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The influence of tax, tunneling incentive, and bonus mechanisms on transfer pricing decision in manufacturing companies

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A B S T R A C T

Transfer pricing is a way conducted by a multinational company to do tax avoidance. Concentrated ownership structure makes the majority shareholders tend to perform a tunneling incentive that could harm minority shareholders. Companies that set bonus mechanism based on the profits will make the management or the board of directors tend to conduct profit manipulation. The aim of this research is to analyze the influence of tax, tunneling incentive and bonus mechanism on transfer pricing decision taken by manufacturing companies listed on the Indonesia Stock Exchange. The sample used on this study is manufacturing companies listed on the Indonesia Stock Exchange in 2012-2014 totaling 69 companies taken using purposive sampling method. The analysis technique used in this study is analysis binary logistic regression. The result of this study shows that tax and tunneling incentive have significantly influence on transfer pricing, while bonus mechanism does not have significant influence on transfer pricing.

A B S T R A K

Transfer pricing adalah cara yang dilakukan oleh perusahaan multinasional untuk melakukan penghindaran pajak. Struktur kepemilikan yang dikonsentrasikan membuat pemegang saham mayoritas cenderung melakukan insentif tunneling yang dapat merugikan pemegang saham minoritas. Perusahaan yang mengatur mekanisme bonus berdasarkan keuntungan akan membuat manajemen atau dewan direksi untuk melakukan manipulasi keuntungan. Tujuan dari penelitian ini adalah untuk menganalisis pengaruh insentif pajak, tunneling dan mekanisme bonus terhadap keputusan penetapan transfer pricingr yang dilakukan oleh perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia. Sampel yang digunakan dalam penelitian ini adalah perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia pada tahun 2012-2014 sebanyak 69 perusahaan yang diambil menggunakan metode purposive sampling. Teknik analisis yang digunakan dalam penelitian ini adalah analisis regresi logistik biner. Hasil penelitian ini menunjukkan bahwa insentif pajak dan tunneling berpengaruh signifikan terhadap transfer pricing, sedangkan mekanisme bonus tidak berpengaruh signifikan terhadap transfer pricing.

1. INTRODUCTION

Rapid economic development, without recognizing the country's boundaries, has made the flow of trade transactions between countries, which make it easier and smoother. A number of companies have begun to expand their market by establishing a subsidiary in the country and abroad, which indirectly leading to the formation of multinational corporations. The formation of various organizations and agreements, such as the ASEAN Economic Community, facilitates the trade transactions. Multinational corporations do a lot of transactions with their relation companies in various countries with the aim of gaining maximum profit margin.

In conducting trade transactions, multinational corporations always face problems related to the difference in tax rates in each country. Such condition has eventually prompted the multinational corporations to decide transfer pricing. Transfer pricing leads to the problem of manipulation to the

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amount of tax payable on a related taxpayer (Hartati et al. 2014). In general, transfer pricing is defined as a company policy in setting transfer prices related to certain transactions in the form of goods, services, tangible assets, and so on.

Transfer pricing has become an interesting global issue in taxation authorities and is still difficult for the government to resolve it due to differences in interests between businesspersons and tax offices in various countries. From the government perspective, the practice of transfer pricing is believed to have the potential to reduce a country's tax revenue, while from the business perspective, the practice of transfer pricing is favorable to the company so that the company will seek to minimize the burden of paying corporate taxes.

Transfer pricing practiced by multinational corporations has occurred several times in Indonesia, one of them is by PT Toyota Motor Manufacturing Indonesia. The Directorate General of Taxation suspected that the company performed tax evasion as much as IDR 1.2 trillion through transfer pricing. PT Toyota was found to have exported goods abroad with the selling price below market value.

There are several reasons why companies decide to perform transfer pricing. The first reason is tax motivation. Based on political cost theory, the government requires multinational companies to pay taxes, which in turn making the companies get pressure because they must routinely pay taxes to the state. Due to the pressure, corporate managers will tend to choose to perform transfer pricing to their group companies in other countries so that the tax paid by the company can be as minimum as possible.

The second reason that allows companies to perform transfer pricing is tunneling incentive. Based on agency theory, the foreign controlling shareholders seek to obtain maximum capital return from their ownership by way of governing management to conduct transactions with related parties in the form of transfer pricing that can harm non-controlling shareholders. Foreign controlling shareholders freely perform tunneling by selling the company's product below market price or not paying dividends to non controlling shareholders.

The third reason that allows companies to perform transfer pricing is bonus mechanism. Based on the agency theory, the company owners want better performance from their directors in order to increase the company's profit. Meanwhile the directors also want the same thing, that is, the profit in the form of bonus for their performance. The amount of profit can make the directors justify any means to obtain maximum bonus by manipulating the financial statements through transfer pricing between parties concerned.

Previous research conducted by Mispiyanti (2015) shows that the variables of tax and bonus mechanisms do not have significant influence on transfer pricing. Meanwhile the research conducted by Hartati et al. (2014) shows that the variables of tax and bonus mechanism have significant influence on transfer pricing.

Based on the description above and the existing research gaps, it is necessary to conduct this research with the aim to re-examine the influence of tax, tunneling incentive, and bonus mechanism on transfer pricing decision in manufacturing companies.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS

Agency Theory

Jensen and Meckling (1967) state that agency theory is a theory that explains the relationship between manager, as agent, and shareholder, as principal. The relationship is realized when there is an agreement or contract between one or more principals, where the principal gives orders to the agent to perform services on behalf of the principal by authorizing the agent to manage and make the best decision for the interest of the principal (Brundy 2014: 4).

Companies managed by other than the owners will lead to different wishes, utilities, and interests between the principal and the agent. The agent tends to prosper his own interests and exclude the interests of the principal. In such a condition, it can be seen that both the agent and the principal strive to achieve and maintain the welfare level according to their will.

Political Cost Theory

Political cost theory is a theory which is related to policy. This theory explains that the greater the political cost borne by the company, the greater the possibility of the manager to choose the accounting methods or procedures that can suspend profit reporting from the current period to the period to come.

The relationship between political cost theory and transfer pricing is that large companies may be subject to higher performance standards, especially when the companies also have a high profitability capability, thus increasing political costs. In addition, the social pressure from the government that requires companies to pay taxes to the state also

makes the companies perform transfer pricing to minimize the tax paid. The way that can be done by the companies is to transfer their tax liabilities to their relation companies located in other countries, whose tax rates are lower, by reducing the selling price.

Transfer Pricing

Transfer pricing is a company policy to determine the transfer price or transaction of goods, services, intangible assets and financial transactions conducted by the company. Transfer pricing is also defined as the value attached to the transfer of goods or services where there is a transaction among parties that have a special relationship. According to Setiawan (2014), transfer pricing can be grouped into two: (1) intra-company, where transfer pricing occurs between divisions within a company; (2) inter-company, where transfer pricing occurs between different companies within the country and abroad having a special relationship.

According to Suandy (2011: 76-77), the policy of establishing transfer pricing is chosen by a company to achieve certain objectives of maximizing the profit earned by the company globally, securing the competitive position of branch companies abroad, controlling the credibility of the association, setting up adequate cash flow of branch companies, fostering good relations with local administrations, reducing the burden of tax imposition and import duties, as well as reducing the risk of a government takeover.

Tax

Tax can be interpreted as a contribution of the people to the state treasury that can be enforced under the law by receiving no direct reward. Under the Taxation Law (Act No. 36 of 2008), tax is defined as the compulsory contribution of the public, both individual and corporate, to the state by receiving no direct rewards but fully utilized for the purposes of the state and the welfare of the people.

From the economic perspective, tax can be understood as transferring resources from the private sector to the public sector. From the legal perspective, tax is an engagement that arises on the basis of law that obliges the citizen to deposit a portion of his income to the state in which the state has the authority to force and later the tax money will be used for the administration.

Each country has a different tax rate. The difference has encouraged multinational companies that conduct international trade try to find a way to avoid overpaid taxes. Multinational companies will be encouraged to perform transfer pricing by shifting their tax liability to their existing relation companies in the countries that charge lower tax rates. The greater the value of the effective corporate tax rate, the greater the tax burden borne by the company so that it will encourage the company to perform transfer pricing.

Effective Tax Rate

The tax rate is the amount of the value used to determine the tax payable to be paid by the taxpayer to the government in accordance with applicable law. Effective tax rate is basically a percentage of the tax rate borne by the company. Effective tax rate (ETR) is calculated based on financial information produced by the company. So, effective tax rate is the calculation of corporate tax rate.

Tunneling Incentive

According to Hartati et al. (2014), tunneling incentive is the behavior of the majority shareholders who transfer both the assets and the profits of the company for their personal gain by fixing the fees charged to the minority shareholders. Tunneling incentive occurs in two forms, that is, the controlling shareholder can move the entire company's resources on him through related transactions and the majority shareholder can increase the proportion of the company without transferring assets through the issuance of shares or other transactions.

According to Mutamimah (2009), there are two types of ownership structures that reflect an agency conflict, 1) the dispersed ownership structure, that is, between the manager and the shareholders; 2) the concentrated ownership structure, in which the ownership is concentrated on the right of control and the right of cash flows on certain parties, whether family, government, or others, as a controlling shareholder.

In concentrated ownership structure, the ownership is concentrated on the control rights of certain parties as the foreign controlling shareholder, which tends to create a conflict of interest between the foreign controlling shareholder and the management with the non controlling shareholder. This will lead the controlling shareholder to abuse the right of control for his own welfare by tunneling through related party transactions. The greater the ownership of shares owned by foreign controlling shareholders, the greater the influence of foreign controlling shareholders in determining the various decisions in the company including the policy of determining in transfer pricing.

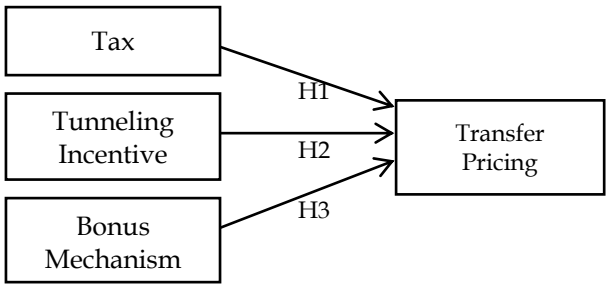

Figure 1
Theoretical Framework

Table 1
Results of Descriptive Analysis of Tax and Bonus Mechanism

	N	Minimum	Maximum	Mean	Std. Deviation
Tax	69	.09	1.35	.2734	.16197
Bonus Mechanism	69	-50.11	386.61	8.8807	48.47576
Valid N (listwise)	69				

Source: Processed data.

Bonus Mechanism

Bonus mechanism is a component of the calculation of the amount of bonus given by the owner of the company or shareholders through the General Meeting of Shareholders (GMS) to members of the board of directors who are considered to have a good performance every year and when the company makes a profit. The bonus mechanism, which is based on the amount of profit, will make the directors attempt to manipulate the profit and even perform actions that regulate the net profit in order to be able to maximize the bonus they receive.

The bonus mechanism which is based on the amount of profit is the most popular way for the company owner to reward his directors. The owner of the company assesses the performance of the board by looking at the company's overall earnings so that the board will try to increase the company's profit with the aim at maximizing the bonus they will receive by permitting any means such as transfer pricing. As a result of this transaction, there will be one sub-unit of the company that is harmed. Thus, the greater the profits set by the owner of the company, the more likely the directors are trying to maximize their bonuses by transfer pricing.

The research framework can be expressed as shown in Figure 1.

Based on the background, problem formulation, research objectives, previous research and theoretical basis, the hypothesis can be formulated as follows:

H1: Tax has a significant effect on transfer pricing decision.

H2: Tunneling incentive has a significant effect on transfer pricing decision.

H3: Bonus mechanism has a significant on transfer pricing decision.

3. RESEARCH METHOD

Research Design

This research is a quantitative research, which analyzes the numerical data that is tested by statistical method, and the result will be interpreted to obtain a conclusion. Based on the method, this research is classified in historical research, that is, the research which is related to past events in the form of systematic and objective corporate past financial report. Based on the data source, this research is a study using secondary data sources, in which the data is obtained from the various existing sources, such as financial reports, journals, books, and others.

Variable Identification

The dependent variable (Y) is transfer pricing decision, while the independent variables (X) are tax (X1), tunneling incentive (X2), and bonus mechanism (X3).

Operational Definition of Variables and Measurements

Transfer Pricing

The transfer pricing in this study is the sale of products from one division to another division having a special relationship and locating in another country which has lower tax rate than Indonesia (Mispiyanti 2015).

Transfer pricing is calculated using dichotomous approach by looking at the presence or absence

Table 2
Results of Descriptive Analysis of Transfer Pricing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	.00	28	40.6	40.6	40.6
	1.00	41	59.4	59.4	100.0
	Total	69	100.0	100.0	

Source: Processed data.

Table 3
Results of Descriptive Analysis of Tunneling Incentive

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	.00	15	21.7	21.7	21.7
	1.00	54	78.3	78.3	100.0
	Total	69	100.0	100.0	

Source: Processed data.

of sales to a related party. Dummy variable is used in this study. Foreign-owned Companies that sell to related parties located in other countries with lower tax rates than Indonesia are given a value of 1, while others are assigned a value of 0 (Mispiyanti 2015).

Tax

Tax is a compulsory contribution to a state based on the law. It can be imposed and without any reciprocity, whereby the contribution will be used to finance the state expenditures.

According to Hartati et al. (2014), tax is measured using the effective tax rate (ETR) and can be formulated as follows:

$$ETR = \frac{Tax\ Expense - Defferred\ Tax\ Expense}{Profit\ before\ Tax}. \quad (1)$$

Tunneling Incentive

Tunneling incentive is the behavior of the controlling shareholders who transfer the company's assets and profits for their own benefit but the charges are charged to non controlling shareholders (Hartati et al. 2014).

Tunneling incentive is proxied by dividend distribution to the company's shareholders by using dummy variable, in which the company doing the dividend distribution is given a value of 1, while the non-dividend distribution is given value of 0.

Bonus Mechanism

The bonus mechanism is the component of the calculation of the amount of bonus given by the company owner or shareholder through the GMS to the member of the board of directors each year when earning profit.

The bonus mechanism is measured using the net profit trend index formula, which is calculated based on the percentage of net income achievement in year t of net income t-1 (Hartati et al. 2014).

$$Net\ Profit\ Trend\ Index = \frac{Net\ Income\ Year\ t}{Net\ Income\ Year\ t-1}. \quad (2)$$

Population, Sample and Sampling Technique

The population in this study is manufacturing companies listed on the Indonesia Stock Exchange in 2012-2014. The sampling technique of the population is conducted using purposive sampling with the following criteria: (1) Manufacturing companies listed on the Indonesia Stock Exchange; (2) Manufacturing companies issuing financial report data in 2012-2014; (3) Manufacturing companies controlled by foreign companies with ownership percentage of 20% or more as the controlling shareholder; (4) Manufacturing companies that do not experience losses during the observation period; (5) The company's financial statements are not presented in foreign currency.

Data and Data Collection Methods

The nature of this research is quantitative. The type of data source used is secondary data in the form of financial statements of manufacturing companies listed on the Indonesia Stock Exchange 2012-2014. Data collection method used in this research is documentary by collecting, recording, and reviewing data of manufacturing companies' financial statements published on IDX and from various other sources related to transfer pricing.

Analysis Technique

Logistic regression analysis is used to know the influence of independent variables (tax, tunneling incentive, and bonus mechanism) on dependent variable (transfer pricing) with the formula is as

Table 4
L Likelihood without Independent Variables

Iteration History[a,b,c]

Iteration		-2 Log likelihood	Coefficients
			Constant
Step 0	1	93.191	.377
	2	93.190	.381
	3	93.190	.381

Source: Processed data.

Table 5
Likelihood L with Independent Variables

Iteration History[a,b,c,d]

Iteration		-2 Log likelihood	Coefficients			
			Constant	P	TI	MB
Step 1	1	83.715	-1.352	3.288	1.032	.003
	2	79.874	-2.706	7.941	1.285	.004
	3	78.636	-3.795	12.302	1.318	.004
	4	78.528	-4.227	14.060	1.326	.004
	5	78.528	-4.260	14.187	1.329	.004
	6	78.528	-4.260	14.188	1.329	.004

Source: Processed data.

Table 6
Nagerkerke's R Square Test

Determination Coefficients

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	78.528a	.191	.258

Source: Processed data.

follows:

$$Y = L_n \frac{P}{1-p} = b0 + B1X1 + B2X2 + B3X3 + e. \quad (3)$$

Explanation:
Ln = Transfer pricing
P = Probability of a company to perform transfer pricing
b0 = Constants
B = Coefficients
X1 = Tax
X2 = Tunneling incentive
X3 = Bonus mechanism
e = Error.

4. DATA ANALYSIS AND DISCUSSION

Descriptive Analysis

The data used in this research is transfer pricing, tax, tunneling incentive, and bonus mechanism. The purpose of descriptive analysis is to explain the maximum, minimum, mean, and standard deviation on the dependent variable and independent variables in this study. Descriptive statistics can be seen in Table 1, Table 2, and Table 3.

Table 1 describes the minimum, maximum, mean, and standard deviation values of the variables of tax and bonus mechanism for all manufacturing companies listed on the Indonesia Stock Exchange in 2012-2014. In the variable of tax, there is a range from 0.09 to 1.35 between the minimum and maximum of the effective tax rate existing in manufacturing companies on the Stock Exchange.

Table 2 describes the number of companies indicated to perform transfer pricing and not to perform transfer pricing. Seen from the total sample, there are 41 sample companies indicated to perform transfer pricing.

Table 3 describes the number of companies conducting tunneling incentive in terms of dividend payout. The variable of tunneling incentive in this study is indicated by dummy variable in which all samples are 69 observation objects. 15 observation objects do not perform dividend payout and 54 others perform dividend payout.

Logistic Regression Analysis

-2 Log Likelihood

The model testing is done by comparing the value of the initial -2LogL on Block 0 before the inclusion

Table 7
Hosmer and Lemeshow Test

Step	Chi-square	Df	Sig.
1	2.205	8	.974

Source: Processed data.

Table 8
Classification Table

Observed		Predicted		
		Transfer Pricing		% Correct
		.00	1.00	
Transfer Pricing	.00	12	16	42.9
	1.00	3	38	92.7
Overall Percentage				72.5

Source: Processed data.

Table 9
Results of Logistic Regression Analysis

Variables in the Equation

		B	S.E.	Wald	Df.	Sig.
Step 1a	P	14.188	5.909	5.765	1	.016
	TI	1.329	.739	3.233	1	.072
	MB	.004	.009	.164	1	.686
	Constant	-4.260	1.675	6.471	1	.011

Source: Processed data.

of independent variables with values from -2LogL on Block 1 after the inclusion of independent variables.

The test results, as seen in Table 4, show that the value of -2LogL on Block 0 is 93.191, while in Table 5 the value of -2LogL on Block 1 is 83.715. In the table, it can be seen that there is a decline in the value of -2LogL after the inclusion of independent variables in the logistic regression model so that the model hypothesized fit with the data.

The value of Nagelkerke R Square is an indication of the magnitude of the determination coefficients. The result of determination coefficients test presented in Table 6 shows that the value of Nagelkerke R Square is 0.258, indicating that the variability of dependent variable which can be explained by the variability of independent variable is 25.8%, while 74.2% is influenced by other variables not examined in research.

Hosmer Test and Lemeshow's Goodness of Fit Test

Hosmer test and Lemeshow's Goodness of Fit Test are used to see whether there is a significant difference between the model and the observation value as a determinant of whether the model can predict the observed value well or not.

The result of calculation of Hosmer and Lemeshow Chi-square presented in Table 7 shows the value of 2.205 with a significance probability of 0.974, in which the value is more than 0.05. So it can be concluded that the model used is able to predict the observation value.

Classification Test

The classification accuracy test aims to calculate the correct and incorrect estimation value. Based on the test results, the strength to predict the possibility of the company doing transfer pricing practice is 92.7%. This indicates that there are 38 companies that are predicted to perform transfer pricing from a total of 41 companies that perform transfer pricing. The strength to predict the companies that do not perform transfer pricing is 42.9%, which means that there are 12 companies that are predicted not to perform transfer pricing from a total of 36 companies that do not perform transfer pricing (see Table 8).

Hypothesis Analysis

Hypothesis testing is done by comparing the level of significance of each independent variable, with a significance level of 0.10 or 10%. If the significance value < 0.10, it can be said that the independent variable has a significant influence on the dependent variable and vice versa. Table 9 is the result of

the logistic regression coefficients test, which shows the level of influence of each independent variable on the dependent variable.

Based on the results in Table 9, it can be concluded that the test results of the logistic regression coefficients of each independent variables are as follows:

TP = -4.260 + 14.188P + 1.329TI + 0.004MB

Tax variable has a significance level of 0.016 as seen in Table 9. The test results indicate that the significance level of tax variable is 0.016 < 0.05 < 0.10, which means that H1 is accepted. So, it can be concluded that tax has a significant influence on the transfer pricing decision.

Variable of tunneling incentive has a significance level of 0.072, as seen in Table 9. The test results indicate that the significance level of tunneling incentive variable is 0.072 < 0.10, which means that H2 is accepted. So, it can be concluded that tunneling incentive has a significant influence on the transfer pricing decision.

Variable of bonus mechanism has a significance level of 0.686, as seen in Table 9. The test results indicate that the significance level of bonus mechanism variable is 0.686 > 0.10, which means that H3 is rejected. So, it can be concluded that bonus mechanism has no significant influence on the transfer pricing decision.

Discussion

The Influence of Tax on Transfer Pricing Decision

Based on the results of hypothesis testing that has been done, it can be seen that the variable of effective tax rate has a significant effect on the transfer pricing decisions at manufacturing companies listed on the Indonesia Stock Exchange, indicating that the hypothesis is accepted. Tax rates become one of the reasons for many multinational companies to perform transfer pricing practices where the amount of tax payable is a burden to the company so that the company will seek to minimize the amount of the payments.

Based on the theory of political cost, the determination of a country's tax rates is closely related to government policy, where there are government policies that require multinational companies to pay taxes. It, in turns, makes the companies get social pressure from the government, where the company must regularly pay taxes to the state, especially when the companies have the ability to achieve high profits, then the tax that must be borne by the companies is also higher. Therefore, the company manager will tend to choose to perform transfer pricing to its group of companies in other countries so that the tax paid by the companies can be minimized by shifting their tax liabilities from a country that has high tax rates to their relative or affiliates in other countries that have lower tax rates. This is usually done by minimizing the selling price. This is done to manipulate the company's profits so that the profits earned by the company in a given year will look lower or even in loss. And this indirectly will have an effect on the smaller amount of taxes paid by the companies to the state.

The results are also in accordance with the results of the research conducted by Hartati et al. (2014) which also proves that tax has a significant influence on the company's decision to perform transfer pricing, where the decision will make tax payments lower globally. This happens because the company wants to get the maximum profit from its business activities. Therefore, it can be said that the greater the value of the company's effective tax rate, the greater the tax burden borne by the company, thus encouraging the company to perform transfer pricing.

The Influence of Tunneling Incentive on Transfer Pricing Decision

Based on the results of hypothesis testing that has been done, it can be seen that the variable of tunneling incentive has a significant effect on transfer pricing decisions at manufacturing companies listed on the Indonesia Stock Exchange, indicating that the hypothesis is accepted. Based on agency theory, there is relationship between agent and principal. In this study, the shareholder of the company is a foreign controlling shareholder in which the foreign controlling shareholder seeks to obtain maximum capital return from his level of ownership by way of governing the management to conduct transactions with related parties that would harm the non-controlling shareholders. One of the transactions with related parties that can be done is transfer pricing.

The results are also in accordance with the results of the research conducted by Mispiyanti (2015) which explain that the company shares owned by foreign controlling shareholders will tend to sell to related parties with improper pricing for the interests of the foreign controlling shareholders located in the country whose tax rate is lower than the tax rate in Indonesia.

Multinational companies in Indonesia tend to have a concentrated ownership structure so that it will create a conflict of interest between the foreign controlling shareholder and the non-

controlling shareholder. In this case, the foreign controlling shareholder has a special right to oversee the management within the company so that it would be possible for the foreign controlling shareholder to commit authority abuse such as conducting a related party transaction by selling the company's product below the market price to the company that is still under his control resulting in the profit earned by the company becomes lower. However, when the company gains more profit, the foreign controlling shareholder tends to perform tunneling through transfer pricing by transferring all the profits of the company to his personal wellbeing rather than having to distribute it as a dividend to the non controlling shareholder. In other words, the greater the ownership of shares owned by foreign controlling shareholders, the greater the influence of foreign controlling shareholders in determining the various decisions in the company including the policy of determining transfer pricing.

The influence of Bonus Mechanism on Transfer Pricing

Based on the results of hypothesis testing that has been done, it can be seen that the bonus mechanism variable has no significant effect on transfer pricing decisions at manufacturing companies listed on the Indonesia Stock Exchange, indicating that the hypothesis is rejected. These results are not in line with the results of the research conducted by Hartati et al. (2014) that the bonus mechanism variable has significant effect on the transfer pricing decisions.

Based on agency theory, the company owner and the director have their own respective interests in the company. The company owner wants better performance from the director in order to increase the profit of the company. Meanwhile, the director also wants the same thing, that is, profit in the form of bonuses for the performance that has been provided to the company. Although the amount of profits leads to director trying to maximize the receipt of bonuses, it does not mean that the director will justify any means by committing fraud such as manipulating financial statements by utilizing transfer pricing transactions between related parties to increase sales, where the sales are indirectly can increase corporate profits and bonuses they will receive. Based on the study conducted by Mispiyanti (2015), the existence of a proper bonus policy can minimize the chance for the director to perform transfer pricing to obtain the expected main objective , that is, bonus. Thus, the amount of profit does not make the director decide to perform transfer pricing, because the director or management of the company has set strategies in achieving the target of bonus to be obtained from the company owner by innovating the strategy so that the possibility to perform transfer pricing will be smaller.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

This research was conducted with the aim to analyze the effect of tax, tunneling incentive, and bonus mechanism on transfer pricing decision at manufacturing companies listed on the Indonesia Stock Exchange. The sample data were obtained from 69 manufacturing companies listed on the Indonesia Stock Exchange in 2012-2014. Sources of research data were obtained from the official website of the Indonesia Stock Exchange.

Based on the results of the research that has been done, it can be concluded that the variable of tax (X1) has a significant influence on the company's decision to perform transfer pricing. The greater the effective tax rates of a company, the greater the tax burden borne by the company, thus encouraging the company to perform transfer pricing. This is done by transferring the tax liability of the company to its relation company residing in another country having lower tax rate than in Indonesia.

The variable of tunneling incentive (X2) has a significant influence on the company's decision to perform transfer pricing. The greater the ownership of shares owned by foreign controlling shareholders, the greater the influence of the foreign controlling shareholders in determining the various decisions in the company including the policy of determining the transfer pricing. This is because companies whose ownership is concentrated on foreign controlling shareholders will tend to perform tunneling either by selling to companies that are still under their control or by not paying dividends to non-controlling shareholders.

The variable of bonus mechanism (X3) has no significant influence on the company's decision to perform transfer pricing. The amount of profit does not make the directors decide to perform transfer pricing, because the company directors or management have set strategies in achieving the target bonus to be obtained from the company owner by innovating strategy so that the possibility to perform transfer pricing will be smaller.

This research has some limitations, such as: first, the measurement of transfer pricing variables

is limited to dichotomous measurements using dummy variable; second, the information presented in the annual financial statements is not in detail, enabling the researchers to use subjectivity in determining the required information; third, the lack of theory and sources of transfer pricing, tunneling incentive, and bonus mechanisms made the researchers difficult to obtain a complete theory to support this research; fourth, the value of determination coefficient in this research is still relatively small (0.259), indicating that the variables of tax, tunneling incentive, and bonus mechanism are only able to influence the company's decision to transfer pricing of 25.9%, which means that there are other variables that are not included in this research (74.1%) that can affect the variables studied.

Based on the conclusions and limitations in this study, this study suggests that further researchers should 1) use research sample other than manufacturing companies to expand the research, such as mining companies, 2) use other indicators to measure the effect of tax, tunneling incentive, and bonus mechanism on transfer pricing decision, 3) use variables other than the variables used in this research that might have an effect on the transfer pricing decision, 4) extend the study period to be able to provide better research results.

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