detailed as US$ 10.1 million for royalty payments for the Dunhill and Lucky Strike brands, US$ 5.3 million for technical and consulting costs to BAT, and the remaining US$ 4.3 million as IT costs to British American Shared Services Limited. In Indonesia, payment of royalties, fees, and other charges is subject to a 25% tax rate. Meanwhile, there was a tax agreement between Indonesia and the UK which stated that payment of royalties, fees, and charges is subject to a tax rate of 15%. Therefore, Bentoel succeeded in taking advantage of the loophole in the tax rules to save or avoid its tax obligations (Rifqiyati et al., 2021).

PT. Coca-Cola Indonesia and PT Toyota Motor Manufacturing Indonesia are among several companies that are indicated to carry out transfer pricing practices. Companies on the Indonesia Stock Exchange, especially in the manufacturing sector, are suspected of abusing or taking advantage of transfer pricing negatively, namely to avoid taxes. In 2019, the Tax Justice Network reported on the abuse of transfer pricing practices carried out by British American Tobacco's (BAT) subsidiary, PT. Bentoel International Investama Tbk (Rifqiyati et al., 2021).

In carrying out transfer pricing practices, companies need considerations and reasons behind their decisions. One of the reasons that encourages multinational companies to engage in transfer pricing is to minimize global tax liability. The findings of Nafiati et al. (2023) show that the amount of a country's tax rate will cause an increase in the percentage of transfer pricing occurrence in manufacturing companies that is deliberately carried out to reduce the tax burden of companies located in countries that apply high tax rates to related companies located in countries with low tax rates. Companies located in countries with low tax rates will experience increased profits as a result of transfer pricing activities carried out by affiliated companies located

in countries with high tax rates, so that globally, tax payments borne by companies can be minimized.

Research conducted by Prananda & Triyanto (2020), Adilah et al. (2022), and Prananda & Triyanto (2020) shows that tax burden has a significant positive effect on transfer pricing. This means that the higher the tax burden, the more likely companies are to engage in transfer pricing with the intention of reducing the taxes that must be paid. However, research conducted by Wardani & Rini (2021) and Ravensky & Akbar (2021) found that tax burden had no significant effect on transfer pricing.

The bonus mechanism is the next factor that affects transfer pricing. The bonus mechanism is additional compensation or reward given to employees for successfully achieving the company's targeted goals. According to Yudhistira et al. (2023), one of the mechanisms that are often considered in transfer pricing settings is the use of bonuses as an incentive tool for managers or executives of the entities involved in the transaction, in the hope that this will encourage better performance or minimize the taxes that must be paid by the company. Managers who earn bonuses based on earnings reported by a particular subsidiary may manipulate transfer pricing to maximize profits in that subsidiary, even if doing so reduces the parent company's reported earnings and increases the risk of tax avoidance.

The results of an empirical study conducted by Ravensky & Akbar (2021) found that the bonus mechanism has a positive effect on transfer pricing. These results are consistent with research conducted by Rizanti & Karlina (2024) and Oktaviani (2021), which found that the bonus mechanism has a positive effect on transfer pricing. However, in contrast to research conducted by Prananda & Triyanto (2020), Refgia et al. (2017), and Nuradila & Wibowo (2018), which found that the bonus mechanism had no effect on transfer pricing. However, research conducted by Purba et al. (2024) found that the bonus mechanism has a significant negative effect on transfer pricing.

Based on the background described above, there are inconsistent research results between the tax burden variable and the bonus mechanism on transfer pricing. Therefore, the author identifies a research gap in independent variables to dependent variables, so in this study the author needs to add a new research model to address the inconsistency of the research results by adding the moderating tunneling incentive variable.

Tunneling is the transfer of assets and profits out of a company for the benefit of the majority shareholders by not distributing dividends, selling assets or securities from a company they control to another company they own at a price below market price, and selecting unqualified family members to occupy important positions in the company (Syuheri et al., 2023).

According to Sintia & Listiya Ike (2023), one of the phenomena that may arise is tunneling incentive, where managers or executives who have an incentive to maximize short-term profits tend to divert the company's resources or profits to entities that are more profitable to them, even if this is to the

detriment of minority shareholders or other interested parties. This tunneling usually occurs when decisions regarding transfer pricing arrangements, which should be made based on the principles of fairness and market propriety, are actually influenced by personal incentives provided through bonuses or salary arrangements that are not transparent (Azzuhriyyah & Kurnia, 2023).

For example, a manager who earns a bonus based on the profits reported by a particular subsidiary may manipulate the transfer price to maximize profits in that subsidiary, even though doing so reduces the profits reported by the parent company and increases the risk of tax avoidance. Practices like this not only risk violating tax regulations but can also damage the financial integrity of the company (Amanah & Suyono, 2020). When transactions between companies are carried out at unreasonable prices, there is a high probability that the tax authorities in the countries involved will inspect and audit to ensure that tax avoidance does not occur. If evidence of transfer price manipulation is found with the aim of diverting profits to countries with lower tax rates, the company could be subject to severe sanctions, including high fines or penalties. This can harm the company's reputation and reduce investor confidence, which in turn can affect the value of the company's shares and their attractiveness in the capital markets (Saraswati, 2021). Manufacturing industry companies listed on the Indonesia Stock Exchange from 2020-2023 are the subject of this study. Manufacturing industry companies were chosen as the research object because this industry has the most international corporations and is the industry with the highest number of companies listed on the Indonesia Stock Exchange. Therefore, the researcher wants to examine transfer pricing in multinational companies more thoroughly, especially in the manufacturing sector.

Based on the background and phenomenon described above, the objective of this study is to empirically examine the effect of tax burden and bonus mechanisms on transfer pricing practices in multinational manufacturing companies listed on the Indonesia Stock Exchange during the period 2020–2023, with tunneling incentive employed as a moderating variable. By focusing on the manufacturing sector, which accounts for the largest number of international corporations and public listings, this research aims to provide a deeper understanding of how managerial incentives and tax considerations influence transfer pricing decisions within complex corporate structures.

The expected benefit of this study is twofold. Theoretically, it enriches the literature on international taxation, corporate governance, and earnings management by incorporating tunneling incentives as a moderating factor that has not been extensively tested in the Indonesian context. Practically, the findings are expected to offer valuable insights for policymakers, regulators, and tax authorities in designing more effective supervision and enforcement mechanisms, while providing guidance for companies to strengthen

compliance, improve financial transparency, and safeguard investor confidence in the capital markets.

RESEARCH METHOD

This research is quantitative research, where the data obtained will be in the form of numbers that will later be processed and analyzed further using data analysis tools. The type of data used in this study is secondary data sourced from the annual reports of each company published by the Indonesia Stock Exchange (IDX). In addition, the data in this study are also obtained from the website of each company and related literature.

The population in this study consists of multinational manufacturing industry sector companies listed on the IDX, totaling 170 companies. In the data sample used by the researcher, there are 13 outlier data points, where the outlier data are data that differ in nature compared to other data and can show significant differences. An outlier is a difference in the properties of data compared to other data that can describe significant differences (Ghozali, 2018).

Outlier data need to be removed because they are not normally distributed (Hair et al., 2019). In addition, this outlier data has a maximum limit of 50% of the total data or sample in a study (Rousseeuw et al., 1988, in Hubert & Driessen, 2004). Thus, based on the results of sampling through the purposive sampling method, it is known that the number of samples is 52 data points with an outlier of 13 data points from the total. Therefore, the amount of data that will be used in this study is 39 samples.

Once the data are collected, the next stage is data analysis using statistical techniques with the help of *Eviews* 11.

RESULTS AND DISCUSSION

Selection of Regression Models

Table 1. *Common Effect Model*

Sample (adjusted): 2022 2024				
Periods included: 3				
Cross-sections included: 13				
Total panel (balanced) observations: 39				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.008668	0.011355	0.763306	0.4504
X1	-0.025109	0.048700	-0.515589	0.6094
X2	0.011564	0.003895	2.969283	0.0054
Z	0.045724	0.008595	5.320096	0.0000

Table 2. *Fixed Effect Model*

Sample (adjusted): 2022 2024
Periods included: 3
Cross-sections included: 13

Total panel (balanced) observations: 39				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.048843	0.014785	3.303548	0.0031
X1	-0.199697	0.064026	-3.118984	0.0048
X2	0.009883	0.002984	3.312006	0.0030
Z	0.058297	0.007563	7.707910	0.0000

Table 3. ***Chow Test***

Redundant Fixed Effects Tests			
Equation: Untitled			
Test cross-section fixed effects			
Effects Test	Statistics	D.F.	Prob.
Cross-section F	3.623464	(12,23)	0.0039
Cross-section Chi-square	41.395790	12	0.0000

Table 4. ***Hausman Test***

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistics	Chi-Sq. D.F.	Prob.
Cross-section random	6.162667	3	0.1040

From the modeling test above, the model chosen from the chow test process is *the Fixed Effect Model* (FEM) because the value of the probability is less than 0.05.

Classic Assumption Test

Normality Test

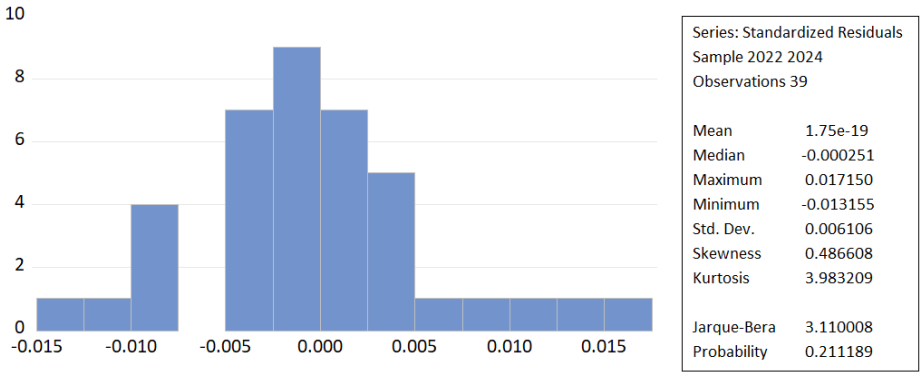

Figure 2. Normality Test

Residual normality tests were performed to determine whether the residual in the regression model was distributed normally. Based on the histogram of standardized residuals, the residual distribution appears to form a pattern that resembles a normal distribution (bell-shaped curve), although not completely symmetrical. Statistically, the skewness value of 0.486608 indicates that the residual distribution has a slight tilt to the right, but is still within acceptable limits. The kurtosis value of 3.983209 also shows a slightly more pointed distribution than the standard normal distribution (kurtosis = 3), but does not show extreme deviations. Furthermore, the results of the Jarque-Bera test produced a statistical value of 3.110008 with a probability of 0.211189. Since the probability value is greater than 0.05, there is not enough evidence to reject the null hypothesis, which states that the residual is normally distributed. Thus, it can be concluded that the residuals in this model are statistically normally distributed, so the classical assumption of residual normality has been met.

Table 5. Multicoloniality Test

Variable	X1	LOGX2	DZ
X1	1	-0.3984	0.4592
X2	-0.3984	1	-0.4932
Z	0.4592	-0.4932	1

Based on the correlation results between independent variables (Tax Burden/X1 and Bonus Mechanism/X2) which are all below the threshold of 0.80, it can be concluded that there is no multicollinearity in the model. Therefore, these independent variables in the model are feasible to be included simultaneously in the panel regression analysis.

Heteroscedasticity Test

Table 6. Heteroscedasticity Test

Sample (adjusted): 2022 2024				
Periods included: 3				
Cross-sections included: 13				
Total panel (balanced) observations: 39				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.004348	0.005633	0.771849	0.4481
X1	-0.000284	0.024395	-0.011623	0.9908
X2	0.001037	0.001137	0.912211	0.3711
Z	0.003819	0.002882	1.325131	0.1981

Based on the results of the heteroscedasticity test conducted by regressing the residual absolute value (ABS(RESID)) using the Panel Least Squares approach with cross-section fixed effects, it was obtained that all independent variables, namely X1, X2, and Z, had a probability value (p-value) above the

significance level of 0.05, 0.9908, 0.3711, and 0.1981, respectively. In addition, the constant in the model also shows a probability value of 0.4481, which is not statistically significant. Although the F-statistical probability value of 0.002388 indicates the overall significance of the model, the main focus in this heteroscedasticity test lies in the individual significance of each variable to the absolute residual value. Since there is no statistically significant independent variable for ABS(RESID), it can be concluded that there are no symptoms of partial heteroscedasticity in this regression model. Thus, the assumption of homoscedasticity is declared to be met, and the regression model can be considered valid for use in further analysis.

Autocorrelation Test

Table 7. Autocorrelation Test

Root MSE	0.006027	R-squared	0.814608
Mean dependent var	0.002796	Adjusted R-squared	0.693701
S.D. dependent var	0.014181	S.E. of regression	0.007848
Akaike info criterion	-6.564621	Sum squared resid	0.001417
Schwarz criterion	-5.882134	Log likelihood	144.0101
Hannan-Quinn crister.	-6.319750	F-statistic	6.737449
Durbin-Watson stat	2.185183	Prob(F-statistic)	0.000029

Based on the regression results, the Durbin-Watson value (DW) was obtained as 2.185183. This value is close to 2, which is the ideal value in the autocorrelation test. This shows that there are no autocorrelation symptoms in the regression model. Thus, the classical assumption of residual (autocorrelation-free) incorrelation has been fulfilled, so this regression model can be considered valid for use in future analyses.

Hypothesis Test

Table 8. Multiple Linear Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.048843	0.014785	3.303548	0.0031
X1	-0.199697	0.064026	-3.118984	0.0048
X2	0.009883	0.002984	3.312006	0.0030
Z	0.058297	0.007563	7.707910	0.0000

$$Yit= 0.048843 - 0.199697X1it + 0.009883 \log X2it + 0.058297 Seat + \varepsilon it$$

1. Constant (C) = 0.048843. This means that when all independent variables are zero, the average logarithmic change Y (transfer pricing) is estimated to be 0.048843. This value is the baseline of the Y log change without the influence of X1, X2, and Z.
2. Coefficient X1 = -0.199697. This means that every 1-unit increase in X1 will decrease Y by 0.199697 units, assuming the other variables are fixed. Since

X1 is not in the form of a log, this relationship is linear. The effect was negative and significant (Prob. = 0.0048).

3. Coefficient X2 = 0.009883. That is, if X2 increases by 1%, then Y will increase by 0.009883 units, assuming the other variables are fixed. Since X2 is in log form, this relationship is semi-elasticity.
4. Z coefficient = 0.058297. The variable Z is a dummy (0 or 1). If Z = 1, then Y will increase by 0.058297 compared to the condition Z = 0, ceteris paribus. The effect was very significant (Prob. = 0.0000).

T test

Table 9. Individual Parametrial Significance Test (t-test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.048843	0.014785	3.303548	0.0031
X1	-0.199697	0.064026	-3.118984	0.0048
X2	0.009883	0.002984	3.312006	0.0030
Z	0.058297	0.007563	7.707910	0.0000

Based on the partial test results listed in Table 8, it can be seen that:

1. Probability value X1 0.0048. Since this probability value is less than 0.05, it can be concluded that the variable X1 has a significant effect on Y (*transfer pricing*).
2. A probability value of X2 of 0.0030 which is smaller than 0.05 indicates that X2 (bonus mechanism) has a significant effect on Y (*transfer pricing*).
3. The value of the probability value of Z is 0.0000. This value is very statistically significant, so it can be concluded that Z (*Tunneling incentive*) has a very significant effect on Y (*transfer pricing*).

Coefficient of Determination Test ($R^{2)}$

Table 10. Determination Coefficient Results

Cross-section fixed (dummy variables)			
Root MSE	0.006027	**R-squared**	**0.814608**
Mean dependent var	0.002796	**Adjusted R-squared**	**0.693701**
S.D. dependent var	0.014181	S.E. of regression	0.007848
Akaike info criterion	-6.564621	Sum squared resid	0.001417
Schwarz criterion	-5.882134	Log likelihood	144.0101
Hannan-Quinn crister.	-6.319750	F-statistic	6.737449
Durbin-Watson stat	2.185183	Prob(F-statistic)	0.000029

Adjusted R-squared takes into account the number of variables and degrees of freedom, making it more accurate to assess the merits of a model with multiple variables. The value (R-squared) of 0.814608 shows that the variable tax burden and bonus mechanism can explain 81.4%. Meanwhile,

about 18.6% was explained by other variables not used in this study, and the Adjusted R-Squared had a value of 0.693701 or 69.3%.

Interaction Test

This interaction test was carried out to determine the role of the moderation variable or *tunneling incentive* in its ability to moderate the influence of each independent variable on the dependent variable. The following are the results of the interaction test to determine the ability of *the tunneling incentive* variable in moderating the effect of tax burden and bonus mechanism on transfer pricing:

Table 11. Interaction Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.031743	0.018051	1.758479	0.0932
X1	-0.120473	0.086243	-1.396909	0.1770
X2	0.002540	0.004037	0.629295	0.5359
Z	0.060933	0.009649	6.315060	0.0000
X1Z	-0.092072	0.073455	-1.253451	0.2238
X2Z	0.017354	0.006987	2.483834	0.0215

Based on table 11, the results of the Interaction test show that:

1) The probability value of X1Z is 0.2238 > 0.05, so it can be concluded that *the tunneling incentive* (Z) cannot moderate the effect of the tax burden (X1) on transfer pricing (Y).
2) The probability value of X2Z is 0.0215 < 0.05, so it can be concluded that *the tunneling incentive* (Z) can moderate the effect of the bonus mechanism (X2) on transfer pricing (Y).

The Effect of Tax Burden on Transfer Pricing

The results of the partial test on the t-test, it is known that the tax burden has a probability value of 0.0048 < 0.05. From these results, H1 in this study states that the tax burden affects the transfer pricing received.

Transfer pricing is most likely to occur if the tax rate of one country is high so that it is likely that the company will manipulate to transfer its income to a country that has a low tax rate. However, because there is no standard regulation, transfer pricing checks are often won by taxpayers in tax court so that multinational companies are increasingly motivated to carry out transfer pricing.

Taxes have a positive influence on the company's decision to transfer pricing. The higher tax burden triggers companies to do transfer pricing in the hope that they can emphasize the burden. In business practice, business people generally identify tax payments as expenses so they will always try to minimize them to optimize profits (Nuradila & Wibowo, 2018).

This is in line with research conducted by (Prananda & Triyanto, 2020) ,(Adilah et al., 2022) and (Prananda & Triyanto, 2020) shows that the tax burden has a significant effect on transfer pricing.

The Effect of the Bonus Mechanism on Transfer Pricing

The results of the partial test on the t-test, it is known that the tax burden has a probability value of 0.0030 < 0.05. From these results, H1 in this study states that the bonus mechanism has an effect on transfer pricing received.

This shows that the perception of the bonus mechanism has the potential to increase transfer pricing. Under agency theory, managers (*agents*) have an incentive to maximize their own interests, which are often different from those of the owner (principal). One way managers achieve this goal is by manipulating the company's profits to maximize the bonuses they receive.

Many companies give bonuses to managers or directors based on the company's net profit achievement. The higher the reported profit, the greater the bonus the manager will receive. To maximize profits and bonuses, managers can use a variety of methods, including *transfer pricing practices.* In the context of multinational corporations, transfer pricing is the pricing of transactions between affiliated entities (e.g., subsidiaries and holding companies). Managers can manipulate these transfer prices to shift profits from one entity to another.

This is in line with research conducted by Ravensky & Akbar (2021) found that the bonus mechanism has a positive effect on transfer pricing. These results are in line with research conducted by Rizanti & Karlina (2024) and Oktaviani (2021) that the bonus mechanism has a positive effect on transfer pricing.

The Effect of Tunneling Incentive in Moderating Tax Burden on Transfer Pricing

Based on the results of the hypothesis tests that have been carried out, it is shown that the tunneling incentive cannot moderate the effect of tax burden on transfer pricing in the multinational manufacturing sector listed on the IDX for the 2021-2024 period. This is evidenced by the results of the interaction test in table 11 where the probability value of X1Z of 0.2238 is greater than 0.05. Thus, H3 which states that "Tunneling incentive is able to moderate the tax burden on transfer pricing" is rejected.

This explains that the tax burden itself is not strengthened by tunneling incentives as one of the strategies for transfer pricing. *Tunneling incentives* are not a benchmark for how much a company wants to avoid tax burdens under the pretext of transfer pricing. In this case, the main purpose *of tunneling incentives* is to transfer assets and profits from the company to the controlling shareholders (majority shareholders) for personal gain, although this practice often harms minority shareholders. In *tunneling*, the main focus is on moving wealth from one entity to another controlled by the majority shareholders.

While this transfer pricing can result in a reduced profit for the tunneled company (and thus a reduction in taxes), the tax reduction is often only a side effect, not the main goal.

In the case of unreasonable transfer pricing. The majority shareholder can ask the company to sell the product to another subsidiary at a below-market price. As a result, the profits of companies that sell products will fall, as will the taxes. However, the real purpose is to transfer the profits to another subsidiary that may be located in a lower-tax country or that is fully controlled by the majority shareholder. Different Types of Transactions *Tunneling* usually involves transactions with parties who have a special relationship (*related-party transactions*) whose purpose is not always related to tax efficiency. This transaction can be in the form of loans with unreasonable interest, the purchase of assets above market prices, or even fictitious service fee payments.

The Effect of Tunneling Incentive Moderating the Bonus Mechanism on Transfer Pricing

Based on the results of the hypothesis tests that have been carried out, it is shown that tunneling incentives can moderate the effect of the bonus mechanism on transfer pricing in the multinational manufacturing sector listed on the IDX for the 2021-2024 period. This is evidenced by the results of the interaction test in table 11 where the probability value of X2Z of 0.0215 is smaller than 0.05. Thus, H4 stating that "Tunneling incentive is able to moderate the bonus mechanism to transfer pricing" is accepted.

This explains that the bonus mechanism can be strengthened by tunneling incentives as one of the efforts to carry out transfer pricing. The bonus mechanism is a reward given to managers based on performance, which can motivate them to manipulate profits for the sake of higher bonuses. Tunneling incentives are the behavior of majority shareholders or management to divert the company's assets or profits for personal gain, often to the detriment of minority shareholders. In agency theory, managers can use transfer pricing to adjust net income to maximize their bonuses. In addition, the ease of tunneling can encourage the transfer of profits to related companies through transfer pricing transactions. The strengthening mechanism occurs when the manager's personal interest in maximizing the bonus is aligned with the controlling shareholder's goal of exploiting the asset. *Transfer pricing* then becomes an operational vehicle that allows for the shift of profits and the diversion of resources. Nonetheless, empirical evidence regarding these direct effects and reinforcement shows mixed results, emphasizing complexity and dependence on specific corporate contexts.

CONCLUSION

The results of this study show that tax burden affects transfer pricing. Transfer pricing arises when this practice is used to reduce the global tax

burden by taking advantage of differences in tax rates between jurisdictions. The bonus mechanism affects transfer pricing. The greater the bonus incentive given, the higher the likelihood of the company engaging in transfer pricing practices to achieve profit targets and maximize bonuses. Tunneling incentives are not able to moderate the effect of tax burden on transfer pricing. This means that incentives for tunneling do not strengthen or weaken the relationship between tax burden and transfer pricing decisions. Tunneling incentives are able to moderate the effect of the bonus mechanism on transfer pricing. This means that the incentive for tunneling reinforces the relationship between the bonus mechanism and transfer pricing decisions.

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