Determinants of Transfer Pricing Aggressiveness with the Moderation of Corporate Governance in Indonesia and Malaysia

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A R T I C L E I N F O

Article history:
Received : 26 march 2021
Revised : 23 june 2021
Accepted : 24 june 2021

JEL Classification:
F23, G30, L21, L25

Key words:
Transfer Pricing Aggressiveness, Multinational Firms, Indonesia, Malaysia

DOI:
10.14414/jebav.v24i1.2536

A B S T R A C T

This research aims to analyze and empirically prove the effects of firm size, profitability, and leverage on transfer pricing aggressiveness moderated by corporate governance. It used a sample consisting of 73 multinational firms listed in both www.idx.co.id and www.bursamalaysia.com from 2018 to 2019. The data were analyzed using multiple linier regression and moderated regression analysis (MRA) to analyze and empirically prove the effects of firm size, profitability, and leverage on transfer pricing aggressiveness moderated by corporate governance. The results showed that leverage positively affected transfer pricing aggressiveness, whereas firm size and profitability did not. Corporate governance evidently weakened the effect of leverage on transfer pricing aggressiveness. This research contributes to increasing the state revenue through the taxation sector by exposing the determinants of transfer pricing aggressiveness that harm the state, and to assist public policy makers, especially those who are in charge of the policies related to transactions with special relationship.

A B S T R A K

Penelitian ini bertujuan untuk menguji dan membuktikan secara empiris pengaruh ukuran perusahaan, profitabilitas, dan leverage terhadap agresivitas harga transfer yang di moderasi oleh corporate governance. Data penelitian menggunakan perusahaan multinasional yang bersumber dari www.idx.co.id dan www.bursamalaysia.com dalam kurun waktu 2018-2019 dengan jumlah sampel 72 perusahaan. Analisis data penelitian ini menggunakan regresi linier berganda dengan moderated regression analysis (MRA) untuk menguji dan membuktikan secara empiris pengaruh ukuran perusahaan, profitabilitas, dan leverage terhadap agresivitas harga transfer yang di moderasi oleh corporate governance. Hasil penelitian menemukan bahwa leverage berpengaruh positif terhadap agresivitas harga transfer, sedangkan ukuran perusahaan dan profitabilitas tidak berpengaruh terhadap agresivitas harga transfer. Corporate governance terbukti memperlemah hubungan leverage terhadap agresivitas harga transfer. Penelitian ini memberikan implikasi membantu meningkatkan pendapatan negara melalui sector perpajakan dengan menunjukkan faktor-faktor yang mempengaruhi agresivitas harga transfer yang dapat merugikan negara, serta membantu para pembuat kebijakan public khususnya kebijakan terkait transaksi terhadap pihak yang memiliki hubungan istimewa.

1. INTRODUCTION

Transfer pricing has shifted its meaning and practice. Such a meaning shift is known as an abuse of transfer pricing. It refers to a transfer of a firm's profits in high-tax countries to low-tax countries that lowers a firm's overall tax burdens should be paid to the state (Aditya, 2015). The practice of transfer pricing was initially done to access and evaluate the performance of the firm's divisions. However, as the economy develops, transfer pricing is used to maximize profits and tax management (Conover & Nichols, 2000).

From the perspective of multinational firms, this practice is used to minimize the amount of taxes and customs paid to the state by shifting profits, assets, and risks to other low-tax countries (Löffler, 2019). The main problem of this practice, in terms of taxation is on lowering or even negating the state's tax (Huda, Nugraheni & Kamarudin, 2017). This practice often occurs between firms or divisions that

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have special relationships (Richardson et al., 2013).

The theory of agency proposed by Jensen & Meckling (1976) describes that there are always opportunistic phenomena in a firm, and humans as individuals tend to maximize their utility. One of the determinants affecting the practice of transfer pricing is the firm size (Waworuntu & Hadisaputra, 2016; Anh, Hieu & Nga, 2018). Yet, large firms that conduct transfer pricing transactions generally pay lower taxes that are not in accordance with the tax obligations they should pay to the state (Oyelere & Emmanuel, 1998). In addition, firms with high profits tend to be involved in transactions or schemes designed to avoid tax burdens (Rego, 2005). More obviously, firms with a larger proportion of debts than equity tend to exploit tax loopholes aggressively (Richardson, Hanlon & Nethercott, 1998).

Transfer pricing practice often occurs in developing countries such as Indonesia and Malaysia, and certainly is detrimental to their state revenue. These two countries have the same problems related to transfer pricing practices. In this problem, the tax ratio of the Gross Domestic Product (GDP) of these two countries is quite similar. For example, in 2018, Indonesia's tax ratio was 13.5% while Malaysia's 15% (Makki, 2019).

Transfer pricing becomes an interesting issue and gets the tax authorities' more careful attention in various countries due to the profit shifting from the tax sector (Suandy, 2011). According to the Directorate General of Taxes, transfer pricing practices greatly affect the state tax revenue. Indonesia potentially loses Rp 100 trillion in tax revenue each year due to the practice of tax planning and transfer pricing (Sugianto, 2015). The example of this transfer pricing practice in Indonesia is the case of PT Adaro Indonesia's coal selling price manipulation. The firm allegedly sold coals with a below-market price to its Singaporean affiliate, Coal trade Services International Pte, Ltd., in 2005 and 2006 (Wareza, 2019).

Global Financial Integrity (GFI) estimates there is around 80 percent of unrecorded financial flows (USD 227.1 billion) in Malaysia from 2001 to 2010 due to mispricing in international trade (Kar & Freitas, 2012). Transfer pricing practices can be proven by the case of Pasaraya MM Sdn Bhd, in which the transfer pricing guidelines issued by the Inland Revenue Board of Malaysia (IRBM) do not have any legal impact on the case (Swire, 2013). These two cases show that the impact of transfer pricing practices carried out by multinational firms seriously detrimental to Indonesia and Malaysia. Based on these problems, this research attempts to determine which determinants affecting transfer pricing aggressiveness.

This research is a development of researches conducted by Richardson et al. (2013), Waworuntu & Hadisaputra (2016), and Anh et al. (2018). Richardson et al. (2013) show that firm size, profitability, and leverage have a positive effect on transfer pricing aggressiveness. Waworuntu & Hadisaputra (2016) also found that firm size and leverage have a positive effect on transfer pricing aggressiveness, while profitability does not have an effect on transfer pricing aggressiveness. Anh et al. (2018) prove that firm size and leverage have a positive effect on transfer pricing aggressiveness, while profitability does not have an effect on transfer pricing aggressiveness. However, Rusydi (2013) argues that firm size does not affect aggressive tax avoidance. Tiaras & Wijaya (2015) prove that leverage shows no significant effect on the level of corporate tax aggressiveness. It contributes to current researches in a way that it uses corporate governance as a moderating variable of firm size, profitability, and leverage on transfer pricing aggressiveness. The use of this moderating variable is grounded based on the statement of Baron & Kenny (1986) that a moderating variable is used when there is a low relationship or inconsistency between the independent and dependent variables. Hoetker & Mellewigt (2011) explain that governance structure helps to minimize the risk of opportunistic behaviors. Sari, Handajani & AM (2016) assert that it is of importance to pay attention to the crucial role of good governance as a control mechanism for managers' opportunistic behaviors.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

The theoretical basis this study used is agency theory and the literature review is based on tax avoidance, transfer pricing aggressiveness, firm size, profitability, leverage, and corporate governance.

Agency Theory

Agency theory is a contract between principal and agent. A principal is a party delegating the authority to the agent as the party receiving the authority's delegation (Jensen & Meckling, 1976). This theory is rooted from the synergy of economic theory, decision theory, sociology, and organizational theory. It elaborates that the agency theory occurs when one or more individuals, referred to as a principal, hire an individual or another organization, referred to as an agent, to perform a number of services and delegate the authority to make decisions (Brigham & Houston, 2010). Transfer pricing transactions can occur among firms or divisions with special relationships. Transactions involving special relationships among firms or divisions tend to potentially create a conflict of interest in the form of opportunistic transactions.

Tax Avoidance

Tax avoidance is a scheme to minimize tax burdens by exploiting loopholes in a state's tax provisions. According to Dyreng et al. (2010), tax avoidance is an attempt to reduce or even negate tax burdens that should be paid without violating existing laws. It is an attempt to avoid taxes affecting tax liabilities by means of not violating tax provisions. It is commonly done by exploiting weaknesses in tax laws and regulations to minimize the amount of taxes payable.

Transfer Pricing Aggressiveness

Transfer pricing aggressiveness reflects a pricing in every good or service from a division transferred to another division of the same firm or between firms with special relationships. Transfer pricing transactions can occur between divisions in one firm, between local firms, or between a local firm and a firm abroad (Yuniasih, Rasmini & Wirakusuma, 2012). Transfer pricing is also commonly defined as a value attached to the transfer of goods and services that occurs in a transaction between parties having special relationships. In business practices, transfer pricing is often carried out by multinational firms due to their large-scale transactions; therefore, it creates great opportunities for performing transfer pricing in business activities, e.g., selling, buying, or sharing the tangible or intangible resources with their affiliates (Conover & Nichols, 2000).

The Effect of Firm Size on Transfer Pricing Aggressiveness

Firm size is a scale used to classify firms into small or large firms according to various ways, e.g., the firm's total assets, the market stock value, and the average level and the number of sales. Generally, firm size is classified into large firms, medium firms, and small firms. The greater total assets owned, the greater long-term prospects the firm has. In addition, it also reflects that the firm is more stable and more capable of generating profits than firms with relatively small total assets (Kurniasih & Sari, 2013).

Firms with large total assets show that they have reached the maturity stage where the cash flow is positive and is considered to have good prospects for a relatively long period of time (Waworuntu & Hadisaputra, 2016). Shackelford, Slemrod & Sallee (2011) also state that large firms have a greater opportunity to shift their income to minimize tax payments. This advantage significantly increases the incentives and reduces tax obligations by means of aggressively implementing tax avoidance practices through transfer pricing. Large firms are more aggressive in organizing tax planning strategies than small ones (Conover & Nichols, 2000). The greater opportunities and incentives, the more the bigger firms lead to transfer pricing aggressiveness (Waworuntu & Hadisaputra, 2016).

H_1: Firm size has a positive effect on transfer pricing aggressiveness.

The Effect of Profitability on Transfer Pricing Aggressiveness

Firms with high profits are more likely to be involved in tax avoidance transactions or schemes (Rego, 2005). Profitability is the firm's ability to earn profits in a certain period. Hermi (2004) explains that profit is earned from the difference between incoming assets (income and profits) and outgoing assets (expenses and losses). The firm's profit can be retained (as retained profits) and divided (as dividends). Therefore, an increase in the firm's net income will increase the return on investment in the form of the investors' dividend income. Firms with high profits have an obligation to pay high taxes as well. In addition, profit is a measure of how much taxes a firm should pay. Firms experiencing a loss are not obliged to pay their taxes (Waworuntu & Hadisaputra, 2016).

Probability is an indicator of managerial performance in managing the firm's assets indicated by profits generated. Rego (2005) found that firms with high pre-tax profits tended to practice tax avoidance. They also tended to practice transfer pricing to reduce profits for tax avoidance. By practicing transfer pricing, firms can adjust prices for various transactions between divisions of firms that have special relationships (Richardson et al., 2013). Transfer pricing has been to be the vehicle through which firms are shifting their income to low-tax jurisdictions and in some cases to no-tax regions (Barker et al., 2017).

H_2: Profitability has a positive effect on transfer pricing aggressiveness.

The Effect of Leverage on Transfer Pricing Aggressiveness

Leverage is the total amount outstanding (book value) of long-term debt divided by total assets. It is predicted to have a positive relationship with risk. It measures the proportion of how much debt funding sources finance the firm. Leverage shows how many debt funding sources the firm uses to finance the assets. Multinational firms generally finance their subsidiaries by means of debt and/or capital transfers to streamline tax burdens by engaging in transfer pricing practices (Richardson et al., 1998; Richardson et al., 2013).

Firms with high leverage tend to take the opportunity to practice tax avoidance (Dyreng et al., 2008). Waworuntu & Hadisaputra (2016) found that leverage had a positive effect on transfer pricing aggressiveness. Richardson et al., (2013) also found that the higher the leverage, the higher the opportunity for international firms to practice tax avoidance. Cahyadi & Noviari (2018) found that firms' leverage was used to avoid taxes that should be paid to the state. Anh et al., (2018) found a positive relationship between leverage and transfer pricing aggressiveness.

H_3: Leverage has a positive effect on transfer pricing aggressiveness.

The Effect of Corporate Governance in Moderating the Relationship between Firm Size and Transfer Pricing Aggressiveness

Corporate governance relates to the issue of accountability and responsibility, especially related to the implementation of guidelines and mechanisms for ensuring good behaviors and protecting stakeholders' interests. Another major focus of corporate governance is economic efficiency which states that the corporate governance systems should aim at optimizing financial results, with a strong emphasis on the stakeholders' welfare. In addition, the subject of corporate governance is in the stakeholders' point of view, which demands more attention and accountabilities to parties other than stakeholders, e.g., employees or the environment (Rahman & Khatun, 2017).

Large firms have a higher opportunity to exploit legal loopholes, especially in tax planning practices that aim at reducing tax payments at a lower average cost. Large firms tend to be more aggressive in organizing tax planning strategies than small ones (Conover & Nichols, 2000). The implementation of corporate governance can supervise and control the management; therefore, it does not violate rules and regulations and even prevents the firm from taking aggressive actions (Annisa & Kurniasih, 2012). Iqbal & Fachriyah (2007) found that corporate governance can be a useful tool to reduce earnings management practices. Noviari & Suaryana (2019) found that the better the implementation of corporate governance, the lower the tax avoidance.

H_4: Corporate governance weakens the relationship between firm size and transfer pricing aggressiveness.

The Effect of Corporate Governance in Moderating the Relationship between Profitability and Transfer Pricing Aggressiveness

Corporate governance relates to the issue of accountability and responsibility, especially related to the implementation of guidelines and mechanisms for ensuring good behaviors and protecting stakeholders' interests. Another major focus of corporate governance is economic efficiency which states that the corporate governance systems should aim at optimizing financial results, with a strong emphasis on the stakeholders' welfare. In addition, the subject of corporate governance is in the stakeholders' point of view, which demands more attention and accountabilities to parties other than stakeholders, e.g., employees or the environment (Rahman & Khatun, 2017).

Rego (2005) found that firms with high pre-tax profits tend to practice tax avoidance. They also tend to adjust prices through transfer pricing practices to reduce profits for the purpose of reducing tax avoidance. However, Annisa & Kurniasih (2012) found that firms implementing corporate governance could prevent and reduce aggressiveness. Even, it can reduce earnings management practice (Iqbal & Fachriyah, 2007). Christiana & Africano (2017) also found that corporate governance weakens the relationship between financial reporting aggressiveness and tax aggressiveness. The better the implementation of corporate governance, the lower the tax avoidance is (Noviari & Suaryana, 2019). Therefore, it has been proved that corporate governance can reduce or weaken tax aggressiveness.

H_5: Corporate governance weakens the relationship between profitability and transfer pricing aggressiveness.

The Effect of Corporate Governance in Moderating the Relationship between Leverage and Transfer Pricing Aggressiveness

Corporate governance relates to the issue of accountability and responsibility, especially related to the implementation of guidelines and mechanisms for ensuring good behaviors and protecting stakeholders' interests. Another major focus of corporate governance is economic efficiency in which the corporate governance systems should aim at optimizing financial results, with a strong emphasis on the stakeholders' welfare. In addition, the subject of corporate governance is in the stakeholders' point of view, which demands more attention and accountabilities to parties other than stakeholders, e.g., employees or the environment (Rahman & Khatun, 2017).

Firms with high leverage tend to take the opportunity to practice tax avoidance (Dyreng, Hanlon & Maydew, 2007). Research conducted by Bernard, Jensen & Schott (2006) pointed out that firms with higher leverage than equity are more aggressive in practicing tax avoidance. Good governance at the firm level can reduce tax avoidance practices. Sari et al., (2016) also found that good governance functioned as a control mechanism for managers' opportunistic behaviors. Other researchers, Christiana & Africano (2017) also found that corporate governance weakens the relationship between financial reporting aggressiveness and tax aggressiveness. Further, Noviari & Suaryana (2019) found, the better the implementation of corporate governance, the lower the tax avoidance is. Thus, it can be argued that corporate governance can weaken the relationship between leverage and transfer pricing aggressiveness.

H_6: Corporate governance weakens the relationship between leverage and transfer pricing aggressiveness.

3. RESEARCH METHOD

This research is quantitative and it took the population of multinational firms listed in Indonesian and Malaysian Stock Exchanges from 2018 to 2019. This period was selected due to the implementation of Base Erosion and Profit Shifting (BEPS) issued by the Organization for Economic Cooperation and Development (OECD). This research used purposive sampling to select 72 multinational firms.

The study used secondary data in the form of annual reports taken from the official website of firms listed in Indonesian and Malaysian Stock Exchanges, i.e., www.idx.co.id and www.bursamalaysia.com. The definitions and measurements of the research variables are described in Table 1.

The data were analyzed using a Moderated Regression Analysis (MRA), which is a special application of multiple linear regression where the regression equation includes multiplication of two or more independent variables (Ghozali, 2018). The data analysis model used is as follows

$$TPA = \alpha + \beta_1.Size + \beta_2.Profit + \beta_3.Lev + e \quad (1)$$

$$TPA = \alpha + \beta_1.Size + \beta_2.Profit + \beta_3.Lev + \beta_4.CG + \beta_5.Size*CG + \beta_6.Profit*CG + \beta_7.Lev*CG + e \quad (2)$$

Information:
TPA : Transfer Pricing Aggressiveness
Size : Firm size
Profit : Profitability
Lev : Leverage
CG : Corporate Governance
α : Constan
$\beta_{1...}\ \beta_7$: Coefficient
e : Error

Table 1. Variables and measurement

Variable		Measurement	Reference
Dependent Variable	Transfer Pricing Aggressiveness (Y)	Transfer pricing aggressiveness is measured by the ratio scale of 8 categories below: 1. There are interest-free loans between related entities. 2. There is a debt exemption of related entities.	Richardson et al., (2013); Waworuntu & Hadisaputra (2016); Anh et al., (2018)

Variable		Measurement	Reference
		3. There are bad debts between related entities. 4. There is a non-monetary provision between related parties. 5. There is no formal documentation that shows the selection and application of the arm's length principle. 6. There is a transfer of capital assets to related parties without commercial justification. 7. There is no justification for the arm's length principle on transactions between related parties. 8. There is a transfer of losses between entities without commercial justification.	
Independent Variable	Size (X1)	Firm size is measured by the natural logarithm of total assets.	Richardson et al., (2013); Waworuntu & Hadisaputra (2016); Anh et al., (2018)
	Profit (X2)	Profitability is measured by the natural logarithm of pre-tax profits.	
	Leverage (X3)	Leverage is measured by long-term debts divided by total assets.	
Moderating Variable	Corporate Governance	Corporate governance is measured by the ASEAN CG Scorecard index below: 1. Shareholder Rights 2. Equitable Treatment of Shareholders 3. Role of Stakeholders 4. Disclosure and Transparency 5. Responsibilities of the Board	ASEAN CG Scorecard

4. DATA ANALYSIS AND DISCUSSION

Data Collection Results

The population of this research consists of 95 Indonesian and Malaysian multinational firms. There were five firms delisted during the research period and three firms presented loss statements and 15 firms presented incomplete data. Therefore, there were 72 remaining firms used as research sample. The data were collected and presented as in Table 2.

Table 2. Sample selection

Sample	Number of Firms	Percentage (%)
Multinational firms listed in www.idx.co.id and www.bursamalaysia.com	95	100%
Delisted Indonesian and Malaysian multinational firms	(5)	5.3%
Indonesian and Malaysian multinational firms presenting loss statements	(3)	3.2%
Indonesian and Malaysian multinational firms presenting incomplete data	(15)	15.8%
Total samples	72	75.8%

Descriptive Statistical Test Results

This section elaborates the results of the descriptive statistical test on determinants of transfer pricing aggressiveness moderated by corporate governance in Indonesia and Malaysia. The average value of TPA was 0.5764 or five disclosure items, indicating that the level of transfer pricing practices in Indonesian and Malaysian multinational firms was relatively high, around 57.64% or above 50%. The standard deviation value of TPA was 0.19518 or 19.518% smaller than the average value. Therefore, it can be concluded that the TPA data were homogeneous. The minimum value of

TPA was 0.25 or two disclosure items indicating the firm had the lowest practice of transfer pricing aggressiveness. In comparison, the maximum was 0.88 or 7 disclosure items indicating the firm had the highest practice.

The average value of size was 29.9429 or an average asset value of IDR 39,214,667,813,035 indicating that most Indonesian and Malaysian multinational firms were large firms due to their high asset values. The standard deviation value was 2.0305, smaller than the average value. Hence, it can be concluded that the Size data were homogeneous. The minimum value of size was 25.18 or an asset value of IDR 86,464,032,000 indicating that the firm had the lowest asset value, while the maximum was 33.49 or an asset value of IDR 351,958,000,000,000 indicating that the firm had the highest asset value.

The average value of profit was 26.9868 or an average pre-tax profit value of IDR 2,991,799,867,395. The standard deviation value was 2.2278, smaller than the average value. Therefore, it can be concluded that the profit data were homogeneous. The minimum value of profit was 22.33 or IDR 5,005,150,944 indicating that the firm had the lowest pre-tax profit, while the maximum was 30.94 or IDR 26,621,000,000,000 indicating that the firm had the highest pre-tax profit.

The average value of leverage—when Indonesian and Malaysian multinational firms used long-term debt to finance their assets—was 19.5%. The standard deviation value was 17.8% below the average value. Therefore, it can be concluded that the leverage data were homogeneous. The minimum value of leverage was 0.00 or 0%, indicating that the firm had the lowest debt to assets ratio. It also means that the firm did not use long-term debt to finance its assets. On the other hand, the maximum value was 0.66 or 66%, indicating that the firm had the highest debt to assets ratio. It also means that the firm used long-term debt to finance its assets by 66%.

The average value of CG was 0.8167 or four disclosure items, indicating that Indonesia and Malaysia multinational firms had good corporate governance. The standard deviation value was 0.1979 or 19.8% smaller than the average value. Hence, it can be concluded that the CG data were homogeneous. The minimum value of CG was 0.4 or two disclosure items indicating that the firms had the worst CG application. In comparison, the maximum was 1.00 or five disclosure items indicating that the firm had the highest CG application. The results of the descriptive statistical test are presented in Table 3.

Table 3. Descriptive statistics

Information	Minimum	Maximum	Average	Standard Deviation
TPA	0.25	0.88	0.5764	0.1952
Size	25.18	33.49	29.9429	2.0305
Profit	22.33	30.94	26.9868	2.2278
Lev	0.00	0.66	0.1953	0.1777
CG	0.40	1.00	0.8167	0.1979

Classical Assumption Test Results

The classical assumption test was used to examine the regression model in that the good regression model should not encounter any problems in the classical assumption test. It consists of normality test, autocorrelation test, multicollinearity test, and Heteroscedasticity test. The results of the classical assumption test are presented in Table 4.

Table 4. Classical assumption test results

Information	Normality Test	Autocorrelation Test	Multicollinearity Test		Heteroscedasticity Test
	KS Test	Runs Test	Tolerance	VIF	Glejser Test
Size			0.126	7.931	0.069
Profit	0.200	0.812	0.174	5.732	0.079
Lev			0.476	2.100	0.198

The normality test used the *Kolmogorov Smirnov* test showing a significant value of 0.200, which was > 0.05. It can be concluded that the normal assumption had been met; therefore, the regression model was suitable for use in the research. The runs test of the autocorrelation test showed a *p-value* of 0.812, which was > 0.05. It can be concluded that there was no correlation between disturbing errors during t and t-1 periods; hence, the regression model was suitable for use in the research. The results of the multicollinearity test showed that the tolerance value was > 0.1 for firm size, profitability, and leverage variables. The VIF value was < 10 for firm size, profitability, and leverage variables. It can be concluded that there was no multicollinearity between independent variables. The heteroscedasticity test used the Glejser test showing that the significant value of the t-variable for firm size, profitability, and leverage was > 0.05. It can be concluded that the regression model passed the heteroscedasticity test.

Hypothesis Test Results

This research used multiple linear regression with moderated regression analysis (MRA) to prove the hypotheses. The confidence level used was 95%, which means that the tolerable error rate was 5%. If the significant value was < 0.05, it can be concluded that the independent variable had an effect on the dependent variable. Based on the results of statistical tests, the following equation was obtained.

Table 5. Hypothesis test results

Variable	Multiple Linear Regression			Moderated Regression Analysis		
	B	t	*Sig.*	B	t	*Sig.*
Constant	0.077	0.245	0.007	4.623	1.863	0.008
Size	0.015	0.660	0.512	0.152	1.184	0.241
Profit	-0.002	-0.097	0.923	-0.009	-0.124	0.901
Lev	0.276	2.146	0.036*	1.063	1.794	0.008**
CG	-	-	-	4.932	1.922	0.040*
Size*CG	-	-	-	-0.140	-0.979	0.332
Profit*CG	-	-	-	0.014	0.143	0.886
Lev*CG	-	-	-	-1.006	1.359	0.002**
R Square	0.546	-	-	0.523	-	-
Adj R Square	0.504	-	-	0.494	-	-
F test	0.000**	-	-	0.000**	-	-

* Significance at the 0.05 level ** Significance at the 0.01 level

The Lev variable had a coefficient (*beta*) value of 0.276 with a significant value (*p-value*) less than 0.05 (i.e., 0.036). The Lev.CG variable had a coefficient (*beta*) value of -1.006 with a significant value (*p-value*) less than 0.05 (i.e., 0.022). It can be stated that Size and Profit variables had no effect on transfer pricing aggressiveness. The significant value (*p-value*) of these variables was higher than 0.05. This was consistent with the Size.CG and Profit.CG variables that had a significant value (*p-value*) greater than 0.05. Therefore, it indicates that corporate governance did not affect the relationship between firm size and profitability and transfer pricing aggressiveness.

Discussion

Based on the results of the statistical test, H1, H2, H4, and H5 were rejected. It indicates that transfer pricing practices in Indonesia and Malaysia were not influenced by firm size and profitability. Unfortunately, corporate governance did not moderate the effect of firm size and profitability on transfer pricing aggressiveness.

The Effect of Firm Size on Transfer Pricing Aggressiveness

The results of the first hypothesis test showed that firm size did not affect transfer pricing aggressiveness. Firms, either with large or small assets, did not take advantage of the law's loophole, especially in tax planning practices oriented towards minimizing the taxes that they should pay to the state. Firms, both large and small, were not aggressive in terms of transfer pricing practices.

The average assets owned by Indonesian multinational firms in 2018 and 2019 were IDR 54 trillion, while those of Malaysian were RM 5.8 billion (equivalent to IDR 20 trillion). Indonesian and Malaysian multinational firms are considered large ones. They do not practice tax avoidance through transfer pricing to protect their reputation as large multinational corporations. These results are consistent with Rusydi's (2013) research stating that firm size does not affect aggressive tax avoidance. In other words, firm size is not a determinant factor for tax avoidance practices through transfer pricing. Wulandari & Maqsudi (2019) affirmed the results of this research that firm size has no effect on tax avoidance.

The Effect of Profitability on Transfer Pricing Aggressiveness

The results of the second hypothesis test showed that profitability did not affect transfer pricing aggressiveness. Firms with high profits did not take advantage of pre-tax profits to avoid tax obligations by diverting profits to their subsidiaries. Firms, both with high and small profits, were not aggressive for practicing tax avoidance through transfer pricing practices.

The average profitability generated by Indonesian multinational firms in 2018 and 2019 was IDR 4.6 trillion, while that of Malaysian was RM 248 million (equivalent to IDR 871 billion). Indonesian and Malaysian multinational firms manage to generate a considerably large profit so that they do not need to practice tax avoidance through transfer pricing to boost their profit. These results are consistent with Waworuntu & Hadisaputra (2016); Anh et al., (2018); and Wulandari & Maqsudi (2019) who stated that profitability does not affect tax avoidance practices through transfer pricing. It indicates that transfer pricing practices in Indonesian and Malaysian multinational firms are not performed by diverting profits to their subsidiaries or related parties.

The Effect of Leverage on Transfer Pricing Aggressiveness

The results of the third hypothesis test showed that leverage had a positive effect on transfer pricing aggressiveness. Firms practiced tax avoidance through transfer pricing by transferring debts to their subsidiaries or related parties. Firms with high leverage were more aggressive in practicing tax avoidance through transfer pricing. In other words, Indonesian and Malaysian multinational firms that conduct opportunistic transactions more likely create a conflict of interest. Multinational firms finance their subsidiaries by means of debt and/or capital transfers to streamline tax burdens by engaging in transfer pricing practices (Richardson et al., 1998; Richardson et al., 2013).

The leverage ratio owned by Indonesian multinational firms in 2018 and 2019 was 0.2, while that of Malaysian was 0.17. Indonesian multinational firms financed their assets through debt by 20% of the total assets owned, while Malaysian ones by 17% of the total assets owned. Leverage becomes the triggering factor for multinational firms to practice tax avoidance through transfer pricing. Both Indonesian and Malaysian multinational firms transfer interest on loans to related parties to minimize tax burdens that should be paid to the state. These results are consistent with Waworuntu & Hadisaputra (2016); Richardson et al., (2013); Cahyadi & Noviari (2018); and Anh et al., (2018) who stated that leverage affects transfer pricing aggressiveness. It indicates that Indonesian and Malaysian multinational firms practice transfer pricing by diverting debts to their subsidiaries or related parties.

The Moderating Effect of Corporate Governance

The results of the fourth hypothesis test showed that corporate governance did not moderate the relationship between firm size and transfer pricing aggressiveness. The result also showed that good governance simultaneously weakened tax avoidance practices through transfer pricing. Nevertheless, it partially demonstrated that firm size was not related to transfer pricing aggressiveness. Corporate governance neither strengthens nor weakens the relationship between firm size and transfer pricing aggressiveness.

The results of the fifth hypothesis test showed that corporate governance did not moderate the relationship between profitability and transfer pricing aggressiveness. The results also showed that good governance simultaneously weakened tax avoidance practices through transfer pricing. Nevertheless, it partially demonstrated that profitability was not related to transfer pricing aggressiveness. Corporate governance neither strengthens nor weakens the relationship between profitability and transfer pricing aggressiveness.

The results of the six hypothesis test showed that corporate governance weakened the effect of leverage on transfer pricing aggressiveness. Good governance at the firm level can reduce a firm's tax avoidance practices. The results proved that diverting debts to subsidiaries or related parties in low-tax countries can be minimized if the firm implements good governance. These results are consistent with Sari et al., (2016), who stated that good governance functions as a control mechanism for managers' opportunistic behaviors. It is also supported by Christiana & Africano (2017) who found that corporate governance weakens the relationship between financial reporting aggressiveness and tax aggressiveness. Other researchers who support this result are Noviari & Suaryana (2019) also found that the better the implementation of corporate governance, the lower the tax avoidance practices.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

This research concluded that leverage had an effect on transfer pricing aggressiveness. Firm size had no effect on transfer pricing aggressiveness. Profitability had no effect on transfer pricing aggressiveness. Yet, corporate governance weakens the relationship between leverage and transfer pricing aggressiveness. This research results provide empirical evidence about the determinants of tax avoidance practices through transfer pricing.

Good governance at the firm level can reduce also a firm's tax avoidance practices. It proves that diverting debts to subsidiaries or related parties in low-tax countries can be minimized if the firm implements good governance. Therefore, this research also helps to increase economic growth and state budget (APBN). Furthermore, it also assists public policy makers, especially those in charge with the policies related to transactions with special relationship.

This research has several limitations. Firstly, it merely used three independent variables as the determinants of transfer pricing aggressiveness, i.e., firm size, profitability, and leverage. This limitation can be complemented by other variables that are not considered in this research. Secondly, it merely covered two years of the financial reporting period, viz., 2018 and 2019. This limitation can be complemented by extending the financial reporting period.

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