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The Influence of Salaries, Production Costs and Tax Costs on Transfer Pricing in Companies Registered at Bureau Van Dijk-Osiris In 2022

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KEYWORDS

Salary Expenses, Production Costs, Tax Burden, Transfer Pricing, and Multinational Companies (Tbk.)

ABSTRACT

This study aims to determine the influence of Salary Expenses, Production Costs and Tax Expenses partially and simultaneously on Transfer Pricing, while the object of this study is a multinational company (Tbk) that is listed on the Van Dijk-Osiris Bureau 2022. Salary has a positive relationship to Transfer Pricing, so Salary Expense has no effect on Transfer Pricing which illustrates that when Salary Expense increases then Transfer Pricing practice decreases. Production Costs have a positive relationship to Transfer Pricing, but the value is relatively small below 0.5 so the results of the Hypothesis test show that the Production Costs variable has no effect on Transfer Pricing which illustrates that when Production Costs increase, Transfer Pricing practices decrease. Tax Fees have a negative relationship to Transfer Pricing while the results of the hypothesis test show a significance value greater than 0.05, that Tax Fees have no effect on Transfer Pricing which illustrates that when Tax Expenses increase then Transfer Pricing practices will be low.

1. Introduction

The Coronavirus (Covid-19) pandemic has led to changes in activities worldwide. Who would have thought that entering a parking area within a building would now see the barrier gate automatically open without touching the entry button or taking a ticket? Due to the Covid-19 outbreak, changes have been demanded, making everything easier and simpler. Similarly, in the world of work and education, many activities have shifted online, without being limited by place and time, which is highly efficient and cost-effective.

The impact of Covid-19 on human life has been substantial. Moving forward, economic growth is required to be inclusive and sustainable. This also applies to the current business world's development, forcing small companies to become multinational corporations with operations not confined to a single country but spanning across several countries.

Business logic within the realm of business law is a world full of inspiration, innovation, and strategic thinking to attain profits. In today's globalized economy, Transfer Pricing (TP) has become a crucial issue for Taxpayers and Ministries of Finance, particularly the Tax Directorate of a country. This is evident from the publication of the "Transfer Pricing

Guidelines for Multinational Enterprises and Tax Administrations" by the Organisation for Economic Co-operation and Development (OECD), as well as the United Nations' release of the "Practical Manual on Transfer Pricing for Developing Countries." These documents serve as guides for both developing and advanced countries in handling transfer pricing, especially concerning multinational corporations and tax authorities.

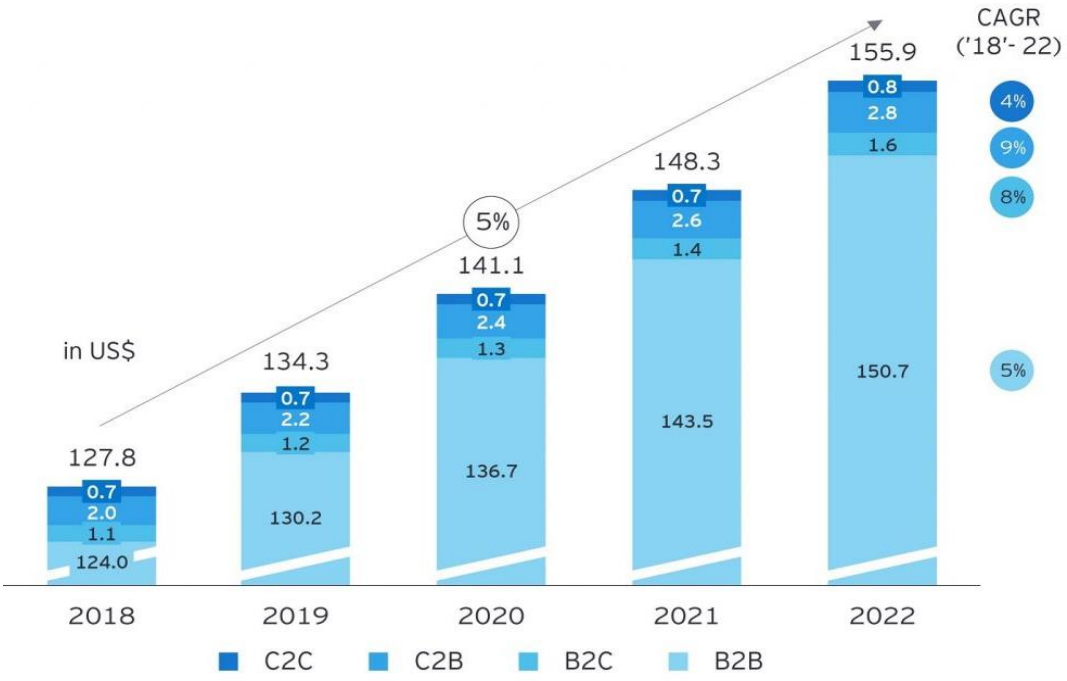
Globalization has accelerated economic development worldwide and blurred national boundaries. The current state of globalization poses challenges for governments to increase corporate income tax revenue. Multinational corporations can shift their profits across international borders to reduce their tax liabilities. Uncontrolled economic boundaries between countries facilitate companies in making business decisions through investments and cross-border transactions involving goods, services, capital, and labor.

Therefore, when entrepreneurs engage in business with affiliated parties having special relationships, there are no laws prohibiting this practice. Transfer pricing refers to the pricing of goods, services, and intangible assets transferred to subsidiary companies or related parties located in one or multiple countries. According to the OECD, transfer pricing involves a company participating directly or indirectly in the management, control, or capital of another company or person that participates directly or indirectly in the management, control, or capital of two companies (OECD, 2022).

PRACTICAL IMPLEMENTATION:

- In practice, transfer pricing is utilized by several multinational corporations to avoid substantial tax payments by reducing their tax liabilities. This is achieved by shifting the income and expenses of a company with special relationships from one country to another with a different tax rate. This practice has led to several countries experiencing a loss in tax revenue.
- Countries with low labor costs, production expenses, and tax burdens become attractive destinations for investors. When a parent company (investor) establishes a subsidiary in another country, transfer pricing practices may come into play.

The rapid growth of multinational corporations is accompanied by an increasing number of intra-group transactions among these corporations (affiliate transactions), particularly in the field of investment. This surge in activity is driven by both domestic and international investments, resulting in a significant rise in international transactions (cross-border transactions). The flow of goods, services, capital, and labor has also become smoother and more seamless between countries.



Graph 1: Development of Cross-Border Payments from 2018 to 2022
Source: Payments Industry Intelligence (2021)

Banks have become centers for cross-border payments. The total flow of cross-border payments has grown at a rate of approximately 5% (CAGR) per year, reaching $156 trillion in 2022, where Business-to-Business (B2B) transactions make up the largest portion, estimated to be around $150 trillion (Payments Industry Intelligence, 2021).

Companies are generally profit-oriented, which leads them to strive for maximum gains, including cost efficiency. High labor costs, production expenses, and tax burdens, along with saturation in domestic markets, have driven multinational corporations to expand into other countries. Additionally, companies choose countries that offer cost advantages in production (location savings) and market share (market premium).

Typically, multinational corporations establish subsidiaries in a country and engage in transfer pricing practices influenced by efficiency considerations and business strategies. Kurniawan, (2015) explains that several factors influence the occurrence of transfer pricing practices:

1. Salary Expenses:

Salaries represent the compensation paid by employers to employees based on work agreements, agreements, or legal regulations. Multinational corporations often have a large number of employees, resulting in significant salary expenses. These companies assess salary expenses in a particular country when considering the establishment of a factory there or engaging in Transfer Pricing practices between the parent company and its subsidiaries. Investors focus on salary expenses to minimize this substantial cost for the company. Consequently, companies may initiate or increase transfer pricing practices due to the significant salary expenses in a specific country or region.

2. Production Costs:

Multinational corporations also choose to establish factories or engage in transfer pricing practices in countries where raw materials are easily accessible and affordable. This is done to lower production costs, hoping that the resulting prices for goods and services will be more accessible to buyers. Therefore, companies may engage in or increase transfer pricing practices due to the availability of inexpensive production costs and affordable raw materials in a specific country or region.

3. Tax Rates or Burdens:

Tax rates and burdens vary in each country based on the specific needs of that nation. Tax collection is a form of sovereignty for a country. Each country has the right to determine tax policies for residents and non-residents who earn income within its borders. Tax rates and burdens are significant considerations for multinational corporations looking to invest in a country. Therefore, multinational corporations often engage in Base Erosion and Profit Shifting (BEPS), a tax planning strategy that exploits gaps and weaknesses in domestic tax regulations to "erode" profits or shift them to countries with lower or even zero tax rates. This strategy aims to minimize or significantly reduce the taxes companies need to pay on their overall income (Sibarani, 2013).

Katadata.co.id (2019) reported that since 2015, several global companies or large corporations have exited Indonesia, including General Motors (USA), Toshiba (Japan), Panasonic (Japan), Ford (USA), Nissan (Japan), and Pepsi (USA). One of the reasons for these companies leaving Indonesia is the high labor and production costs. This aligns with statements from the Head of the Investment Coordinating Board, who mentioned that besides land price regulations (production costs) and high labor wages (salary costs), Indonesia's costs are much higher compared to other countries like Vietnam and Thailand (Bahlil Lahadalia, 2020).

Based on the explanations above, companies engaging in transfer pricing are influenced by various factors, including salary expenses, production costs, and tax rates or burdens. Research related to transfer pricing suggests that companies tend to engage in transfer pricing when tax burdens in a particular country are low. This indicates that tax motivation is one of the reasons manufacturing companies resort to transfer pricing, where they transact with affiliate companies located beyond national borders to reduce profits and subsequently decrease or minimize taxes paid (Noviari, n.d.).

Research conducted by Ita Salsalina Wiwi Hartika and Faisal Rahman (2020) highlights that tax burdens significantly influence transfer pricing. This means that as tax burdens increase, there is a higher likelihood of companies engaging in transfer pricing.

For global-scale corporations (multinational corporations), transfer pricing is believed to be an effective strategy to compete for limited resources. Companies tend to minimize costs, including reducing corporate income tax payments. This has driven the practice of transfer pricing to avoid taxes (tax avoidance). Transfer pricing is thought to reduce or eliminate a country's potential tax revenue as multinational corporations shift their tax obligations from high-tax countries to low-tax countries. (Lingga, 2012)

Based on the explanations provided, there are three main factors in measuring Transfer Pricing: Salary Expenses, Production Costs, and Tax Burdens. This research aims to

identify the influence of Salary Expenses, Production Costs, and Tax Burdens on Transfer Pricing in Companies Listed in Bureau Van Dijk-Osiris in the Year 2022.

Review of Related Literature

1.1. *Fairness Theory*

The Fairness Theory in the context of transfer pricing refers to the principle that transfer prices should be fair and equivalent to the value contributed by the entities involved in the transaction. This theory emphasizes the aspect of fairness in determining transfer prices between related entities (Sujarweni, 2015).

The fundamental principle of the Fairness Theory is that entities contributing to value addition or providing goods, services, or intellectual property rights should receive compensation that is fair and proportionate to their contributions. This means that transfer prices should reflect the actual value of the transaction, similar to the prices that would be applied in transactions between independent entities. The application of the Fairness Theory in transfer pricing encompasses several important aspects, including:

1) **Principle of Equality**: The Fairness Theory emphasizes that entities involved in transfer pricing transactions should be treated equally and fairly. This means that transfer prices should reflect a value comparable to what would be given in transactions between similar independent entities.
2) **Principle of Value Contribution**: Transfer prices should reflect the value-added contributions provided by each related entity. If one entity provides significant value addition, the compensation received by that entity should be proportional to its contribution.
3) **Principle of Tax Neutrality**: The Fairness Theory suggests that transfer prices should not be manipulated for the purpose of unfair tax avoidance. This principle focuses on achieving a fair balance between a company's interests and the tax considerations prevailing in various jurisdictions.

Applying the Fairness Theory in transfer pricing can help ensure that transfer prices reflect actual value and avoid distortions or misuse of transfer pricing for unfair purposes, such as tax evasion. An equitable approach to setting transfer prices can also help minimize the risk of conflicts of interest between related entities and promote trust among them.

However, it's important to note that the concept of fairness in transfer pricing can be subjective and dependent on different interpretations and perspectives. Therefore, the implementation of the Fairness Theory should be based on applicable tax guidelines and regulations, as well as consultation with experienced tax experts.

1.2. Tax Optimization Theory

Tax Optimization Theory in the context of transfer pricing refers to a company's efforts to optimize its tax structure through the use of transfer pricing. This theory is related to using transfer pricing to maximize tax benefits by taking advantage of prevailing tax regulations.

This approach involves arranging transfer prices and the internal transaction structure of a company in a way that legally reduces tax liabilities and maximizes tax savings. Companies can use transfer pricing to shift profits to jurisdictions with lower tax rates,

leverage favorable tax treatments for specific transactions, or gain benefits from available tax incentives (Muljono, 2011).

Tax Optimization Theory is based on the principle that companies have the flexibility to organize their internal transactions and overall corporate structure to achieve maximum tax benefits. This involves selecting the most advantageous transfer pricing methods, optimally allocating cost and profit burdens among related entities, and determining appropriate transfer prices.

1.3. *Transfer Pricing*

Based on PMK-213/PMK.03/2016, it is concluded that transfer pricing is a company policy in determining the transfer pricing of a transaction, whether it involves goods, services, intangible assets, or financial transactions carried out by branch companies to their parent company or to independent parties (parties with special relationships with the taxpayer) based on special relationships. Meanwhile, according to Regulation of the Directorate General of Taxes No: PER-32/PJ/2011, transfer pricing is the determination of prices in transactions between parties with special relationships (Dogan, Deran, & Koksal, 2013).

"Transfer pricing" is the general term for the pricing of cross-border, intra-firm transactions between related parties. Transfer pricing refers to the setting of prices for transactions between associated enterprises involving the transfer of property or services. These transactions are also referred to as "controlled" transactions, as distinct from "uncontrolled" transactions between companies that are not associated and can be assumed to operate independently ("on an arm's length basis") in setting terms for such transactions" or Transfer pricing is a term used for pricing cross-border transactions between related parties within a company. Therefore, transfer pricing refers to the arrangement of prices for transactions between related companies involving the transfer of property or services. These transactions are also known as "controlled" transactions, which differ from "uncontrolled" transactions between unrelated companies and are assumed to operate independently ("at fair market value") in establishing terms for these transactions. (United Nations Practical Manual on Transfer Pricing, 2017)

According to Statement of Financial Accounting Standards (PSAK) No. 7, which was revised in 2015, parties with special relationships are defined as follows: A special relationship exists when one party has the ability to control another party or has significant influence over another party's decision-making. Transactions between parties with special relationships involve the transfer of resources or obligations between such parties, regardless of whether a price is charged.

Therefore, transfer pricing can be calculated by examining any transactions involving parties with special relationships. The determination of transfer pricing in this study uses the Scale Ratio measurement method. The Scale Ratio has all the properties of an interval scale but also has an absolute zero point. This scale allows for comparisons, addition or subtraction, and multiplication or division of values by performing the overall sum of Affiliate transaction values according to Directorate General Regulation No. Per-43/Pj/2010 Regarding the Implementation of the Principles of Fairness and Arm's Length in Transactions

between Taxpayers and Parties with Special Relationships. Article 2 paragraph 2 concludes the following:

Types of affiliate transactions considered as transfer pricing include transactions related to:

1) Sale, transfer, purchase, or acquisition of tangible or intangible assets;
2) Rent, royalties, or other compensation arising from the provision or utilization of tangible or intangible assets;
3) Income or expenses related to the provision or utilization of services;
4) Allocation of costs; and
5) The transfer or acquisition of assets in the form of financial instruments, and income or expenses arising from the transfer or acquisition of assets in the form of financial instruments.

1.4. Salary Expenses

According to Law No. 78 of 2015 on Wages, Chapter 1, Article 1 states that wages are the rights of workers/laborers that are received and expressed in the form of money as compensation from employers to workers/laborers, which are determined and paid based on an employment agreement, agreement, or legislation, including allowances for workers/laborers and their families for work and/or services that have been or will be performed.

According to IAI (Indonesian Institute of Accountants) 2015, PSAK NO 24 Employee Benefits consists of paragraphs 01-173. All paragraphs in this PSAK have the same regulatory power. Employee Benefits are all forms of consideration given by an entity in exchange for services rendered by employees, including directors and management. There are four types of employee benefits: (Chairil Anwar Pohan, 2014; Pohan, 2022)

1) Short-term employee benefits are employee benefits (excluding severance pay) that are due within 12 months after the end of the period in which the employee renders their service.
2) Post-employment benefits are employee benefits (severance pay) that become payable after the employee completes their service.
3) Other long-term employee benefits are employee benefits (excluding post-employment benefits and severance pay) that do not become entirely due within 12 months after the employee renders their service.
4) Severance pay is an employee benefit that becomes payable due to the entity's decision to terminate an employee before the normal retirement age or the employee's decision to accept an offer to voluntarily resign with certain compensation.

From the definitions above, it can be concluded that salary or wages represent compensation for services provided by workers to employers based on a valid employment agreement, working hours, and/or units produced, to be given to workers in accordance with legal regulations.

1.5. Production Costs

Production costs are the expenses incurred in transforming raw materials into finished products, consisting of: raw material costs, direct labor costs, and factory overhead

costs (Salman, 2016). Production costs are the expenses that arise due to the production function or activities that process raw materials into finished goods and ready for sale (Assauri, 2016; Sofjan, 2016). From the definitions above, it can be concluded that production costs are the expenses incurred by a company in the production process to obtain goods or services, both before and after they occur.

1.6. Tax Expenses

The tax rates and expenses vary from country to country, depending on the needs of a nation. From a national perspective, tax collection represents a form of sovereignty for a country. Each country has the right to determine its tax policies for residents within its borders as well as for non-residents who earn income within the country.

The Republic of Indonesia Law Number 6 of 1983 Concerning General Provisions and Taxation Procedures, as amended several times and most recently by the Republic of Indonesia Law Number 7 of 2021, Article 1 paragraph 1 states that tax is a compulsory contribution to the state imposed on individuals or entities, enforceable by law, without receiving direct compensation, and used for state purposes to the maximum benefit of the people's prosperity.

Tax is a payment made by the public to the state based on the law, without receiving a corresponding service or consideration from the state. This payment is directly used to finance the state's expenses, which benefit the broader society (Mardiasmo, 2016).

From the above definitions, it can be concluded that tax is a contribution from the public to the national treasury based on the law, enforced without receiving direct compensation. Taxes are collected based on legal norms to cover the costs of producing goods and collective services in order to achieve the common welfare.

1.7. Previous Research

Several previous studies regarding transfer pricing will serve as references for researchers in conducting research, such as the research by Anisa Sheirina Cahyadi and Naniek Noviar (2018) with the title "The Influence of Taxes, Exchange Rate, Profitability, and Leverage on Transfer Pricing Decisions." The conclusion of this study is that companies will engage in transfer pricing when the tax burden in a particular country is low. This indicates that tax motivation becomes one of the reasons manufacturing companies engage in transfer pricing by conducting transactions with affiliated companies outside the country's borders, resulting in reduced profits and lower or reduced tax payments.

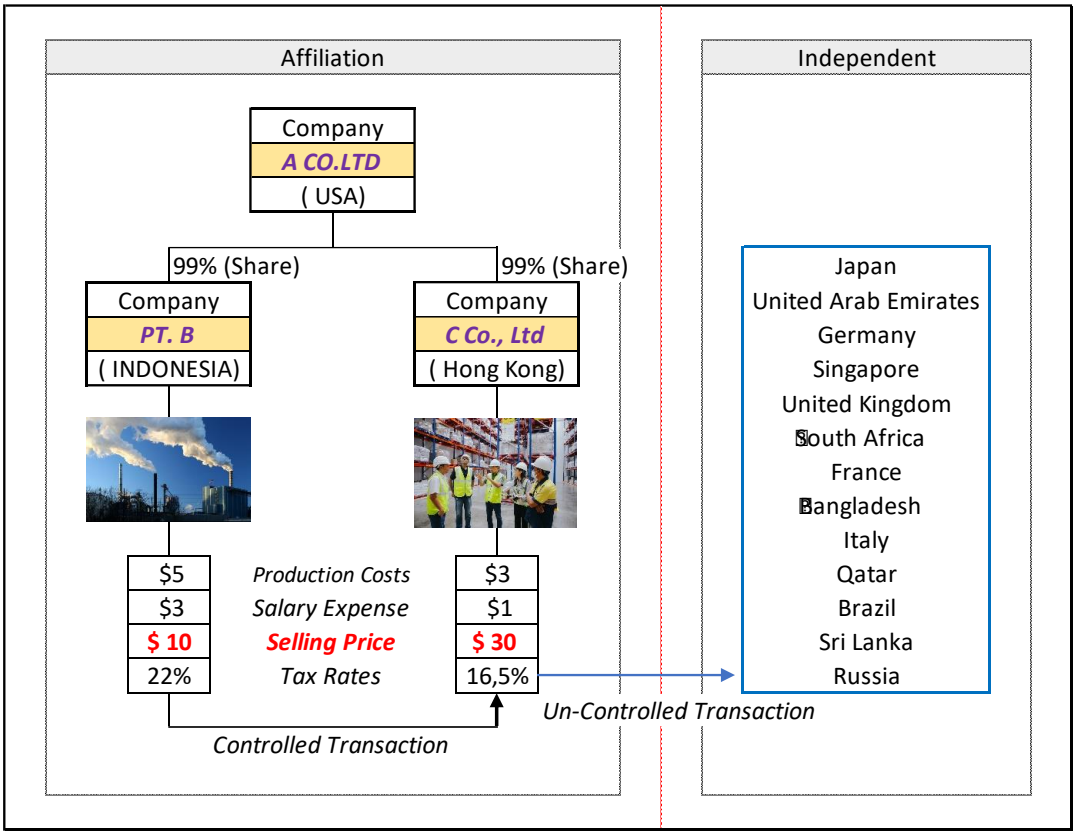
Santosa & Suzan, (2018) conducted research titled "The Influence of Taxes, Tunneling Incentive, and Bonus Mechanism on Transfer Pricing Decisions," with the conclusion that taxes have a significant positive influence on transfer pricing decisions. This is because multinational companies that seek profits will shift income from high-tax-rate countries to low-tax-rate countries. Similarly, the Tunneling Incentive has a significant positive influence on transfer pricing decisions.

Waryanto R Bambang Dwi, Nasrulloh, (2014) conducted research titled "The Influence of Cost of Goods Manufactured on Selling Prices in the Krupuk Industry," and concluded that the cost of goods manufactured significantly affects selling prices. This means

that if the value of the cost of goods manufactured variable increases, the value of the selling price variable will also increase.

1.8 Research Framework

Here is an illustration of the process of transfer pricing between related parties and independent entities:



Source: Compiled by the author.

Based on the image above, here's the explanation: Company A located in the USA establishes subsidiary Company B in Indonesia, and Company C in China. Company A, as the parent company based in the USA, is unable to generate maximum profits due to high production costs. Therefore, Company B in Indonesia is positioned as a finished goods processing industry due to its low and affordable production costs at $5. After producing the finished goods, Company B sells them to subsidiary Company C in China at a price of $10. Company C incurs transportation costs of $2 to obtain the goods from the subsidiary in Hong Kong (Controlled Transaction). Company C serves as a global market hub, selling its products to various countries around the world at a price of $30 (Uncontrolled Transaction).

With the above transactions, there is a clear difference in selling prices between affiliated parties and independent parties. This discrepancy can disadvantage a company, as it incurs significant costs to acquire a product. Additionally, the country's tax revenue might

be impacted as the producing company (Company B in Indonesia) does not generate substantial profits due to the low selling price to its parent company or other subsidiaries.

Based on the literature study and the illustration of the transfer pricing process provided above, the author is interested in investigating or examining the Influence of Salary Expenses, Production Costs, and Tax Burden on Transfer Pricing in Companies Listed in Bureau Van Dijk-Osiris for the year 2022, using the following approaches:

1) Influence of Salary Expenses on Transfer Pricing

Multinational companies tend to establish their subsidiaries in countries with low or inexpensive salary expenses. This choice supports the productivity of the parent company. In such situations, multinational companies are likely to engage in higher levels of transfer pricing if the salary expenses in a particular country are low. Conversely, if salary expenses in a country are high, the level of transfer pricing tends to be low.

The aim of this research is to prove the statement above, which is whether salary expenses affect transfer pricing.

H1: Salary Expenses influence transfer pricing.

2) Influence of Production Costs on Transfer Pricing

Influence of Production Costs on Transfer Pricing

Multinational companies choose to establish factories in countries with low (cheap) production costs, where the supply of raw materials is easily obtainable at relatively low prices. This strategy reduces production costs for the parent company, and the produced goods are often sold back to the parent company.

In such scenarios, multinational companies are inclined to engage in higher levels of transfer pricing practices in a country because the easy availability of raw materials at lower prices reduces the production costs for the parent company. This is done without reducing the selling price of products to non-related companies (independent). Similarly, multinational companies are less likely to establish factories or engage in transfer pricing practices in a country if the supply of raw materials is difficult or if production costs are high.

The goal of this research is to prove the statement above, which is whether production costs affect transfer pricing.

H2: Production Costs influence transfer pricing.

3) Influence of Tax Burden on Transfer Pricing

Tax rates and burdens vary from country to country based on each country's needs. Taxation is a form of a country's sovereignty, and each country has the right to determine taxation policies for residents in its country as well as for non-residents earning income in its country.

In addition to salary expenses and production costs, tax rates or tax burdens become a major consideration for multinational companies considering investments in a country. Generally, multinational companies are more likely to engage in higher levels of transfer pricing if the tax burden is low. Conversely, multinational companies are less likely to invest in a country or engage in transfer pricing if the tax burden is high.

The aim of this research is to prove the statement above, which is whether the tax burden affects transfer pricing.

H3: Tax Burden influences transfer pricing.

2. Materials and Methods

2.1 Research Design

This type of research is causal research. Causal research is a study conducted to test whether there is an influence between one variable and another variable (Zulganef, 2013).

This study uses secondary data obtained from other sources or document applications. The data source for the study is obtained from the Bureau Van Dijk-Osiris program, and the data used are the financial reports of multinational companies (TBK) registered in Bureau Van Dijk-Osiris 2022.

2.2 Operational Definition and Measurement of Variables

Operational definition is intended to avoid misunderstandings and differences in interpretations related to the terms used in the thesis title. The operational definition of a variable is the practical, real-world expression of the variable (as described in the conceptual definition) within the scope of the research object/subject being studied.

Table 1. Operational Variables

No	Variable	Indicator	Formula	Measurement Scale	Data Source
1	Salary Burden (Beban Gaji) / X1	Company's Paid Salary Burden	Total Salary Expenses Sales + Salary in General & Administration Expenses	Nominal	*Annual Report & Audited*
2	Production Cost (Biaya Produksi) / X2	Company's Incurred Production Cost	Total Cost of Goods Sold	Nominal	*Annual Report & Audited*
3	Tax Expenses (Beban Pajak) / X3	Company's Borne Tax Expenses	Total Income Tax Expense/(Benefit)	Nominal	*Annual Report & Audited*
4	Transfer Pricing / Y	Intercompany Transactions among Companies	Total overall Affiliate Transactions	Nominal	*Annual Report & Audited*

In general, in research, variables are divided into two main categories: independent variables and dependent variables, which include: (Ghozali, 2018)

1) Dependent Variable (Y)

The independent variable is a variable that influences, causes the emergence, or changes in the dependent variable.

The dependent variable in this study is Transfer Pricing. Transfer pricing is the value of the price embedded in each product or service transferred from one division to another within the same company or between companies or countries with special relationships, where one company has the ability to control the other party or has significant influence over the other party in decision-making.

The determination of transfer pricing in this study uses the Scale Ratio measurement, which has all the properties of an interval scale but also has an absolute zero point. This absolute zero value means that it is a basic value that cannot be changed even when using a different scale.

This scale allows for comparison, addition or subtraction, and multiplication or division between values by performing overall value addition. In this study, the ratio scale of transfer pricing is calculated by adding up all affiliate transactions:

- Sales, transfers, purchases, or acquisitions of tangible or intangible goods;
- Rent, royalties, or other remunerations arising from the provision or utilization of tangible or intangible assets;
- Income or expenses related to the provision or utilization of services;
- Cost allocation; and
- Delivery or acquisition of assets in the form of financial instruments, and income or expenses arising from the delivery or acquisition of assets in the form of financial instruments.

2) Independent Variables (X)

The dependent variable is a variable that is influenced due to the presence of independent variables.

The independent variables in this study are:

Salary Burden (X1)

Salary burden is the cost of employee salaries for services rendered by workers to businesses based on proper employment agreements as stipulated by laws and regulations.

The calculation of salary burden is observed from the company's financial reports, specifically the Salary Expenses in Sales and General & Administrative Expenses.

Production Cost (X2)

Production cost is the expenses incurred by a company in the production process to obtain goods or services (Cost of Goods Sold).

The calculation of production cost is observed from the company's financial reports, specifically the cost or expenses of production incurred by the company, under Cost of Goods Sold.

Tax Expenses (X3)

Tax expenses are taxes charged to entities that are required to be paid to the state as one of the sources of state revenue.

The calculation of tax expenses is observed from the company's financial reports, specifically the tax expenses borne or paid by the company, recorded in the Income Statement as total Income Tax Expense/(Benefit).

2.3 Population and Data Collection Procedure

The population in this study consists of all companies listed in Bureau Van Dijk-Osiris in the year 2022. The total population found in the Bureau Van Dijk-Osiris program is 7,576,273 (As of 02/06/2023 - TP Catalyst - Release 158 - May 2023).

The sampling method used in this research is purposive sampling. Purposive sampling is a sampling method based on the research objectives, which is one of the non-random sampling techniques. In this method, the researcher selects samples by specifying specific characteristics that align with the research objectives, aiming to address the research problems. Multinational companies are selected as the sample in this study because multinational companies have subsidiary or parent companies in two or more countries, making them more likely to engage in transfer pricing practices.

This approach is taken to avoid introducing bias into the research. The sample criteria are as follows:

a) Companies with Financial Statements audited by Public Accountants.
b) Publicly listed companies (Tbk.).
c) Companies located in Indonesia.

Table 2. The sample criteria

CRITERION	SEARCH RESULT
1. All companies in the scope of analysis	7,576,273
2. World region- Indonesi	1,155
3. Perusahaan yang melakukan Prakter Transfer Pricing (A+, A, A	104
4. Status-Active companies	100
5. Manual review	40

2.4 Data Analysis Methods

The data analysis method in this research is conducted using quantitative analysis techniques. Quantitative analysis involves analyzing a problem in a quantitative manner. In this study, quantitative analysis is performed by quantifying the research data to generate the necessary information for analysis (Komariah, n.d.-a, n.d.-b).

The analysis technique employed in this study is multiple linear regression analysis to provide a comprehensive understanding of the relationship between one variable and another. The independent variables used consist of Salary Expense (Bg), Production Costs (Bp), and Tax Expense (BpK). To determine whether there is a significant influence of the independent variables on the dependent variable, the multiple linear regression module is utilized. It is formulated as follows:

$$Y = a + b_1 X1 + b_2 X2 + b_3 X3 + €$$

Explanation:

Y = Transfer Pricing
a = Konstanta
b1-3 = Regression coefficients, representing the magnitude of the change in the dependent variable due to a one-unit change in each independent variable.
X1 = Salary Expense
X2 = Production Costs
X3 = Tax Expense
€ = Residual error

The analysis method employed in this research is multiple linear regression analysis. This regression analysis aims to provide a comprehensive understanding of the relationship between independent variables and the dependent variable for the performance of each company, both on a partial and simultaneous basis.

3. Results and Discussions

3.1. Overview of Research Object

The object under study is publicly listed companies (Tbk) encompassing various industries. The research focuses on all types of industries whose financial reports were audited in the year 2022 and have been published or listed on their respective company websites, utilizing the analysis based on TP Catalyst - Release 158 - May 2023.

The research object includes all types of companies that meet the specified criteria, totaling 40 companies. The author has specific criteria for selecting research data, namely companies that have salary expenses, production costs, tax expenses, and are well-known to the public. Due to these specific criteria, the data sampling method employed is purposive sampling. This sampling method is non-random and is based on the research objectives. The researcher selects samples based on predetermined characteristics that align with the research objectives, with the aim of addressing the research questions.

The research data consists of numerous objects measured simultaneously, totaling 40 companies with financial reports from the year 2022, falling into the category of Cross Section Data.

3.2. Research Data Analysis

This research utilizes the statistical software Eviews12 (Econometric Views), which is a data processing tool used for various purposes such as business, internal research, and academic research. EViews provides powerful statistical access to researchers, companies, government agencies, and students for tasks like forecasting, correlation analysis, and assessing influence, with a user-friendly and easily accessible interface.

1) Classic Assumption Tests

Classic Assumption Tests are a series of hypothesis tests used to examine the basic assumptions in classical regression analysis. These classic assumptions involve certain conditions that must be met for the results of regression analysis to be reliable. From the results of the multicollinearity test, the values for Salary Expense are 0.512 < 0.7, Production Costs are 0.639 < 0.7, and Tax Expense is 0.055 < 0.7. It can be concluded that there is no multicollinearity issue in the variables of this study. With these results, one of the classical

assumption tests has been fulfilled. Moving on, based on the results of the normality test, the Jarque-Bera probability value is 0.9014, which is above α = 0.05. This indicates that the data is normally distributed.

2) Model Fitness Test (Goodness of Fit)

The model fitness test involves the R-squared (R2) test to assess the ability of independent variables to explain the dependent variable. The R2 value ranges between 0 and 99, and as R Square approaches 1, the model becomes more suitable for use.

Dependent Variable: TRANSFER_PRICING
Method: Least Squares
Date: 06/19/23 Time: 14:55
Sample: 1 40
Included observations: 40

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.359504	1.424118	3.061195	0.0042
BIAYA_GAJI	0.172586	0.185100	0.932391	0.3573
BIAYA_PRODUKSI	0.453068	0.146763	3.087069	0.0039
BEBAN_PAJAK	-0.036592	0.033888	-1.079799	0.2874

R-squared	0.433874	Mean dependent var	11.28360
Adjusted R-squared	0.386697	S.D. dependent var	0.876592
S.E. of regression	0.686491	Akaike info criterion	2.180193
Sum squared resid	16.96572	Schwarz criterion	2.349081
Log likelihood	-39.60385	Hannan-Quinn criter.	2.241257
F-statistic	9.196711	Durbin-Watson stat	2.065001
Prob(F-statistic)	0.000119		

Source: Compiled from Eviews12

Y = a + b1 X1 + b2 X2 + b3 X3 + €

Y = 4,359504 + 0,172586*X1 + 0,453068*X2 – 0,036592*X3

From the regression above, the research results can be interpreted as follows:

- The constant term (a) is 4.359504. This means that if Salary Expense (X1), Production Costs (X2), and Tax Expense (X3) all have values of 0, Transfer Pricing (Y) will increase by 4.359504 units.
- The regression coefficient for the Salary Expense variable (X1) is 0.172586. The positive coefficient indicates a positive and proportional relationship between Salary Expense and Transfer Pricing. If the Salary Expense value increases by one unit, the Transfer Pricing value will increase by 0.172586 units, assuming other variables remain constant.
- The regression coefficient for the Production Costs variable (X2) is 0.453068. The positive coefficient indicates a positive and proportional relationship between Production Costs and Transfer Pricing. If the Production Costs value increases by one unit, the Transfer Pricing value will increase by 0.453068 units, assuming other variables remain constant.
- The regression coefficient for the Tax Expense variable (X3) is -0.036592. The negative coefficient indicates a negative and inverse relationship between Tax Expense and Transfer Pricing. If the Tax Expense value increases by one unit, the

Transfer Pricing value will decrease by -0.036592 units, assuming other variables remain constant.

3) Partial Test (t-test)

Multiple linear regression is a hypothesis testing method used to determine the influence of independent variables on a dependent variable. It involves partial significance testing to ascertain the individual contributions of each independent variable to the dependent variable. In your case, the independent variables are Salary Expense (X1), Production Costs (X2), and Tax Expense (X3), while the dependent variable is Transfer Pricing (Y).

Through this analysis, you are evaluating whether each individual independent variable (X1, X2, X3) significantly affects the dependent variable (Transfer Pricing) in the model. The goal is to understand the unique contribution and significance of each independent variable in explaining the variability in the dependent variable, Transfer Pricing.

Dependent Variable: TRANSFER_PRICING
Method: Least Squares
Date: 06/19/23 Time: 16:34
Sample: 1 40
Included observations: 40

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.359504	1.424118	3.061195	0.0042
BIAYA_GAJI	0.172586	0.185100	0.932391	0.3573
BIAYA_PRODUKSI	0.453068	0.146763	3.087069	0.0039
BEBAN_PAJAK	-0.036592	0.033888	-1.079799	0.2874

Source: Compiled from Eviews12

The partial influence of independent variables on the dependent variable is as follows:

- The t-test result for the Salary Expense variable (X1) yields a calculated t-value of 0.932391, which is less than the tabulated t-value of 2.024394. Additionally, the significance value is 0.3573, which is greater than 0.05. Therefore, H1 is rejected, indicating that the Salary Expense variable does not have a significant impact on Transfer Pricing (Y) for multinational companies in Indonesia.
- The t-test result for the Production Costs variable (X2) shows a calculated t-value of 3.087069, which is greater than the tabulated t-value of 2.024394. Moreover, the significance value is 0.0039, which is less than 0.05. Hence, Ha is accepted and H0 is rejected, implying that the Production Costs variable significantly influences transfer pricing for multinational companies in Indonesia.
- The t-test result for the Tax Expense variable (X3) yields a calculated t-value of 0.1.079799, which is less than the tabulated t-value of 2.024394. Additionally, the significance value is 0.2874, which is greater than 0.05. Therefore, Ha is rejected and H0 is accepted, indicating that the Tax Expense variable does not significantly affect transfer pricing for multinational companies in Indonesia.

4) Simultaneous Test (F-test)

Simultaneous Test (F test) is a test conducted to determine whether all independent variables collectively have an impact on the dependent variable by comparing the calculated F value with the tabled F value (F_{hitung} With $F_{tabel.}$)

R-squared	0.433874
Adjusted R-squared	0.386697
S.E. of regression	0.686491
Sum squared resid	16.96572
Log likelihood	-39.60385
F-statistic	9.196711
Prob(F-statistic)	0.000119

Source: Processed from Eviews 12

The calculated F value is 9.196711, which is greater than the tabulated F value of 3.25192. This indicates that collectively, the independent variables have a significant influence on the dependent variable.

5) Test of Determination Coefficient (R2)

The coefficient of determination (R-squared) is a measure used in regression analysis to assess how much of the variability of the dependent variable can be explained by the independent variables in the model. In general, R-squared indicates the percentage of variation in the dependent variable that can be explained by the independent variables in the regression model.

The value of R-squared ranges between 0 and 1. A value of 0 indicates that the independent variables cannot explain any variation in the dependent variable, while a value of 1 indicates that the independent variables can explain all the variation in the dependent variable.

In regression analysis, the use of the R-squared coefficient of determination assists in evaluating how well the regression model can explain the variation in the dependent variable and provides an initial indication of the model's quality.

R-squared	0.433874
Adjusted R-squared	0.386697
S.E. of regression	0.686491
Sum squared resid	16.96572
Log likelihood	-39.60385
F-statistic	9.196711
Prob(F-statistic)	0.000119

Source: Processed from Eviews 12

The adjusted R-squared value is actually 0.386697 or 38.6697%. This coefficient of determination value indicates that the independent variables, namely Salary Expenses, Production Costs, and Tax Expenses, can explain 38.6% of the variation in Transfer Pricing

Variable in Indonesia. The remaining variation is explained by other variables that are not included in the research model.

3.3. Discussion of Research Results

3.3.1. The Influence of Salary Expenses on Transfer Pricing

The results of the hypothesis testing in this research indicate that Salary Expenses do not have a significant impact on Transfer Pricing. This is due to the negative significant result with a significance value of 0.3573 > 0.05. However, there exists a positive and proportional relationship between Salary Expenses and Transfer Pricing. If the value of Salary Expenses increases by one unit, the value of Transfer Pricing will increase by 0.172586 and vice versa, assuming other variables remain constant.

Based on the theoretical concept by Anang Mury Kurniawan, (2015), it is stated that Salary Expenses have a negative relationship with Transfer Pricing. When Salary Expenses increase, Transfer Pricing practices tend to decrease, leading companies to divert their earnings or create unjustifiable costs. In accordance with the research and theoretical concept, this study aligns with the theoretical concept that when Salary Expenses rise, Transfer Pricing practices decrease. The results of this research indicate that investors will be interested in investing their capital in a country or company and engage in Transfer Pricing transactions when the Salary Expenses set by a government are low.

Salary Expenses represent a significant cost within a company, particularly for multinational corporations with numerous employees. If Salary Expenses increase, the company's expenditures rise significantly, thereby impacting the company's declining profits. Investors invest in a country or company with the intention or expectation of maximizing profits. If the shares invested in a company are withdrawn by investors due to unsatisfactory expected profits, the company will incur losses and may even close down.

3.3.2. The Influence of Production Costs on Transfer Pricing

The results of the hypothesis testing in this research indicate that Production Costs have a significant impact on Transfer Pricing, as the significant result is 0.0039 < 0.05. However, based on the regression equation, it shows that Production Costs have a positive and proportional relationship with Transfer Pricing. If the value of Production Costs increases by one unit, the value of Transfer Pricing will increase by 0.453068 and vice versa, assuming other variables remain constant.

Based on the theoretical concept by Anang Mury Kurniawan, (2015), it is stated that Production Costs have a negative relationship with Transfer Pricing. When Production Costs increase, Transfer Pricing practices tend to decrease, leading companies to divert their earnings or create unjustifiable costs. In contrast to the research and theoretical concept, this study contradicts the theoretical concept that states when Production Costs rise, Transfer Pricing practices decrease. The results of this research indicate that investors will be interested in investing their capital in a country or company and engage in Transfer Pricing transactions even if the Production Costs are high.

Even though Production Costs are a primary expense for a company in its business processes, these costs are not the main concern for multinational companies in Indonesia. Production costs are typical and necessary expenses, often adjusted to match selling prices.

Therefore, even if production costs increase, investors still attain the desired profits, considering that these costs are inherent to the nature of business operations.

3.3.3. The Influence of Tax Expenses on Transfer Pricing

The results of the hypothesis testing in this research indicate that Tax Expenses do not have a significant impact on Transfer Pricing for multinational companies in Indonesia, as the significant result is 0.2874 > 0.05. Based on the regression equation, Tax Expenses are shown to have a coefficient of -0.036592, which is negative. This implies a negative and inverse relationship between Tax Expenses and Transfer Pricing. If the value of Tax Expenses increases by one unit, the value of Transfer Pricing will decrease by -0.036592, and vice versa, assuming other variables remain constant.

Based on the theoretical concept by Cahyadi & Noviari, (2018), it is stated that companies engage in transfer pricing in a country when the tax burden paid is reduced or low.

In alignment with the research and theoretical concept above, this study agrees with the theoretical concept that suggests when Tax Expenses increase, Transfer Pricing practices decrease. The results of this research indicate that multinational companies will be inclined to invest their capital in a region, including opening branches in Indonesia, if the Tax Expenses paid to a country are low.

These results also suggest that transfer pricing transactions in Indonesia are quite high. This is due to the variety of tax burdens or tax rates (corporate income tax) in Indonesia, such as Final Corporate Tax at 0.5% and Non-Final with rates of 12% and 22%. These factors influence companies to allocate their income while minimizing Tax Expenses. Other factors, such as uncertain tax burdens during audits, also play a role. In the context of tax compliance and audit procedures in Indonesia, it is highly unlikely that the tax authorities would not levy taxes on taxpayers. This aligns with the concept of tax collection, where audits are conducted to ensure that the state receives returns. Hence, Tax Expenses remain a significant consideration for multinational companies in Indonesia.

4. Conclusion

Based on the results of the data analysis and discussions presented earlier regarding the Influence of Salary Expenses, Production Costs, and Tax Expenses on Transfer Pricing in Companies Listed in Bureau Van Dijk-Osiris in the Year 2022, the following conclusions can be drawn: a) Salary Expenses have a positive relationship with Transfer Pricing. However, based on the results of the hypothesis testing, the significance value is 0.3573 > 0.05, indicating that Salary Expenses do not have a significant impact on Transfer Pricing. This suggests that when Salary Expenses increase, Transfer Pricing practices decrease. b) Production Costs have a positive relationship with Transfer Pricing, but the value is relatively small, below 0.5. Therefore, the hypothesis testing results show that the Production Costs variable does not significantly influence Transfer Pricing. This indicates that when Production Costs increase, Transfer Pricing practices decrease. c) Tax Expenses have a negative relationship with Transfer Pricing. However, the hypothesis testing results show a significance value of 0.2874 > 0.05, indicating that Tax Expenses do not significantly influence

Transfer Pricing. This suggests that when Tax Expenses increase, Transfer Pricing practices will be low.

The field of transfer pricing continues to evolve. Therefore, the following recommendations are provided to benefit future researchers. For researchers investigating the same issue, it is advisable to include other variables such as ownership of shares that might affect transaction levels and transfer pricing values.

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