



ANALYSIS OF THE INFLUENCE OF TRANSFER PRICING ON TAX AVOIDANCE IN MULTINATIONAL COMPANIES IN INDONESIA

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ABSTRAK

Penelitian ini menganalisis dampak praktik transfer pricing terhadap penghindaran pajak pada perusahaan multinasional Indonesia melalui tinjauan literatur. Penelitian ini mengkaji berbagai kerangka teoretis dan bukti empiris untuk memahami bagaimana perusahaan multinasional memanipulasi transfer pricing untuk mengalihkan keuntungan ke yurisdiksi dengan pajak rendah, sehingga mengurangi kewajiban pajak mereka di Indonesia. Tinjauan ini mensintesis temuan dari penelitian yang ada, menyoroti tantangan yang dihadapi oleh otoritas pajak Indonesia dalam mendeteksi dan memerangi penyalahgunaan transfer pricing, dan mengusulkan strategi potensial untuk meningkatkan pengawasan regulasi dan memastikan pemungutan pajak yang adil.

Kata Kunci: Transfer Pricing, Penghindaran Pajak, Multinational Perusahaan

ABSTRACT

This study analyzes the impact of transfer pricing practices on tax avoidance in Indonesian multinational companies through a literature review. This study examines various theoretical frameworks and empirical evidence to understand how multinational companies manipulate transfer pricing to shift profits to low-tax jurisdictions, thereby reducing their tax liabilities in Indonesia. This review synthesizes findings from existing studies, highlights challenges faced by Indonesian tax authorities in detecting and combating transfer pricing abuse, and proposes potential strategies to improve regulatory oversight and ensure fair tax collection.

Keywords: Transfer Pricing, Tax Avoidance, Multinational Companies.

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1. INTRODUCTION

Transfer pricing is a practice used by multinational companies to determine transaction prices between related entities. This practice can be used legally to optimize business efficiency, but can also be used to reduce tax burdens by shifting profits to countries with lower tax rates (Hasyim et al., 2022). This strategy poses a challenge for tax authorities, especially in preventing tax avoidance practices that can reduce potential state revenues.



Tax avoidance through transfer pricing often occurs in sectors with high capital intensity, such as mining and technology (Pramiana, 2022; Sihombing et al., 2024). Companies in this sector often have foreign ownership structures and complex investment schemes, which allow them to exploit loopholes in tax regulations. A literature study by Tarigan et al. (2023) shows that tax aggressiveness through transfer pricing is still a major issue in multinational companies, especially in developing countries like Indonesia.

Tax regulations in Indonesia have attempted to address this problem by implementing the arm's length principle (ALP) and mandatory transfer pricing documentation as stipulated in the Regulation of the Minister of Finance No. 213/PMK.03/2016 (Utami & Irawan, 2022). However, research by Hendrylie et al. (2023) revealed that utilizing tax haven countries remains a strategy used by multinational companies to reduce their tax burden, even though regulations are getting tighter.

In addition, factors such as institutional ownership and tax planning also play a role in determining a company's transfer pricing policy (Arliani & Yohanes, 2023; Rossa et al., 2024). Companies that have greater control over their financial structure tend to be more aggressive in implementing tax avoidance strategies through transfer pricing. On the other hand, strict supervision from institutional investors can be a factor that suppresses these practices to remain in accordance with tax regulations.

Settlement of tax disputes related to transfer pricing is also a common problem between multinational companies and tax authorities. A case study conducted by Ardiansyah & Ichsan (2024) shows that there are many differences in the calculation of transfer prices between the two parties, which often leads to legal disputes. Therefore, a more transparent approach and effective dispute resolution mechanism are needed to reduce the risk of uncertainty for companies and governments, such as tax avoidance strategies through transfer pricing, tax regulations, and dispute resolution mechanisms between companies and tax authorities (Utami & Irawan, 2022; Hendrylie et al., 2023). With this approach, research can identify gaps in the existing literature and provide new insights into the effectiveness of tax policies in Indonesia. The credibility of the sources used in this study is highly considered to ensure the validity of the study results. Therefore, only literature from verified journals with high academic standards is used in the analysis. In addition, this study also compares various perspectives from several studies to gain a more objective understanding of the phenomenon of transfer pricing and tax avoidance. For example, research by Arliani & Yohanes (2023) highlights the institutional ownership factor in transfer pricing, while a study by Rossa et al. (2024) discusses the influence of tax planning on corporate decisions in using transfer pricing. The results of this literature review are expected to provide a deeper understanding of the relationship between transfer pricing and tax avoidance in Indonesia. In addition, this study also aims to evaluate the effectiveness of tax policies that have been implemented in overcoming this practice. By referring to various previous studies, this study can formulate recommendations for tax authorities in optimizing regulations and supervisory strategies for multinational companies that have the potential to avoid taxes through transfer pricing (Ardiansyah & Ichsan, 2024).

2. LITERATURE REVIEW

2.1. Agency Theory

Agency Theory is that each party prioritizes its own interests (Putri and Mulyani 2020). In this case, the company (agent) is responsible for directly informing the government (principal) about the company's condition. However, the fact is that company management often provides



information about the company's condition to the government, and information asymmetry occurs when the results are contrary to the actual situation.

Companies avoid taxes because of differences in interests between the government and agents. Companies must pay taxes in accordance with tax laws and generate as much state revenue as possible. On the other hand, companies want to maximize company profits and minimize tax payments from what should be paid (Sterling and Christina 2021), which can have an impact on the bonuses received by the company. Therefore, the government must ensure that companies make tax payments in accordance with the law (Sterling and Christina 2021).

This theory provides an explanation of the relationship between owners (owners) and agents (managers), where there is a potential conflict of interest that can encourage tax avoidance actions such as transfer pricing. In this context, managers acting as agents have incentives to maximize their personal interests through policies that may not align with the owner's goals, such as utilizing transfer pricing schemes for personal or corporate interests (Jensen & Meckling, 1976; Robiyanto et al., 2022).

2.2. Legitimacy Theory

Legitimacy theory originates from stakeholder and system theory, which states that companies must operate in accordance with societal norms, values, and expectations to maintain a "social license to operate." If companies are deemed illegitimate, they risk legal sanctions, bad reputations, or rejection from society. In the context of taxation, legitimacy means that multinational corporations (MNCs) must comply with tax laws and are considered to contribute fairly to the development of the country (such as through fair tax payments). Legitimacy theory helps analyze how social, legal, and reputational pressures influence MNC transfer pricing decisions in Indonesia. Companies that ignore legitimacy risk serious consequences, even though tax avoidance strategies are technically legal.

This theory explains how companies seek to gain legitimacy from society through actions that are considered to be in accordance with social norms and public expectations. In the context of transfer pricing, companies carry out transparent reporting or avoid aggressive practices in an effort to maintain their reputation and social legitimacy (Azhar & Windhy Puspitasari, 2023).

2.3. Transfer Pricing

The pricing policy in transactions between related entities is known as transfer pricing. This is especially true for multinational companies (MNCs). The arm's length principle or fairness and business custom is the basis of this theory, which states that the transaction price between parties should be comparable to the transaction price between independent parties (Korol et al., 2022). The main objective of transfer pricing is to optimize the company's overall profit, which can be achieved by distributing profits to jurisdictions with lower tax rates. However, this practice can also be abused for tax avoidance, where transaction prices are manipulated to shift profits to entities with lower tax burdens (Huslyanti et al., 2023). Factors such as bonus mechanisms, debt-to-equity ratios, and exchange rates can influence transfer pricing decisions (Rosmawati & Ginting, 2022).

Effective transfer pricing implementation requires comprehensive documentation and a thorough understanding of international tax regulations (Al-Hamadeen et al., 2023). The influence of transfer pricing can also be felt in the financial performance of multinational companies, including in the manufacturing and hospitality sectors (Awotomilusi et al., 2024; Widjaja, 2021). The profitability of multinational companies is also affected by transfer pricing (Ogbaisi & Ukwa, 2024). The determinants of transfer pricing include tax avoidance factors, tunneling incentives, and bonus mechanisms (Zuliana, Soerono, & Tjahjono, 2024).



2.4. Tax Avoidance

Tax avoidance is a legal effort to reduce the tax burden by exploiting loopholes in tax regulations. Multinational companies often use complex strategies, including aggressive transfer pricing, to minimize their tax liabilities. Tax avoidance theory is based on the assumption that companies will act rationally to maximize shareholder value, which includes reducing the tax burden (Irawan & Ulinnuha, 2022). Factors such as effective tax rates, bonus mechanisms, and leverage can influence tax avoidance decisions.

2.5. Multinational Enterprises

A multinational enterprise (MNE) is a company that operates in more than one country and has subsidiaries or branches in various jurisdictions. MNE theory explains how these companies manage their cross-border operations, including in terms of foreign direct investment, resource allocation, and transfer pricing strategies. MNEs often have competitive advantages in the form of technology, brands, and economies of scale, which allow them to operate efficiently in the global market (Annisa & Apriwenni, 2023).

However, MNEs also face unique challenges, such as differences in culture, language, and tax regulations between countries. Transfer pricing strategies are important for MNEs to optimize the profits of the corporate group as a whole, while still complying with applicable tax regulations. The sustainability of MNEs is also influenced by how they manage their transfer pricing practices, especially in the context of sensitive industries such as hospitality (Widjaja, 2021).

2.6. Relevant Research

In this study, several relevant research results have been found, which provide a comprehensive picture of the complexity of the relationship between transfer pricing and tax avoidance in multinational companies, especially in Indonesia. These studies highlight several factors that influence transfer pricing decisions and their impact on tax avoidance.

Tax avoidance can be done in various ways, including shifting profits to low-tax jurisdictions (tax havens), using complex financial instruments, and manipulating transfer prices. The impact of tax avoidance is not only felt by the government in the form of lost tax revenues, but also by the wider community in the form of injustice and economic distortion. Strict regulation and effective supervision are needed to minimize detrimental tax avoidance practices.

Table 1. Relevant Research and Its Results

Authors	Findings
(Al Hasyim <i>et al.</i> , 2022), (Pramiana, 2022), (Sihombing <i>et al.</i> , 2024), (Tarigan <i>et al.</i> , 2023), (Utami & Irawan, 2022), (Hendrylie <i>et al.</i> , 2023), (Tarigan <i>et al.</i> , 2023), (Arliani & Yohanes, 2023), (Rossa <i>et al.</i> , 2024), (Ardiansyah & Ichsan, 2024), (Abdullah <i>et al.</i> , 2021), (Farid <i>et al.</i> , 2025), (Karisman <i>et al.</i> , 2023), (Maulana, 2022), (Davies & Markusen, 2021), (Sari & Husnasari, 2022), (Herman <i>et al.</i> , 2023), (Ayuningtyas & Pratiwi, 2022), (Anggarsari, 2023), (Tyas, 2021), (Jayanti & Kusumawati, 2023), (Challoumis, 2023), (Marfuah <i>et al.</i> , 2021), (Hidayah & Puspita, 2024), (Jayanti & Kusumawati, 2023), (Chrisandy & Simbolon, 2022), (Salsabilla & Nurdin, 2023), (Rizal & Heriyah, 2024), (Rosalia & Abbas, 2023), (Sari <i>et al.</i> , 2022), (Handayani, 2021), (Eden & Smith, 2022), (Putra & Rizkillah, 2022), (Ogbaisi & Ukwa, 2024).	(+)

(Rizanti & Karlina, 2024), (Farkhah *et al.*, 2022), (Zuliana *et al.*, 2024), (-) (Ogbaisi & Ukwa, 2024), (Rosmawati & Ginting, 2022), (Rosmawati & Ginting, 2022), (Awotomilusi *et al.*, 2024), (Widjaja, 2021), (Korol *et al.*, 2022), (Huslyanti *et al.*, 2023), (Annisa & Apriwenni, 2023), (Al-Hamadeen *et al.*, 2023), (Irawan & Ulinnuha, 2022), (Isdiputra & Pangestuti, 2024), (Huslyanti *et al.*, 2023), (Nishat, 2024), (Saeed, 2024), (Machdar & Nurdiniah, 2021), (Das, 2022), (Ali *et al.*, 2022)

3. METHODE

This study uses a literature review method, which is an approach taken by reviewing and analyzing various scientific literature related to transfer pricing and tax avoidance in multinational companies in Indonesia. Literature review was chosen because it can provide a comprehensive understanding of how transfer pricing is used in tax avoidance strategies and how tax regulations in Indonesia attempt to overcome it (Tarigan *et al.*, 2023). This study will refer to journals that have been published in the fields of accounting, taxation, and economics to obtain secondary data that is relevant to the research topic. The data collection process is carried out by tracing academic journals that discuss transfer pricing, tax avoidance, and tax regulations in Indonesia. Data sources are obtained from national and international journals that have been indexed in databases such as Google Scholar, DOAJ, and journal portals of higher education institutions. Some of the main studies used in this research include an analysis of the effect of transfer pricing on tax avoidance (Hasyim *et al.*, 2022), tax avoidance practices in the mining sector (Pramiana, 2022), and a case study of transfer pricing in multinational companies in the technology sector (Sihombing *et al.*, 2024). The study of various sectors aims to identify general patterns in the use of transfer pricing as a tax strategy.

The analysis in this study was carried out using a systematic and thematic approach. Systematic means that the study examines the literature in stages by tracing the main concepts, methodologies, findings, and implications of previous research. Meanwhile, the thematic approach is used to group findings based on main themes such as tax avoidance strategies through transfer pricing, tax regulations, and dispute resolution mechanisms between companies and tax authorities (Utami & Irawan, 2022; Hendrylie *et al.*, 2023). With this approach, the study can identify gaps in the existing literature and provide new insights into the effectiveness of tax policies in Indonesia.

In the process, the author classifies journals based on specific criteria that include aspects of IFRS implementation, its impact on the accounting management system, and changes in financial recording and reporting policies. The classification is presented in the following table to provide a systematic overview of the scope of research that has been identified as follows:

Table 2. Journal Identification

Journal Identification	Article Index	Number of Article
International Review of Financial Analysis	Q1	3
Journal of Contemporary Accounting & Economics	Q1	2
Contemporary Accounting Research	Q1	1
Heliyon	Q1	1
European Accounting Review	Q1	1



Sustainability	Q1	1
China Journal of Accounting Research	Q2	1
Journal of risk and financial management	Q2	1
Investment Management and Financial Innovations	Q2	1
The International Journal of Accounting	Q2	1
Journal of Accounting & Finance	Q2	1
Journal of Accounting, Auditing & Finance	Q3	1
Cogent Business & Management	Q3	1
Journal of International Accounting Research	Q3	1
Procedia - Social and Behavioral Sciences	Q3	1
Journal of International Accounting Research	Q3	1
PlosOne	Q3	1
International Journal of Managerial and Financial Accounting	Q3	3
Corporate Governance and Organizational Behavior Review	Q4	1
African Journal of Business and Economic Research (AJBER)	Q4	1
TOTAL		30

Table 2 It can be seen that the journals used in this study come from various sources with diverse indexes. Journals with a Q1 index such as the International Review of Financial Analysis, Heliyon, Sustainability, European Accounting Review, and Contemporary Accounting Research show that most of the articles come from journals with high quality and reputation. For example, the International Review of Financial Analysis dominates with 3 articles, followed by the International Journal of Managerial and Financial Accounting which also contributed 3 articles, although they came from Q3 journals. The variation in the article index from Q1 to Q3 shows that this study does not only rely on journals with high impact factors, but also pays attention to the diversity of academic perspectives from journals that are indexed lower but are still relevant in substance. The total number of articles used in this identification is 25 articles, which are the basis for the analysis in this literature review. Thus, it can be concluded that the reference sources in this study are quite comprehensive and representative in discussing transfer pricing issues in the context of multinational companies.

.Table 3. Classification of journal country of origin

Country	Number of Articles
Amerika Serikat	15
China	5



Inggris	5
Australia	1
Belanda	2
Swiss	1
Kanada	1
TOTAL	30

Table 3 It can be seen that the journals used in this study come from various countries, which shows the diversity of global perspectives on the issue of transfer pricing and tax avoidance. The country with the most journals is the United States with a total of 10 articles, followed by China and the United Kingdom with 5 articles each. This shows that the issue of transfer pricing is widely studied in countries with large and complex economic systems. In addition, there are also contributions from other countries such as the Netherlands (2 articles), Australia (1 article), Switzerland (1 article), and Canada (1 article). The total number of articles analyzed is 25 articles. This finding reflects that transfer pricing is an international topic that attracts the attention of researchers from various jurisdictions, especially those that are closely related to the practices of multinational companies and cross-country tax regulations. The credibility of the sources used in this study is very important to ensure the validity of the study results. Therefore, only literature from journals that have been verified and have high academic standards is used in the analysis. In addition, this study also compares various perspectives from several studies to gain a more objective understanding of the phenomenon of transfer pricing and tax avoidance. For example, research by Arliani & Yohanes (2023) highlights the institutional ownership factor in transfer pricing, while a study by Rossa et al. (2024) discusses the influence of tax planning on corporate decisions in using transfer pricing.

The results of this literature review are expected to provide a deeper understanding of the relationship between transfer pricing and tax avoidance in Indonesia. In addition, this study also aims to evaluate the effectiveness of tax policies that have been implemented in overcoming this practice. By referring to various previous studies, this study can formulate recommendations for tax authorities in optimizing regulations and supervisory strategies for multinational companies that have the potential to avoid taxes through transfer pricing (Abdullah et al., 2021; Ardiansyah & Ichsan, 2024).

4. RESULTS & DISCUSSION

In Indonesia, the complexity of cross-border transactions and differences in tax rates between countries create loopholes that are potentially exploited by MNCs to avoid taxes. A review of 30 research journals shows that there is significant empirical evidence regarding the influence of transfer pricing practices on tax avoidance in Indonesia. Variables such as company size, profitability, leverage, and fixed asset intensity are proven to moderate the relationship between transfer pricing and tax avoidance.

Furthermore, these studies highlight the importance of effective regulation and supervision by the Indonesian tax authorities in anticipating aggressive transfer pricing practices. Efforts such as the application of the arm's length principle, comprehensive transfer pricing documentation, and increasing the capacity of tax auditors are crucial in minimizing the potential for tax avoidance. The implications of these findings underline the need for synergy between the



government, business actors, and academics in formulating fair and efficient tax policies, as well as in increasing awareness of the importance of tax compliance for the sustainability of Indonesia's economic development.

Transfer pricing is a common practice carried out by multinational companies in determining transaction prices between entities that have special relationships. This practice can be used to optimize the operational efficiency of a company, but it is also often used as a strategy to avoid taxes by shifting profits to countries with lower tax rates (Hasyim et al., 2022). Tax avoidance through transfer pricing is a major concern for many countries, including Indonesia, because it can reduce the potential tax revenue that should be obtained by the government.

Various studies have revealed that transfer pricing is one of the main mechanisms in tax avoidance strategies, especially in sectors with high capital intensity such as mining and technology (Pramiana, 2022; Sihombing et al., 2024). Multinational companies often take advantage of the complexity of tax regulations to allocate profits to jurisdictions with lower tax rates or to tax haven countries. Although Indonesia has implemented stricter regulations, including the implementation of the arm's length principle (ALP) and mandatory transfer pricing documentation, tax avoidance practices remain a significant challenge for tax authorities (Utami & Irawan, 2022).

In this study, an analysis was conducted on various studies that discuss the relationship between transfer pricing and tax avoidance in Indonesia. The literature reviewed covers various aspects such as the effectiveness of tax regulations, strategies used by multinational companies to avoid taxes, and the impact of institutional ownership on corporate transfer pricing policies (Arliani & Yohanes, 2023; Rossa et al., 2024). This study aims to provide a deeper understanding of how transfer pricing is used as a tax avoidance strategy and to assess the effectiveness of government policies in dealing with this practice. The following are the results of the analysis that has been carried out.

Transfer pricing has become a major issue in the context of tax avoidance by multinational companies in Indonesia. Many companies utilize transfer pricing schemes to allocate profits to jurisdictions with lower taxes, thereby reducing the tax burden that must be paid in the country of origin. A study by Farid et al. (2025) shows that the use of thin capitalization and the use of tax haven countries are the main factors in transfer pricing aggressiveness. Companies that have a capital structure dominated by debt tend to use transfer pricing as a strategy to reduce taxable income in Indonesia. This is in line with research conducted by Karisman et al. (2023), which found that bonus mechanisms and debt covenants also influence transfer pricing decisions in the mining sector.

From a regulatory perspective, income tax (PPh) regulations related to transfer pricing have been implemented to reduce the practice of misuse of this scheme. Maulana (2022) emphasized that Indonesia has adopted the Arm's Length Principle (ALP) as a basis for assessing



the fairness of affiliated transactions. However, the implementation of ALP still faces various challenges, especially in terms of supervision and law enforcement. Sari & Husnasari (2022) also highlighted how multinational companies often manipulate transfer prices to avoid taxes on the grounds of business efficiency. In practice, transfer pricing abuse not only results in reduced tax revenues but also increases the risk of disputes between tax authorities and taxpayers.

Research by Herman et al. (2023) revealed that tax crimes due to transfer pricing abuse have caused significant losses to state finances. These cases show that even though regulations have been tightened, many companies are still looking for legal loopholes to reduce their tax obligations. Ayuningtyas & Pratiwi (2022) found that tax avoidance decisions by multinational companies are heavily influenced by multinationalism, utilization of tax havens, and thin capitalization. In many cases, companies with strong foreign ownership structures are more likely to implement aggressive transfer pricing strategies compared to domestic companies.

In addition to legal and regulatory aspects, economic factors also play a role in driving transfer pricing practices. A study by Anggarsari (2023) shows that tax incentives, tunneling incentives, and bonus mechanisms are factors that influence transfer pricing decisions. This finding is supported by Davies & Markusen (2021), who explained that multinational companies often use transfer pricing to optimize their global profits by exploiting differences in tax rates between countries. In the Indonesian context, the effectiveness of transfer pricing policies in preventing tax avoidance is still a matter of debate. Tyas (2021) found that the transfer pricing policy implemented by the Directorate General of Taxes still has limitations in terms of supervision and enforcement.

Jayanti & Kusumawati (2023) highlighted how company size, bonus mechanisms, foreign ownership, and tunneling incentives affect transfer pricing decisions. This study shows that the larger the scale of operations of multinational companies, the more likely they are to use transfer pricing as a tax strategy. Marfuah et al. (2021) also identified that tax minimization and audit quality play an important role in a company's transfer pricing decisions. Thus, stricter regulations on transfer pricing schemes must be accompanied by increased transparency of corporate finance so that this strategy is not misused for tax avoidance purposes. Furthermore, research by Chrisandy & Simbolon (2022) highlights the relationship between deferred tax burden and tax avoidance through transfer pricing. In some cases, multinational companies use this strategy to defer tax payments by allocating profits to countries with more favorable tax policies. Salsabilla & Nurdin (2023) also found that Return on Assets (ROA), leverage, and earnings management are correlated with transfer pricing decisions. This shows that in addition to tax factors, the company's financial condition is also a consideration in implementing a transfer pricing strategy.

From a profitability perspective, Rizal & Heriyah (2024) found that manufacturing companies with high profitability tend to be more aggressive in using transfer pricing to avoid taxes. This is reinforced by the findings of Rosalia & Abbas (2023), which state that bonus and



exchange rate mechanisms also contribute to transfer pricing decision-making. These factors indicate that transfer pricing is not just a tax strategy, but also part of a broader financial policy in multinational companies.

Overall, various studies in this literature review show that transfer pricing is a tool often used by multinational companies to avoid taxes in Indonesia. Although regulations such as ALP have been implemented, there are still various challenges in supervision and law enforcement. Research by Sari et al. (2022) concluded that the effectiveness of transfer pricing policies is highly dependent on company transparency and government efforts to close legal loopholes that can be exploited by multinational companies. Therefore, stricter policies, increased international cooperation, and higher transparency in reporting affiliated transactions are needed to reduce the risk of tax avoidance through transfer pricing.

In addition to taxes, bonus mechanisms also play a role in transfer pricing practices. Rizanti and Karlina (2024) found that companies that implement a profit-based bonus mechanism tend to carry out transfer pricing to increase profit before tax, so that the bonuses received by managers are higher. This is in line with research by Farkhah, Hasanudin, and Lestari (2022), which states that the greater the bonus incentive, the higher the likelihood of companies carrying out transfer pricing as a profit-increasing strategy. Another factor that influences transfer pricing is tunneling incentives, namely the practice of transferring profits from subsidiaries to parent companies in lower tax jurisdictions. Zuliana, Soerono, and Tjahjono (2024) explain that tunneling incentives are a major factor in transfer pricing decisions, especially for multinational companies that have complex ownership structures. Ogbaisi and Ukwa (2024) also emphasize that companies that are majority owned by foreign entities are more likely to utilize transfer pricing to facilitate tunneling incentives.

Furthermore, the effective tax rate also has a significant impact on transfer pricing decisions. Rosmawati and Ginting (2022) show that companies with high effective tax rates are more likely to use transfer pricing to reduce their tax burden. This study is supported by Awotomilusi et al. (2024), who found that multinational manufacturing companies in Nigeria actively use transfer pricing to reduce their effective tax rates and increase net income.

Transfer pricing also has an impact on company profitability. Widjaja (2021) in his study of the multinational hospitality industry stated that the use of optimal transfer pricing can improve business sustainability in the long term. This is supported by research by Korol et al. (2022), which highlights that transparent transfer pricing documentation can help companies avoid tax sanctions while increasing investor confidence.

In addition to the positive impact on the company, transfer pricing can also pose a tax compliance risk. Huslyanti, Khadafi, and Iswadi (2023) found that companies that implement aggressive transfer pricing are more vulnerable to tax audits. Annisa and Apriwenni (2023) added



that companies with foreign ownership structures are more likely to be the target of tax audits, especially if the financial statements show irregularities in transfer pricing.

The perception of tax professionals towards transfer pricing is also an important issue. Al-Hamadeen et al. (2023) found that most tax professionals consider transfer pricing to be a legitimate practice, as long as it follows the arm's length principle. However, Irawan and Ulinuha (2022) showed that aggressive transfer pricing practices are often carried out by companies that have large amounts of intangible assets, such as patents and trademarks.

From the perspective of foreign ownership, Isdiputra and Pangestuti (2024) highlighted that companies with dominant foreign ownership are more likely to utilize transfer pricing to optimize their tax burden. Huslyanti, Khadafi, and Iswadi (2023) also found that the larger the company size, the higher their tendency to use transfer pricing strategies in cross-border transactions.

Artificial intelligence (AI) technology is also starting to be adopted in transfer pricing. Nishat (2024) stated that AI can help companies automate transfer pricing analysis and improve tax compliance. However, the use of AI also poses ethical challenges, especially regarding data transparency and the possibility of algorithm manipulation for certain benefits. Finally, transfer pricing also contributes to tax competition between countries. Saeed (2024) showed that developing countries often experience tax leakage due to transfer pricing practices carried out by multinational companies. Machdar and Nurdiniah (2021) added that in the Indonesian context, transfer pricing regulations still face challenges in terms of law enforcement and the effectiveness of tax supervision of multinational companies.

5. CONCLUSION

Transfer pricing is a strategy used by multinational companies to set transaction prices between entities within a group in order to optimize tax burdens and improve financial efficiency. This practice is greatly influenced by various factors such as tax policies, bonus mechanisms, foreign ownership, leverage, and regulations in force in each country. Although it provides benefits to companies in terms of financial management and tax optimization, transfer pricing can also raise ethical and legal issues, especially if done aggressively to avoid taxes or shift profits to countries with lower tax rates. In some cases, transfer pricing can contribute to global economic imbalances due to profit shifting practices that reduce tax revenues in the country of origin. Therefore, a deep understanding of transfer pricing and the implementation of strict regulations are very important so that this practice is not misused by multinational companies. Companies that implement transfer pricing must ensure that the practices carried out are in accordance with international standards, such as the OECD Transfer Pricing Guidelines and regulations set by the governments of each



country. Transparency in financial reporting and the implementation of clear transfer pricing documentation can help companies avoid potential detrimental tax audits. In addition, company management must be aware that although transfer pricing can provide short-term benefits, unethical or unlawful strategies can harm the company in the long term, both in terms of reputation and the legal burden that may arise. Therefore, companies need to develop transfer pricing strategies that not only consider tax and profit aspects, but also compliance with regulations and the principle of fairness in the global tax system.

To overcome the challenges posed by transfer pricing, governments and tax authorities must increase supervision and implement stricter policies to prevent tax avoidance practices. One step that can be taken is to strengthen technology-based audit systems that are able to detect anomalies in the financial reporting of multinational companies. In addition, cooperation between countries in the exchange of tax information is also very necessary to ensure that companies cannot easily transfer profits to low-tax jurisdictions without supervision. With stricter regulations, a transparent tax system, and compliance from multinational companies, it is hoped that transfer pricing can be implemented more fairly and not only benefit a handful of companies, but also provide benefits to the economy as a whole..

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