PROCEEDINGS OF THE INTERNATIONAL CONFERENCE OF GRADUATE SCHOOL ON SUSTAINABILITY (ICGSS)

10th International Conference on Sustainability (ICoS10)
University of Merdeka Malang, November 15, 2025
https://jurnal.unmer.ac.id/index.php/icgss

E-ISSN:
2721-13988

The Influence of Tax Rates and Foreign Ownership on Corporate Decisions to Implement Transfer Pricing Policies: An Empirical Study of Consumer Non-Cyclicals Companies Listed on the Indonesia Stock Exchange

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Abstract.

This study aims to analyze the influence of tax rates and ownership on corporate decisions to implement transfer pricing policies. Transfer pricing has become a common strategic mechanism used by multinational corporations to reallocate profits between affiliated entities across various tax jurisdictions, and ultimately with the aim of minimizing tax liabilities and maximizing global after-tax profits. The objects of this study were companies in the Consumer Non-Cyclicals sector listed on the Indonesia Stock Exchange during the observation period. This study uses a quantitative approach, analyzing secondary data from companies' annual financial reports, and employs multiple linear regression to examine the influence of tax rates and foreign ownership on corporate decisions to implement transfer pricing policies. The results show that tax rates have a significant and positive influence on transfer pricing, indicating that companies are more likely to implement transfer pricing when the tax burden is high. Conversely, foreign ownership does not show a significant influence on transfer pricing decisions, indicating that the presence of foreign shareholders does not inherently encourage transfer pricing practices. However, simultaneous testing indicates that tax rates and foreign ownership together have a significant influence on corporate decisions to implement transfer pricing policies.

Keywords: Foreign ownership, tax rates, transfer pricing

1. Introduction

Economic globalization has opened up significant opportunities for multinational corporations to optimize profits through cross-border integration. One strategy frequently used in this context is transfer pricing, which is the pricing of transactions between related entities within a single business group. This practice essentially aims to achieve operational efficiency and optimal resource allocation. However, on the other hand, transfer pricing is often associated with tax avoidance efforts, particularly when companies exploit differences in tax rates between countries to shift profits to jurisdictions with lower tax burdens (OECD, 2022).

In Indonesia, transfer pricing is becoming increasingly important amid the rise of foreign investment and the complexity of corporate ownership structures. The government continues to strengthen tax regulations through various policies, including the implementation of the arm's length principle and the 2021 Law on Harmonization of Tax Regulations. However, transfer pricing practices remain difficult to control optimally due to limited oversight and

E-ISSN:
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regulatory loopholes exploited by multinational companies. This phenomenon is reinforced by several public cases, such as the alleged transfer pricing practices by PT. Adaro Energy Tbk. through its Singapore subsidiary, which demonstrates the potential for profit shifting across jurisdictions to reduce the domestic tax burden.

Theoretically, two main factors often associated with transfer pricing practices are tax rates and foreign ownership. High tax rates in a country encourage companies to shift profits to countries with lower tax rates as a tax efficiency strategy (Humairo & Pustpita, 2020). Meanwhile, foreign ownership provides companies with access to global networks and flexibility in conducting transactions between entities across borders, potentially increasing the opportunity for transfer pricing (Fitri et al., 2019). However, a previous study examining the relationship between these two factors and transfer pricing practices found inconsistencies. For example, studies by Rahmadhani & Lastanti (2024) and Yuliatin (2019) found that tax rates had no significant effect on transfer pricing, while other studies showed a strong positive relationship.

This situation highlights an interesting research gap that warrants further investigation, particularly in the Consumer Non-Cyclicals sector, which often has cross-border affiliations and high transaction intensity among related parties. This sector also plays a crucial role in the Indonesian economy, particularly in providing basic necessities. Therefore, this study aims to analyze the influence of tax rates and foreign ownership on corporate transfer pricing decisions in Consumer Non-Cyclicals companies listed on the Indonesia Stock Exchange for the 2022 – 2024 period.

This study is expected to provide theoretical and practical contributions. Theoretically, this study's results enrich the literature on the determinants of transfer pricing in developing countries. In practice, the findings of this study are expected to inform policymakers in strengthening tax regulations and increasing oversight of transfer pricing practices, thereby supporting increased state tax revenue and creating a fairer, more transparent tax system.

2. Literature Review

Transfer pricing is a pricing policy for transactions between related entities within a business group. According to the OECD Transfer Pricing Guidelines (2022), such transactions should be conducted on an arm’s-length basis, with prices equivalent to those in transactions between independent parties. In practice, multinational companies often exploit transfer pricing to shift profits to countries with lower tax rates, thereby reducing the global consolidated tax burden. This phenomenon is of significant concern to tax authorities in various countries, including Indonesia, because it directly impacts the country’s potential tax revenue. The Indonesian government has implemented several policies, such as PER-32/PJ/2011 and PMK No. 213/PMK.03/2016, to strengthen transfer pricing documentation and ensure compliance with the arm’s length principle.

Several previous studies have shown that tax rates are closely related to transfer pricing practices. According to tax avoidance theory, companies will attempt to minimize tax liabilities by exploiting differences in tax rates across countries (Hanlon & Heitzman, 2010). When one country’s tax rate is higher than another's, companies have an incentive to shift profits to jurisdictions with lower tax rates. Humairo (2020) found that differences in tax rates positively influence companies’ decisions to engage in transfer pricing. However, other studies, such as those by Rahmadhani & Lastanti (2024), found no significant effect, arguing that government oversight and strict tax documentation requirements limit the scope for profit-shifting practices.

This inconsistency in study results indicates that the influence of tax rates on transfer pricing remains dependent on regulatory conditions and the characteristics of each country's industrial sector.

In addition to tax rates, foreign ownership can also influence corporate transfer pricing decisions. Based on agency theory, differing interests between foreign shareholders and local management can encourage profit shifting between entities within a business group to optimize profits for the majority shareholder (Jensen & Meckling, 1976). Companies with high foreign ownership generally have complex international networks and affiliate relationships, facilitating cross-border transactions at internal prices that do not always reflect fair market prices. Study by Fitri et al. (2019) shows that foreign ownership has a positive effect on transfer pricing practices because foreign investors have control and access to the company's financial decisions. Conversely, Yuliatin (2019) found that foreign ownership does not always have a significant impact, especially in companies with strong external oversight mechanisms such as independent audits and government oversight.

These two factors indicate that corporate transfer pricing decisions result from an interaction between economic motivations and regulatory pressures. Tax rates are external drivers that create incentives for companies to shift profits, while foreign ownership is an internal factor that enables them to implement this strategy through a global affiliate network. However, the persistence of differences across previous studies' findings indicates the need for further analysis, particularly in the context of Indonesian companies, which have tax characteristics and ownership structures different from those in developed countries. Therefore, this study aims to analyze the influence of tax rates and foreign ownership on corporate transfer pricing decisions in the Consumer Non-Cyclicals sector listed on the Indonesia Stock Exchange for the 2022 – 2024 period.

3. Research Method

This study employs a quantitative research approach using secondary data obtained from the annual financial reports of companies listed in the Consumer Non-Cyclicals sector on the Indonesia Stock Exchange (IDX) for the period 2022 – 2024. The selection of this sector is based on its significant contribution to the national economy and the high potential for related-party transactions that may indicate transfer pricing practices. The study aims to empirically examine the effects of tax rates and foreign ownership on corporate decisions to engage in transfer pricing.

The population in this study consists of all companies in the Consumer Non-Cyclicals sector listed on the IDX. The sampling method used is purposive sampling, with the following criteria: (1) companies listed on the Indonesia Stock Exchange during the 2022-2024 observation period, (2) consumer Non-Cyclicals companies listed on the Indonesia Stock Exchange (IDX) during the 2022-2024 period, (3) companies whose financial report data is accessible during the observation period, (4) companies with foreign ownership exceeding 20% during the observation period, and (5) companies that separate related parties from unrelated parties during the observation period. Based on these criteria, a final sample of firms is selected for further analysis.

The study uses three main variables: tax rates, foreign ownership, and transfer pricing. The tax rate is measured using the effective tax rate (ETR), which is calculated as the ratio of income tax expense to pre-tax income. The foreign ownership variable is measured by the proportion of shares owned by foreign investors relative to total outstanding shares. The transfer

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E-ISSN:
2721-13988

pricing policy is proxied by the presence of related party sales or purchases in the company's financial statements, consistent with a prior study by Fitri et al. (2019).

The data are analyzed using panel data regression analysis to determine the simultaneous and partial effects of the independent variables on the dependent variable. The research model is shown in the following Figure 1.

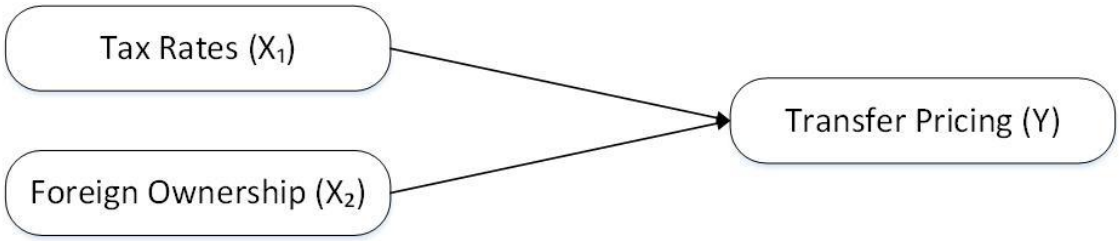

Figure 1. Research Model

The regression model is formulated as follows:

$$TP_{it} = \alpha + \beta_1 TR_{it} + \beta_2 FO_{it} + \varepsilon \quad (1)$$

Note:

TP_{it} = Transfer Pricing
α (alpha) = Constant
β_1, β_2 = Regression coefficient of each independent variable
TR_{it} = Tax Rates
FO_{it} = Foreign Ownership
ε (eplison) = Error Term

TP is measured by the receivables from related parties divided by the total receivables, formulated as follows:

$$\text{Transfer Pricing} = \frac{\text{Related Party Receivables}}{\text{Total Receivables}} \quad (2)$$

TR is measured by the tax burden divided by the profit before tax, formulated as follows:

$$\text{Effective Tax Rate} = \frac{\text{Tax Burden}}{\text{Profit before tax}} \quad (3)$$

FO is measured by the number of foreign ownership shares divided by the number of outstanding shares, formulated as follows:

$$\text{Foreign Ownership} = \frac{\text{Number of Foreign Ownership Shares}}{\text{Number of Shares Outstanding}} \quad (4)$$

The data in this study are secondary data from several sources, including the Indonesian Stock Exchange. TP, TR, and FO data were processed and collected from sources at the Indonesia Stock Exchange. The accuracy of the estimated model is evaluated using the F-test to assess overall significance, and the t-test to examine the partial significance of each independent variable. The coefficient of determination (R^2) measures the model's ability to explain the variation in the dependent variable. All hypotheses are tested at a 5% significance level ($\alpha = 0.05$), with acceptance criteria if the p-value ≤ 0.05 and rejection if the p-value > 0.05. This analytical framework ensures robust and reliable statistical inference, enabling the study to provide empirical evidence on the relationship among tax rates, foreign ownership, and corporate transfer pricing practices in Indonesia's Consumer Non-Cyclicals sector.

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4. Result and Discussion

The sample used in this study was 75 Consumer Non-Cyclicals companies listed on the Indonesia Stock Exchange (IDX) during the 2022 - 2024 period. These companies were selected based on predetermined purposive sampling criteria. The research data on the variables used have undergone transformations before analysis, with the aim of improving data quality and ensuring the resulting regression model is more accurate and meets statistical assumptions.

4.1 The Result of Descriptive Statistics Analysis

Descriptive statistics provide an empirical description of data through average (mean), minimum, maximum, and standard deviation values. The following are the descriptive statistics for the variables in this study, namely taxes and transfer pricing.

Table 1. The Result of Descriptive Statistics Analysis

Description	Tax Rates	Foreign Ownership	Transfer Pricing
Mean	19.4100	58.1272	20.3192
Std. Deviation	59.64373	23.95699	28.27918
Minimum	-425.34	23.61	.03
Maximum	232.54	95.73	96.48

Source: Data processed using SPSS

Based on the descriptive statistics results in Table 1 above, each variable can be described as follows:

a. The tax rate variable has the lowest value in the Consumer Non-Cyclicals sector at -425.34 and the highest value in the Consumer Non-Cyclicals sector at 232.54. The tax variable also has a mean value of 19.4100 with a standard deviation of 59.64373.
b. The foreign ownership variable has the lowest value in the Consumer Non-Cyclicals sector at 23.61 and the highest value in the Consumer Non-Cyclicals sector at 95.73. The tax variable also has a mean value of 58.1272 with a standard deviation of 23.95699.
c. The transfer pricing variable has the lowest value in the Consumer Non-Cyclicals sector at 0.03 and the highest value in the Consumer Non-Cyclicals sector at 96.48. The tax variable also has a mean value of 20.3192 with a standard deviation of 28.27918.

4.2 The Result of Classical Assumption Test

A classical assumption analysis was conducted to meet the requirements for using linear regression, ensuring the model is valid as a predictive tool. After calculating the linear regression in the Statistical Package for the Social Sciences (SPSS) for Windows, the regression's classical assumptions were tested. The test results are presented as follows:

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a. The Result of the Data Normality Test

A normality test is performed to determine whether the residual values are normally distributed or not. The test procedure is carried out using the Kolmogorov-Smirnov (K-S) test, with the following hypothesis:

H_0: Residual data is normally distributed

H_1: Residual data is not normally distributed

If the Sig. (p-value) > 0.05, then H_0 is accepted, meaning normality is met. The results of the normality test are shown in Table 2.

Table 2. The Result of the Data Normality Test

Description		Unstandardized Residual
N		75
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	24.11184024
Most Extreme Differences	Absolute	.090
	Positive	.090
	Negative	-.077
Test Statistic		.090
Asymp. Sig. (2-tailed)		.200[c,d]

Source: Data processed using SPSS

Based on the results of the normality test calculations in Table 2, it is known that the significance value (Sig.) is 0.200 or greater than 0.05, so the H_0 condition is accepted, namely that the normality assumption is met or the residual data is normally distributed.

b. The Result of the Heteroscedasticity Test

The heteroscedasticity test is used to determine whether residual variances differ due to the large or small values of one of the independent variables, or whether variance increases as the value of the independent variable increases. The test procedure uses a scatter plot test. The test for homogeneity of residual variance is based on the hypothesis :

H_0: homogeneous residual variance

H_1: non-homogeneous residual variance

The results of the heteroscedasticity test can be seen in Figure 2.

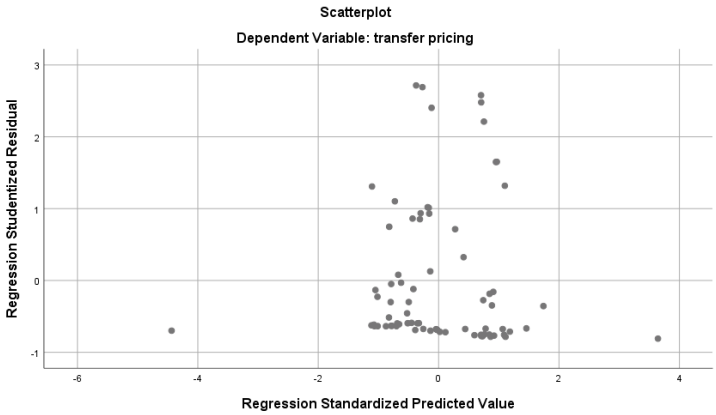

Figure 2. The Result of the Heteroscedasticity Test
Source: Data processed using SPSS

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From the test results, the scatter plot was spread out and did not form a particular pattern, indicating that heteroscedasticity did not occur. Therefore, the residuals show a variety, as seen in Table 3.

Table 3. The Result of the Heteroscedasticity Test

Variable	Unstandardized Coefficients	Standardized Coefficients	t	Sig.
	Std. Error	Beta		
Tax Rates	.033	.086	.739	.462
Foreign Ownership	.082	-.166	-1.423	.159
a. Dependent Variable: ABS_RES1				

Source: Data processed using SPSS

By looking at Table 3, from the results of the Glejser test, it was found that the significance value (Sig.) of all variables is > α (α = 0.05), so it can be concluded that the residuals have a homogeneous (constant) variance, or in other words, there are no symptoms of heteroscedasticity.

c. The Result of Autocorrelation Test

This autocorrelation test assesses the correlation between residuals, either sorted by time (as in time series) or by space (as in cross-sectional data). In the context of regression, the classical linear regression model assumes that there is no autocorrelation in the residuals (ε_i) and that the residuals associated with an observation are not affected by those of any other observations. The autocorrelation test used in this study is the Durbin-Watson method. In the Durbin-Watson table for n = 75 and k = 2 (the number of independent variables), the dL and dU values are 1.5709 and 1.6802, respectively. The value of 4-dU is 2.3198. The SPSS results show that the Durbin-Watson test value is 1.773, which is between dU and 4-dU, so it can be concluded that there is no autocorrelation.

d. The Result of Multicollinearity Test

Multicollinearity is a way to ensure that independent variables are truly independent of each other. One method often used to test independence between independent variables is the variance inflation factor (VIF).

Table 4. The Result of the Multicollinearity Test

	Variable	Collinearity Statistics	
		Tolerance	VIF
1	Tax Rates	.992	1.008
	Foreign Ownership	.992	1.008

Source: Data processed using SPSS

Referring to the printout of the regression analysis results in Table 4, the tolerance values are greater than 0.10, and the VIF values for each independent variable are less than 10, with X_1 (Tax Rate) = 1.008 and X_2 (Foreign Ownership) = 1.008. Thus, the data is declared to pass the multicollinearity test.

4.3 The Result of Multiple Linear Regression Analysis

This regression analysis is used to estimate the magnitude of the influence of the independent variables, namely tax rates (X_1) and foreign ownership (X_2), on the dependent variable, transfer pricing (Y).

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Table 5. The Result of Multiple Linear Regression Analysis

	Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	17.929	8.805		2.036	.045
	Tax Rates	.228	.097	.268	2.337	.022
	Foreign Ownership	-.108	.135	-.092	-.800	.426

Source: Data processed using SPSS

Based on the table above, it can be seen that the constant value (α value) is 17.929 and for the tax rate (β_1 value) is 0.228, while foreign ownership (β_2 value) is -0.108, so that the multiple linear regression equation can be obtained as follows.

$$TP_{it} = 17.929 + 0.228TPa_{it} + \ -0.108KP_{it} + \varepsilon$$

Which means:

a. The Transfer Pricing constant (Y) is 17.929, which means that if variables X_1 and X_2 are equal to zero, then Transfer Pricing (Y) is 17.929.
b. The X_1 coefficient of 0.228 means that for every 1% decrease in the X_1 (Tax Rate) variable, assuming X_2 (Foreign Ownership) remains constant or zero, transfer pricing increases by 0.228 (22.8%). Conversely, for every 1% increase in the X_1 variable, transfer pricing decreases by 0.228 (22.8%).
c. The X_2 coefficient of -0.108 means that for every 1% decrease in the X_2 (Foreign Ownership) variable, assuming X_1 (Tax Rate) remains constant or zero, transfer pricing increases by 0.108 (10.8%). Conversely, for every 1% increase in the X_2 variable, transfer pricing decreases by 0.108 (10.8%).

a. The Result of Model Accuracy/Significance Test (F Test)

A regression model is considered FIT if the significance value (Sig.) is <0.05. In the SPSS output, the Sig. The value is recorded at 0.048, which is less than 0.05. Thus, it can be concluded that the independent variables have a significant simultaneous or joint influence on the dependent variable.

b. The Result of Variable Significance Test (t Test)

Table 6. The Result of the Variable Significance Test (t-test)

Variable	Unstandardized Coefficients	Standardized Coefficients	t	Sig.
	Std. Error	Beta		
Tax Rates	.097	.268	2.337	.022
Foreign Ownership	.135	-.092	-.800	.426

Source: Data processed using SPSS

If the Sig. If the value is < 0.05, it is concluded that there is a significant influence, and if the Sig. If the value is exactly 0.05, you can use the t-test to determine whether the independent variable influences the dependent variable. T Table is determined by df = n-k-1 (75 - 2 - 1), so that df = 73. T Table for df = 73 is 1.993. Based on Table 6, it can be concluded that:

1) The Sig. value of variable X_1 is 0.022 (<0.05) and the calculated T is 2.337 (>1.993), so it is concluded that variable X_1 (tax rate) has a significant effect on variable Y.
2) The Sig. value of variable X_2 is 0.426 (>0.05) and the calculated T is -0.800 (<1.993), so it is concluded that variable X_2 (foreign ownership) does not have a significant effect on variable Y.

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c. The Result of the Coefficient of Determination Test (R^2 *Test*)

The coefficient of determination (R^2) value is used to determine the contribution of the independent variables (tax rates (X_1) and foreign ownership (X_2)) to the dependent variable (transfer pricing (Y)). The coefficient of determination is used to quantify the extent of the independent variables' influence on the dependent variable. From the SPSS result, the Adjusted R^2 (coefficient of determination) was obtained at 0.056. This means that 5.6% of the transfer pricing variable will be influenced by the independent variables, namely the tax rate (X_1) and foreign ownership (X_2). Meanwhile, the remaining 94.4% of the transfer pricing variable will be influenced by other variables not discussed in this study.

In addition to the coefficient of determination, a correlation coefficient is also obtained, which shows the magnitude of the relationship between the independent variables, namely tax rates and foreign ownership, with the transfer pricing variable. The R value (correlation coefficient) is 0.285; this correlation value indicates that the relationship between the independent variables, namely tax rates (X_1) and foreign ownership (X_2), with transfer pricing falls in the weak category, as it is in the range of 0.21 - 0.40. The relationship between the independent variables, namely tax rates (X_1) and foreign ownership (X_2), and transfer pricing is positive, meaning that as the independent variables increase, transfer pricing will also increase.

4.4 Discussion

In this study, a sample of 75 companies was taken over a 3-year period from 2022 to 2024. After describing the research variables, the classical assumption test was conducted. The classical assumption tests in this study include a normality test, a heteroscedasticity test, an autocorrelation test, and a multicollinearity test. Starting with the normality test, the results are shown in the table, where the test was conducted using the Kolmogorov-Smirnov method, with a p-value of 0.200, which is greater than 0.05, indicating that the data is normally distributed. The second test, the heteroscedasticity test, using a scatter-plot diagram, shows the points are spread out and do not form a specific pattern, so there is no heteroscedasticity. Therefore, it can be concluded that the residuals have a homogeneous (constant) variance, i.e., there are no signs of heteroscedasticity. Then, the Durbin-Watson autocorrelation test shows a value of 1.773, located between dU and 4-dU, indicating no autocorrelation. The final classical assumption test, namely the multicollinearity test, showed a tolerance value of 0.992 (greater than 0.10) and a VIF value of 1.008 for each independent variable (less than 10), which means the multicollinearity assumption is met. The research method used in this study is a multiple linear regression analysis, with the results presented in the regression equation table. Tax rates have a significant, positive influence on transfer pricing, with a Sig. value of 0.022. Foreign ownership does not have a significant influence on transfer pricing, as indicated by the Sig. value of 0.426. Tax rates and foreign ownership simultaneously exert a significant influence on transfer pricing, with Sig. value of 0.048, where higher tax rates and foreign ownership increase transfer pricing. Then 5.6% of the transfer pricing variable will be influenced by its independent variables, namely tax rates (X_1) and foreign ownership (X_2).

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5. Conclusion

This study empirically examined the extent to which tax rates and foreign ownership influence corporate decisions to implement transfer pricing policies among Consumer Non-Cyclical Companies listed on the Indonesia Stock Exchange during the study period. This analysis confirms that tax rates have a significant, positive effect on transfer pricing activity, suggesting that higher tax burdens reinforce managerial incentives to shift earnings between affiliated entities to reduce the company's overall tax liability. Conversely, foreign ownership was not found to have a statistically significant effect on transfer pricing, indicating that the presence of foreign shareholders does not inherently encourage or intensify profit shifting behavior within the observed corporate group structure. This finding addresses the research question by demonstrating that only one of the studied determinants, namely tax rates, plays a significant role in shaping transfer pricing decisions, while foreign ownership does not.

The results of this study contribute academically by reaffirming the relevance of tax incentives as a key determinant of transfer pricing behavior and by highlighting inconsistencies in previous empirical studies regarding the influence of foreign ownership. This reinforces a research gap, particularly in emerging markets and consumer-oriented sectors with complex ownership structures and varying levels of regulatory oversight. The significant role of tax rates underscores the importance of continued improvements in tax enforcement and documentation requirements for related-party transactions to ensure tax fairness and prevent aggressive profit shifting.

While this study offers valuable insights, it also acknowledges that transfer pricing is a multidimensional phenomenon that cannot be fully explained by taxation and ownership factors alone. Given this, future research is encouraged to incorporate additional determinants, such as firm size, profitability, leverage, corporate governance mechanisms, and audit quality, to develop a more holistic understanding of transfer pricing behavior in the Indonesian business environment and in other developing countries. Such expansion would not only address existing research gaps but also enhance the theoretical robustness and practical relevance of transfer pricing studies globally.

Acknowledgment

This paper is an output of the science project presented as part of the International Conference on Sustainability at the University of Merdeka Malang. The author would like to express deepest gratitude to the University of Merdeka Malang for providing an excellent academic environment, continuous support, and valuable learning experiences that have shaped the completion of this research. The author is also sincerely thankful to her parents for their unwavering encouragement, motivation, and prayers throughout the entire research and writing process, which have been fundamental in accomplishing this scientific work.

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