



Analysis of the Effect of Diversification and Transfer Pricing Strategies on Tax Burden

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Abstract. This study aims to analyze the effect of diversification and transfer pricing strategies on tax expense (empirical study of food and beverage sector companies listed on the Indonesia Stock Exchange for the 2019-2022 period). Purposive sampling was employed as the sampling approach for this investigation, with 17 companies as the sample. Multiple linear regression analysis was the data analysis method used, and the SPSS Version 25 program was used to analyze the results. The results of this study simultaneously show that the diversification strategy and transfer pricing impact the tax expense. The results of this study show that the diversification strategy does not affect the tax expense. At the same time, transfer pricing influences the tax expense..

Keywords: Diversification Strategy, Transfer Pricing, and Tax Expense.

1 Introduction

In Indonesia, taxes play an important role in supporting state finances. The size of the tax will affect the size of the state budget. Based on its function, tax is a source of state revenue, which is very important for implementing national development, carrying out economic activities in moving the wheels of government, and providing public facilities for the community, so it is hoped that it can increase the prosperity of the community's welfare. The benefits of indirect taxes are felt by society because taxes are used for collective and general interests, not just individual interests. Currently, tax revenues continue to increase from year to year. Tax revenues in five years have increased, but the realization of revenues and revenue targets have yet to be as expected. The phenomenon of companies emphasizing their corporate tax burden is no longer foreign to Indonesia. Reducing the tax burden paid can benefit the company (Wijayanti & Merkusiwati, 2017).

Taxes reduce the total income or net profit received by the taxpayer. So, companies always seek ways to avoid their tax burden (Adisamartha & Noviri, 2015). Companies use methods or strategies to minimize their tax burden. According to David & David (2016:11), strategy is a means intended for the long-term goals that the company wants to achieve. Companies that carry out a diversification strategy generally trigger various transactions of goods and services within the company and/or between companies, which produce output from one business unit that can be used as input for other business units. This activity requires a special method of determining value or selling price called Transfer Pricing. Transfer Pricing has three objectives, namely managing the tax burden as its main objective, but other objectives are maintaining the company's competitive position, promoting equal performance evaluation, and providing motivation to employees. Transfer Pricing is characterized by company transactions with parties that have a special relationship or related party transactions (RPT). The problem to be studied is whether the diversification strategy has an effect on the tax burden and whether transfer pricing has an effect on the tax burden.

Diversification strategies result in greater additional operational costs because the company develops in a complex manner. The greater the operational costs, the smaller the profit earned, so the tax burden will also be reduced. Apart from that, by having several divisions, the company will still be able to survive by relying on other divisions when one of

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the divisions experiences losses. The company can use these losses to offset profits in several business units, thereby reducing the total overall profit. The reduction in total profits will provide tax benefits, and the tax burden borne by the company will be lower (Berger & Ofek, 1995).

2 Theoretical Review

2.1 Agency Theory

According to (Jensen & Meckling, 1976) agency theory is a contract where one or more people order other people to perform a service on behalf of the principal and give authority to the agent to make the best decisions for the principal. Agents will take action in an appropriate manner if both parties have the same goal of improving company performance.

2.2 Diversification Strategy

Diversification is one of the strategies that is often carried out by world companies. In general, a diversification strategy is a business expansion that business people can undertake to expand. For business people, diversifying is very important because to know that their business can obtain optimal profits. According to (Tjiptono, 2015) Diversification is an effort to search for and develop new products or markets or both in order to pursue sales growth and profitability. The diversification strategy measure in this research uses the measure used by (Harto, 2005), namely by using the Herfindahl Hirschman Index (HHI) where the sum of the squares of the sales of each segment is divided by the square of the company's total sales.

2.3 Transfer Pricing

Transfer Pricing is a company policy in determining the transfer price of a transaction whether goods, services, intangible assets or other transactions carried out by the company. Transfer pricing can cause the opportunity for a country's tax revenue to decrease because companies transfer their tax burden by reducing selling prices to affiliated companies.

Apart from reducing the company's tax burden, the bonus mechanism is also one of the reasons companies use transfer pricing. Transfer pricing can be applied for three different purposes. The first is from the legal side of the company which can be used as a tool to increase efficiency and synergy between the company and its shareholders. The second is from the managerial accounting side, which can be used to maximize a company's profits through determining the price of goods or services by an organizational unit from one company to another unit within the same company. Transfer pricing in this research uses measurement using a measure, namely the relationship of receivables divided by total receivables.

2.4 Tax Expense

Taxes are people's contributions to the state treasury based on law. Taxes are levied by the authorities to cover the costs of producing collective goods and services to achieve general welfare based on applicable legal norms. According to the statement of Financial Accounting Standard 46 (PSAK 46) Income Tax, the Tax Burden in (Waluyo, 2019) the tax burden is:

"Tax expense is the aggregate amount of current tax and deferred tax which is taken into account in the calculation of accounting profit or loss at one time or in the current period as an expense or income." According to (Kieso Donald Jerry, 2008) what is translated as tax burden is the result of dividing the income tax burden for the current period by financial profit before tax. Tax burden is measured using the effective tax rate (ETR). ETR is the percentage of tax borne by the company, calculated by tax expense divided by profit before tax (Saraswati Sujana, 2017)."

2.5 Relationship between Diversification Strategy and Tax Burden

Companies choose a diversification strategy because it is a step to develop their business, win competition, and achieve company goals. When a company enters a period of growth, the company's interest in seeking profits will increase. The company hopes for an increase in profits, so the company feels the need to implement a strategy that is expected to increase sales figures but reduce the company's tax burden. The company considers this diversification strategy to reduce the company's tax burden.

Companies implementing this diversification strategy also have more diverse business units and complex company conditions. This causes the company's management to require greater operational costs, including if the company requires audit services. The audit fees charged will increase because the company's level of complexity is high. When operational costs and audit costs are high, it will reduce company profits. Thus, the company's tax burden will be reduced.

H1: Diversification strategy has a positive effect on tax burden

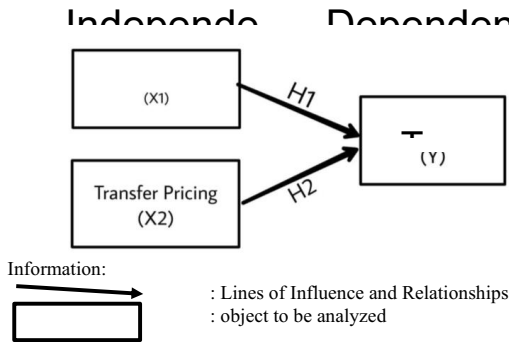
2.6 The Relationship between Transfer Pricing and Tax Burden

Generally, companies that adopt a diversification strategy need a method to integrate their business units. Therefore, transactions that occur between divisions and companies are measured using a pricing method called transfer prices (Hansen & Mowen, 2016). Apart from carrying out transactions between divisions within the company, these buying and selling transactions also occur with companies with special relationships.

A special relationship can mean that the price transferred by a company to a party with a special relationship can be lower or higher when compared to the price when the company carries out a transaction with a party that does not have a special relationship. So when a company sells at a lower price, the profits the company gets will also be lower. As a result, the tax burden borne by the company is also small.

H2: Transfer Pricing has a positive effect on the tax burden

2.7 Analysis Framework



3 Method

3.1 Data Type

The type of data used in this research is quantitative research, because the data obtained is in the form of numbers which will later be analyzed further in data analysis. Quantitative data is data in the form of numbers or qualitative data presented in the form of numbers. This data shows the value of the quantity or variable it represents.

3.2 Population and Sample

The population of this research is manufacturing companies listed on the Indonesian Stock Exchange (BEI) in the Food and Beverage sector in 2019-2022. Sampling was carried out using non-probability sampling with a purposive sampling type, namely non-random selection whose information was obtained using certain considerations adapted to the research objectives and problems so that 25 companies that met certain criteria were obtained, which would be used as research objects. The criteria used in sampling for this research are as follows:

- i. Food and beverage companies listed on the Indonesia Stock Exchange in 2019-2022,
- ii. Manufacturing companies that publish financial reports using the rupiah currency,

- iii. Data in the form of financial reports or annual reports available on the Indonesia Stock Exchange and having complete data during the research observation year,
- iv. The sample companies did not experience losses during the research period. If the company experiences a loss, then the tax burden borne by the company is nil so the tax burden becomes irrelevant,
- v. Companies that have complete data according to the variables.

3.3 Variable Measurement

Variable	Indicator	Measurement	Scale
<p>Diversification Strategy (X1) Diversification strategy is an effort to find and develop new products or markets, or both, in order to pursue growth, increase sales, profitability and flexibility. (Tjiptono 2015)</p>	<p>Indicators of product diversification are</p> <ul style="list-style-type: none"> - Makes the product last longer - Directs to products ready for consumption/use - Consumer needs and expectations - Provide added value, income and so on (Tjiptono 2015) 	$HHI = \frac{\sum_{n=1}^{\infty} segsales^2}{\sum_{n=1}^{\infty} sales^2}$ <p>Information:</p> <ol style="list-style-type: none"> 1. $HHI = Herfindahl$ <i>Hirschman Index</i> 2. $Segsales = Sales$ of Each Segment 3. $Sales = Total Sales$ 	Ratio
<p>Transfer Pricing (X2) Transfer pricing is a company policy in determining transfer prices for transactions whether goods, services, intangible assets, or financial transactions in transactions between parties who have a special relationship to maximize profits. (Rifgia, 2017)</p>	<p>Based on whether or not there are sales to parties who have special relationships. Ignoring the principle of fairness when determining prices. Raise or lower prices of your own accord. (Sitanggang & Firmansyah, 2021)</p>	$TP = \frac{Relasi piutang}{Total Piutang}$ <p>Information: TP = Transfer Pricing</p>	Ratio
<p>Tax Expense (Y) Tax expense is the aggregate total of current tax which has been calculated in the accounting profit or loss in the current period which is recognized as an expense or income. Current tax is the total income tax payable on taxable income in the current year period, while deferred tax is the total income tax payable recognized for future periods due to temporary differences (time) between accounting and fiscal profits according to tax regulations. (Source PSAK no. 46)</p>	<p>Corporate tax burden that must be paid by the company. The corporate tax burden reported by the company is in accordance with its calculations. The corporate tax burden paid is in accordance with the company's income.</p>	$ETR = \frac{beban pajak}{laba sebelum pajak}$ <p>Information: ETR = Effective Tax Rate</p>	Ratio

3.4 Data Analysis Technique

In this research, multiple linear regression analysis was used to prove the extent of the influence of diversification strategies (X1) and transfer pricing (X2) on the tax burden (Y) in manufacturing companies in the Food and Beverage sector for the 2019-2022 period.

Multiple regression analysis predicts the dependent variable's condition (up and down) if two or more independent variables are indicators. This analysis involves two or more independent variables: the dependent variable (Y) and independent variables (X1 and X2). The regression equation is as follows:

$$Y = \alpha + \beta 1.x1 + \beta 2.x2$$

Information:

- Y = Tax Burden
- α = Constant
- X1 = Diversification Strategy
- X2 = Transfer Pricing
- β = Regression Coefficient

4 Result and Discussion

This research aims to determine the effect of diversification and transfer pricing strategies on the tax burden. The research objects used are Food and Beverage companies listed on the Indonesia Stock Exchange (BEI) for 2019-2022. Researchers used secondary data in the form of financial reports of food and beverage companies listed on the Indonesia Stock Exchange (BEI) for the 2019-2022 period, which were tested statistically using the SPSS version 25 data processing program. Based on data obtained from the official website of the Indonesia Stock Exchange (BEI), namely www.idx.co.id, the number of samples used in this research was 17 companies.

Table 1. Descriptive Analysis Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
DIVERSIFICATION STRATEGY (X1)	68	.01	4.49	1.1261	.80478
TRANSFER PRICING (X2)	68	.00	1.00	.6906	.33904
TAX EXPENSE (Y)	68	.00	.86	.2385	.13206
Valid N (listwise)	68				

Source: Data processed by the authors, 2023

Table 1 above shows that the number of samples used in this research is 68, consisting of 17 companies from 2019 to 2022. The dependent variable used in this research is tax burden, while the independent variables used are diversification strategy and transfer pricing. Based on the test results, it can be concluded that tax burden, which is the dependent variable in this study, shows an average value of 0.2385 with a standard deviation of 0.13206. The tax burden with the lowest value is 0.00 and the highest value is 0.86. Judging from this range, it shows that the data distribution for the tax burden can be said to be good, this is shown by the standard deviation value which is smaller compared to the average value..

Diversification strategy as an independent variable (X1) shows an average value of 1.1261 with a standard deviation of 0.80478. Diversification strategy with the lowest value of 0.01 and the highest value of 4.49. Judging from this range, it shows that the data distribution for the diversification strategy can be said to be good. This is shown by the smaller standard deviation value compared to the average value.

Transfer pricing as an independent variable (X2) shows an average value of 0.6906 with a standard deviation of 0.33904. Transfer pricing with the lowest value of 0.00 and the highest value of 1.00. This range shows that the distribution of data for transfer pricing can be said to be good. It is shown by the standard deviation value being smaller compared to the average value.

4.1 Classic Assumption Test

Classical assumption testing aims to determine and ensure that the data used in this research contains problems with classical assumptions or not. Testing this classical assumption consists of a data normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test.

Normality Test

In the normality test, the data used is required to be normally distributed for the independent variables. The normality test is used to find out whether the data is normally distributed or not by using graphs. According to (Ghozali, 2007) there are two ways to detect whether the residuals are normally distributed or not, namely by graphic analysis and statistical tests. In this test, researchers used the Kolmogorov-Smirnov statistical test with the following measurements:

- i. If the Kolmogorov-Smirnov value is $> 5\%$ (0.05) significance level, then the data distribution is said to be normal.
- ii. If the Kolmogorov-Smirnov value is $< 5\%$ significance rate (0.05), then the data distribution is said to be not normal.

Table 2
Kolmogorov-Smirnov Normality Test Results

		Unstandardized Residuals
N		61
Normal Parameters a, b	Mean	.0000000
	Std. Deviation	.04213822
Most Extreme Differences	Absolute	,090
	Positive	,089
	Negative	-.090
Statistical Tests		,090
Asymp. Sig. (2-tailed)		,200 ^{c,d}

Source: data processed by the author, 2023

From the results of the residual normality test above in Table 2 regarding the normality test using the Kolmogorov Smirnov method, it can be concluded that the significance value in this study was obtained at 0.200, meaning that this value shows the residual data has a normal distribution because it is greater than the predetermined value, namely 0.05.

PP Plot statistical test by detecting the spread of data (points) on the diagonal axis of the graph. The normality test using a normal probability plot has the following basis for decision making:

1. If the data is spread around the line and the data follows the direction of the diagonal line, showing a normal distribution pattern, then it can be said that the regression model has met the normality assumption.
2. If the data spreads far from the diagonal line and does not follow the direction of the diagonal line and the data does not show a normal distribution pattern, then it can be said that the regression model does not meet the assumption of normality.

The results of the P-Plot normality test in this study can be seen in the following picture:

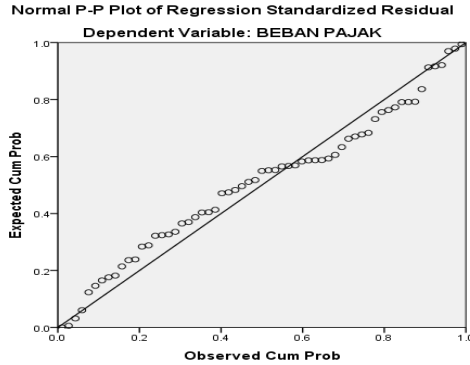


Figure 1. PP Plot Normality Graph

Based on Figure 1 above, it can be concluded that the regression model meets the normality assumption and is said to have a normal distribution. Because in the normal p-plot graph above you can see the plot points spread around the diagonal line and following the direction of the diagonal line.

Multicollinearity Test

The multicollinearity test aims to determine whether there is a correlation between the independent variables in the regression model by looking at the tolerance value and the Variance Inflation Factor (VIF) value. So, if there is a correlation between the independent variables, the relationship between the independent variable and the dependent variable will be disrupted, with the following results:

- i. If the tolerance value is >10 and the VIF value is <10, it can be concluded that there is no multicollinearity between the independent variables in the regression model.
- ii. If the tolerance value is <10 and the VIF value is >10, it can be concluded that there is multicollinearity between the independent variables in the regression model.

Table 3 Multicollinearity Test

Model		Coefficients ^a	
		Tolerance	VIF
1	(Constant)		
	DIVERSIFICATION STRATEGY	,991	1,009
	TRANSFER PRICING	,991	1,009

a. Dependent Variable: TAX EXPENSE

Source: data processed by the author, 2023

Based on Table 3 of the multicollinearity test above, it can be seen that all independent variables, namely diversification strategy and transfer pricing on the tax burden, do not have multicollinearity, because the calculation results of the tolerance value of each independent variable are >10 and the results of the VIF value calculation are <10. So it can be concluded that there is no multicollinearity between the independent variables in this regression model.

Heteroscedasticity Test

This heteroscedasticity test aims to assess whether there is unequal variance in the residuals for all observations in the linear regression model. To detect heteroscedasticity, it is done by looking at the graph plot between the predicted value of the dependent variable (ZPRED) and its residual (ZRESID), where the Y axis is the Y that has been predicted, and the X axis is the residual (predicted Y – actual Y) that has been studentized (Ghozali, 2018). The following is the basis for heteroscedasticity testing analysis:

- i. If there is a certain pattern, such as the points forming a certain regular pattern (wavy, widening then narrowing), then this indicates heteroscedasticity has occurred.

- ii. If there is a clear pattern, and the points spread above and below the number 0 on the Y axis, then heteroscedasticity does not occur.

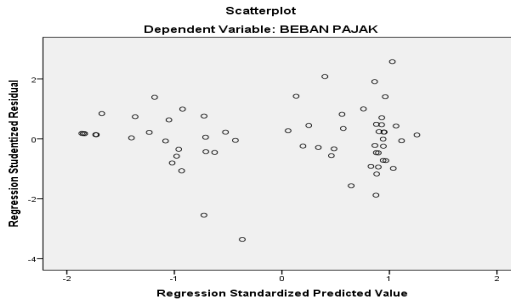


Figure 2. Heteroscedasticity Test Graph

Source: data processed by the author, 2023

Based on Figure 2, the results of the heteroscedasticity test above show that the regression model does not contain any symptoms of heteroscedasticity. Because it can be seen from the points that are spread randomly above and below the number 0 on the Y axis and do not form a particular pattern, it can be concluded that this regression model does not have symptoms of heteroscedasticity.

Autocorrelation Test

The model aims to test whether in the linear regression model there is a correlation between confounding errors in period t and confounding errors in period t-1. In this study, researchers used the Durbin – Watson Test (DW test) to detect the presence or absence of autocorrelation. If the Durbin Watson value is between 1.54 and 2.46 then there is no autocorrelation. Thus, based on these provisions, it can be concluded that the research model does not contain autocorrelation. The results of the Autocorrelation Test in this research can be seen in Table 4 below:

Table 4. Autocorrelation Test Results
Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.305 ^a	.093	.062	.04286	1,550

a. Predictors: (Constant), TRANSFER PRICING, DIVERSIFICATION STRATEGY

b. Dependent Variable: TAX EXPENSE

Source: data processed by the author, 2023

Based on Table 4, the results of the autocorrelation test above can be seen that the Durbin-Watson value is 1.550. With these results, it can be concluded that the DW value meets the requirements so that there is no negative or positive autocorrelation with the decision H0 being accepted.

4.2 Multiple Linear Analysis Test

Coefficients^a

Model	Unstandardized Coefficients	
		B
1	(Constant)	.203
	DIVERSIFICATION STRATEGY (X1)	-.021

TRANSFER PRICING (X2)	,086
a. Dependent Variable: TAX EXPENSE	

4.3 Hypothesis Testing Results

Individual Parameter Test Results (t Statistical Test)

Model	Coefficients ^a				
	Unstandardized Coefficients	Std. Error	Standardized Coefficients	t	Sig.
	B		Beta		
1 (Constant)	.203	,040		5,018	,000
DIVERSIFICATION STRATEGY	-.021	,020	-.129	-1,061	,293
TRANSFER PRICING	,086	,047	,221	1,823	,023

a. Dependent Variable: TAX EXPENSE

Source: data processed by the author, 2023

The Effect of Diversification Strategy on Tax Burden

The first hypothesis has been formulated that diversification strategies affect the tax burden. However, the results of statistical tests show that the first hypothesis does not affect the tax burden. This can be seen from the t-count of -1.061, so it is known that t-count < t-table (-1.061 < 1.668) with a significance value of 0.293 > 0.05. So, the diversification strategy does not significantly affect the tax burden, so H1 is rejected. The results of this research contradict research (Ardianto & Rachmawati, 2019), which states that diversification strategies affect the tax burden.

The results of this diversification strategy research have no effect on the tax burden because the opposite will happen when a company uses a diversification strategy intending to reduce its tax burden. By carrying out a diversification strategy, the company will increase its profits the greater the tax burden it bears. So, the company's diversification strategy is not based on reducing its tax burden.

The research results on the diversification strategy variable in this study are also unrelated to the theory used, namely Agency Theory. In agency theory, it is explained that one or more people order other people to perform services on behalf of the principal and give authority to the agent to make the best decisions for the principal. In this research, the government as principal wants to increase financial income for the state through taxes paid by companies, but managers as agents prioritize their interests in optimizing company profits by minimizing their tax burden.

The Effect of Transfer Pricing on Tax Burden

In the second hypothesis that has been formulated, transfer pricing influences the tax burden, and the results of statistical tests show that the second hypothesis influences the tax burden. This can be seen from the t-count of 1.823, so it is known that t-count > t-table (1.823 > 1.668) with a significance value of 0.023 < 0.05. So it can be concluded that transfer pricing significantly affects the tax burden, so H2 is accepted. The results of this research are supported by research results (Ardianto & Rachmawati, 2019), which state that transfer pricing has an effect on the tax burden. Other research conducted by (Rahmadani, 2019) also concluded that transfer pricing has an influence on the tax burden.

The results of this research on the transfer pricing variable influence the tax burden variable because by carrying out transfer pricing with a special relationship, the company can get a small profit so that the tax burden paid by the company is also small. Transfer pricing is carried out by pricing goods or services transferred to a company that has a special relationship at a lower or higher price than when the company sells to a company that does not

have a special relationship so that when the company sells at a lower price, the company makes a profit. It is small and makes the tax burden borne low and vice versa.

The research results of the transfer pricing variable in this study are related to the theory used, namely Agency Theory. In this theory, agency problems can occur because there are parties who have different interests but work together in different divisions of tasks. This agency problem can harm parties not involved, namely the principal. The authority to manage company assets given by the principal to the agent can make the agent put aside the interests of shareholders by taking advantage of their incentives to carry out transfer pricing to reduce the tax burden that the company must pay.

5 Conclusion

This research aims to obtain empirical evidence regarding the influence of diversification and transfer pricing strategies on the tax burden. This research uses a purposive sampling technique. The number of sample data used in this research was 17 Food and Beverage companies listed on the Indonesia Stock Exchange (BEI) for the 2019-2022 period. In this study, the data was processed using SPSS version 25 software. The data used met the requirements and was suitable for testing. Based on the results of research that has been carried out to examine the effect of diversification and transfer pricing strategies on the tax burden, several conclusions can be drawn as follows:

- i. Based on the results of the first hypothesis test, the diversification strategy does not have a significant influence on the tax burden on food and beverage companies for the 2019-2022 period. This is because when a company uses a diversification strategy, the company's profits will increase and the tax burden borne by the company will be greater. The results of this first hypothesis test were also strengthened by the results of the t test which showed a significant value of $0.293 > 0.05$
- ii. In the results of the second hypothesis test, transfer pricing has a significant influence on the tax burden on food and beverage companies for the 2019-2022 period. This is because when a company carries out transfer pricing to a relationship that has a special relationship, the company can get a small profit so that the tax burden paid by the company is also small by pricing the goods or services transferred to a company that has a special relationship at a lower price or higher than when the company sells to a company with which it has no special relationship. The results of this second hypothesis test were also strengthened by the results of the t test which showed a significant value of $0.023 < 0.05$.

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