

## Research Article

# Exploring the Impact of Taxes, Firm Size and Bonus Mechanisms on Transfer Pricing Decisions

Nisa Ulil Hidayah<sup>1</sup>, Suhirman Madjid<sup>2\*</sup>

<sup>1,2</sup> Faculty of Economics and Business, Universitas YARSI, Jakarta

Received: 26-07-2024; Accepted: 25-12-2024

## Abstract

This research examines the impact of tax variables, company size, and bonus mechanisms on corporate decisions to engage in transfer pricing. The study focuses on manufacturing companies listed on the Indonesia Stock Exchange (BEI) during the 2014–2016 period, with 34 firms selected using the purposive sampling method. Secondary data was analyzed using multiple linear regression with a 5% significance level, processed through SPSS v.20 software. Findings reveal that tax variables, company size, and bonus mechanisms positively influence transfer pricing decisions. This suggests that companies leverage these factors to optimize tax burdens while adhering to internal and external incentives. The managerial implications underscore the importance of understanding international tax structures and regulations to implement legal transfer pricing strategies effectively. This study contributes original insights by integrating the bonus mechanism as a key determinant in transfer pricing, highlighting how internal compensation influences managerial decisions. The use of purposive sampling and robust statistical methods provides actionable recommendations for both regulators and corporate management. These findings encourage balancing tax optimization with ethical and compliance considerations, ensuring sustainable and transparent transfer pricing practices.

Keywords: Tax, Company Size, Bonus Mechanism, Transfer Pricing

JEL Classification: H25, M41, L25

How to cite: Hidayah, N. U., Madjid, S., (2024). Exploring the Impact of Taxes, Firm Size and Bonus Mechanisms on Transfer Pricing Decisions, *Taxation and Public Finance (TPF)* 2(1), 23-33

Corresponding author: Suhirman Madjid ([suhirman.madjid@yarsi.ac.id](mailto:suhirman.madjid@yarsi.ac.id))



This is an open-access article under the [CC-BY-SA](https://creativecommons.org/licenses/by-sa/4.0/) international license.

## 1. Introduction

Transfer pricing plays a crucial role for companies engaged in transactions involving goods and services within a group and between entities with special relationships. It is a common practice among companies with such affiliations, aimed at incentivizing subsidiaries by facilitating the transfer of assets and services within the corporate group. Initially, transfer pricing was utilized to evaluate performance across different divisions and branches of a company. However, today it often carries a negative connotation, as it is frequently associated with efforts to reduce the overall tax burden of multinational corporations (Sa'diah & Afriyenti, 2021).

Transfer pricing refers to the price set for transactions between members of a multinational group, which may diverge from fair market prices, provided it aligns with the group's internal policies. This flexibility allows the group to adopt the principles it deems appropriate. The primary goal of transfer pricing is to assess and measure company performance. Multinational firms often leverage transfer pricing to minimize their tax liabilities through the manipulation of prices charged between their divisions. A critical factor for successful transfer pricing from a tax standpoint is the existence of transactions reflecting special relationships (Ningtyas & Mutmainah, 2022). Moreover, transfer pricing can serve as a strategic tool for maximizing profits by establishing prices for products or services exchanged among different organizational units within the same company (Intra-company Transfer Pricing) (Wahyudi & Fitriah, 2021).

Company size is a metric that reflects the overall scale of a business, typically assessed through total assets. This metric provides insight into the company's scale and potential business opportunities. Larger companies, with substantial assets, may experience an increased risk of transfer pricing abuse. These firms are often viewed as more stable in generating consistent profits and may have more secure business prospects. To maintain transparency, large companies are expected to present their financial reports in a clear manner, as their performance is closely monitored by the public. Consequently, company size is thought to have a positive influence on transfer pricing, as suggested by Adelia & Santioso (2021). However, there are varying perspectives in existing research: Adelia & Santioso (2021) assert that company size does not impact transfer pricing decisions, while Agustina (2019) finds it has a positive effect. Conversely, research by Kusumasari et al. (2018) indicates that company size may have a negative influence on such decisions. Given these discrepancies in previous findings, further research is necessary to clarify the relationship between company size and transfer pricing decisions.

The bonus mechanism serves as a form of reward or recognition for employees based on the achievements they have attained relative to the company's desired targets. Companies frequently use profit as the primary metric for rewarding directors or managers. When bonuses are linked to profit levels, it is understandable that directors may engage in actions to influence and manipulate profits in order to maximize their bonuses and compensation. One common approach is through transfer pricing. Previous research indicates that the bonus mechanism has a significant negative impact on transfer pricing (Sulistiyowati & Kananto, 2018), while other studies suggest that the bonus mechanism does not have any effect on transfer pricing (Sulistiyawati, Santoso, & Rokhawati, 2019).

"Based on the explanation and phenomena that occurred as well as the inconsistencies in the findings of earlier studies on the effects of tax and bonus systems, business size, audit quality, and transfer pricing in Main Sector Companies listed on the Indonesia Stock Exchange for the 2017 to 2018 period." Ongoing accounting practices will focus on the accounting numbers that are formed aside, then the practice of illegal pricing transfers in accounting becomes a normal thing. Bonuses in a company will create incentives for management to increase the total value of managers' bonus receipts so that managers will be more favor accounting methods that increase profits for the current period (Agustina, 2019). Bonuses are rewards given directly to employees due to profits obtained by the company, they can be variable and variable. Bonuses are given by company leaders, which are sometimes adjusted to their position, one example is bonuses given to company managers or directors. Usually, bonuses given to managers or directors can be in the form of commissions, allowances, intensive sales and others (Mineri & Paramitha, 2021).

The main problem that arises in transfer pricing is that multinational companies and affiliates need to make sure to utilize policies as a means for companies with special relationships to reduce taxable profits in a country. So this can cause losses in countries that apply high tax rates such as Indonesia, because corporate taxpayers' income is channeled to companies domiciled in countries with low tax rates. This transfer pricing practice is thought to have caused losses in the tax sector, reaching billions or even trillions of rupiah. This unreasonable practice benefits countries that actually protect against unscrupulous practices, such as tax heaven countries. Based on 6 annual

data, Global Financial Integrity says that illicit money leaving Indonesia can reach 150 trillion rupiah each year due to transfer pricing practices, and most of the rest comes from tax evasion.

The contribution of this research lies in addressing the gaps and inconsistencies in prior studies by integrating multiple influencing variables and providing insights into the specific context of Indonesia's regulatory and economic environment. By analyzing company size as an indicator of resource capability, tax burden as a motivating factor, and bonus mechanisms as an internal managerial incentive, this study offers a comprehensive perspective on the drivers of transfer pricing practices. Additionally, this research underscores the importance of strengthening tax regulations and enforcement to mitigate losses from transfer pricing abuse, offering valuable implications for policymakers, regulators, and corporate governance practitioners.

## **2. Literature Review and Hypothesis**

### **Transfer Pricing**

Determining transfer pricing generally refers to a company's policy for establishing the price of transactions between parties that share a special relationship. While the term "transfer pricing" is inherently neutral, it is often perceived as a strategy to reduce taxes by shifting prices or profits among companies within the same group (Kurniawan, 2015). Essentially, transfer pricing reflects the price set for sales transactions involving goods and services between divisions or companies that are closely related. From a taxation perspective, transfer pricing can be defined as the price a company charges for goods, services, and intangible assets in transactions with affiliated entities. This pricing can be considered unreasonable, as it may fluctuate based on the decisions made by the parties involved in the special relationship (Nurwati, 2021).

### **Tax**

Taxation poses challenges for many companies, as they are obligated to comply with applicable tax calculations and make necessary payments. This obligation can be perceived as detrimental, leading to instances of tax fraud. To mitigate their tax liabilities, companies often engage in various strategies, including transfer pricing.

Taxes serve multiple functions: primarily, they have a budgetary role as a source of revenue for the government, funding both routine and development expenditures. Additionally, taxes can be used as a regulatory tool to implement government policies in social and economic areas, helping to achieve specific objectives beyond just revenue generation (Official, 2019).

### **Firm Size**

Company size is a value that shows the size of a business as determined by its market capitalization, net revenue, and total assets. Businesses are separated into two categories based on their size: small businesses and large businesses. The former have more complex management systems and have higher profits too. The magnitude of a company's assets is one metric that indicates its size. The company size scale allows for the classification of a firm based on a number of factors, such as market capitalization value, log size, and total assets. (Dwi and others, 2022). Company size is a figure that indicates the visible size of the business through total assets. Company size can show total assets and company scale to determine business opportunities and whether the company is good or not. Abuse of transfer prices will continue to increase if the business is big and has a lot of assets, where the business is located considered mature in obtaining profits consistently and has guaranteed business opportunities (Sa'idah & Afriyenti, 2022)

### **Bonus Mechanism**

The bonus mechanism is a strategy or calculation motif in accounting whose aim is to reward directors or management by looking at the company's overall profits. Directors conduct their duties and tend to want to show good performance to the company owner because the company owner or shareholders have assessed the performance of the directors. With a good assessment, the company owner will give awards to directors who have managed their company well. The award can be in the form of a bonus given to company directors. By giving bonuses to directors, company owners will see the performance of the directors in managing their company. When assessing the

performance of directors, company owners usually look at the overall company profits generated (Karisman et al., 2023).

### Research Conceptual Framework

This research consists of the dependent variable (dependent variable), Transfer Pricing, and the independent variables (independent variables), Tax, Company Size, and Bonus Mechanism. The purpose of this study is to ascertain how tax factors, firm size, and bonus structures affect the choices made by companies that are listed on the Indonesia Stock Exchange regarding transfer pricing. Figure 1 below displays the framework for this study:

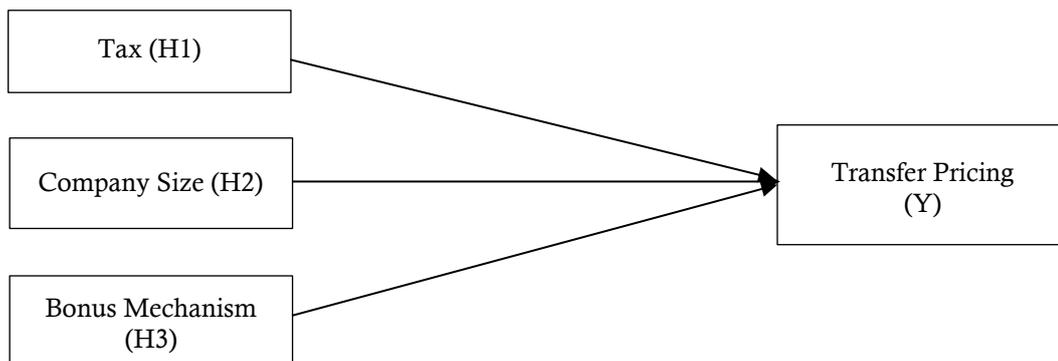


Figure 1. Research Conceptual Framework

### Research Hypothesis

#### The Influence of Taxes on the Decision to Conduct Transfer Pricing

Taxes, as stated in Law Number 36 2008, are taxes paid by people or entities in relation to profits earned during one tax year. Paying taxes is a form of manifestation as a citizen who fulfills obligations for state expenditure and national development. This condition happens because, in essence, taxes as state All funding, including the expenses of actual development, is supported by income. Despite the fact that the government has put in place numerous tax regulations and controlled them in this manner, many businesses still attempt to evade taxes by exploiting regulatory gaps (Rifqiyati et al., 2021). The findings of this study are consistent with those of Rizanti and Karlina (2024), who found that taxes have a favorable impact on transfer pricing. This finding is due to the company's efforts to minimize the tax burden that must be paid. Transfer pricing is often used by companies, especially multinational companies, as a strategy to shift profits to countries or notify with lower tax rates (tax havens), so that the overall tax burden becomes smaller. Based on the explanation above, the hypothesis that will be proposed is:

**H1: Taxes have a positive effect on the Company's Decision to Conduct Transfer Pricing**

#### The Influence of Company Size on the Company's Decision to Conduct Transfer Pricing

Company size is a figure that represents the size of the business as shown by its total assets. Whether or not a company's business opportunities are favorable can be determined by looking at its size and total assets. A major firm with substantial assets will continue to see an increase in transfer price abuse, where the company is considered mature in obtaining profits consistently and has guaranteed business opportunities. Large companies must always present financial reports transparently because the public will monitor the company's performance. Therefore, company size has a positive influence on transfer pricing (Adelia & Santioso, 2021). Agustina (2019), Sa'idah & Afriyenti (2021), Kurnila et al. (2024), and Liza et al. (2020) stated that company size has a positive effect on transfer pricing decisions. Larger companies, which are generally characterized by significant total assets, revenues and operational scope, tend to have greater capacity and incentives to apply transfer pricing in their business activities. Based on the explanation above, the hypothesis that will be proposed is:

**H2: Company size has a positive influence on the company's decision to carry out transfer pricing**

### **The Influence of the Bonus Mechanism on the Company's Decision to Conduct Transfer Pricing**

The bonus mechanism is a strategy or calculation motif in accounting whose aim is to reward directors or management by looking at the company's overall profits. Directors tend to want to show good performance to the company owner because the company owner or shareholders have assessed the performance of the directors. With a good assessment, the company owner will give awards to directors who have managed their company well. The award can be in the form of a bonus given to company directors. By giving bonuses to directors, company owners will see the performance of the directors in managing their company. When assessing the performance of directors, company owners usually look at the overall company profits generated (Karisman et al., 2023).

This research is in line with research conducted by Surianto et al. (2023), Manggalla & Sipi (2023), and Rizanti & Karlina (2024) stated that the bonus mechanism influences transfer pricing decisions. This finding is because of the profit level. Directors or managers can manipulate profits in order to maximize their bonuses. To maximize bonuses, managers tend to maximize net profit. Evaluation of overall profit achievement encourages managers and directors to make maximum efforts to optimize company profits through the implementation of transfer pricing practices (Anggraeni et al., 2023). Bonuses are often given based on financial performance, especially the company's net profit. In this context, transfer pricing can be used as a strategy to regulate the amount of reported profit so as to maximize the bonus received by the manager or directive. Based on the explanation above, the hypothesis that will be proposed is:

**H3: The bonus mechanism has a positive influence on the company's decision to carry out transfer pricing**

## **3. Data and Methods**

### **Types of research**

The design of this study was causal in nature. Finding the causes of study variables or examining the relationships between one variable and other variables are two applications of causal research. This kind of study employs a quantitative methodology and is descriptive in nature. This study places a strong emphasis on numerically measuring variables and applying multiple linear regression analysis to statistical data analysis. Secondary data is the kind of data used in this study. In this study, secondary data is gathered in the form of financial reports of manufacturing companies listed on the Indonesian Stock Exchange, Indonesian Stock Exchange (IDX), the official BEI website ([www.idx.co.id](http://www.idx.co.id)) and Shares OK (<http://www.sahamoke.co.id>). The data source was obtained from the annual financial report. The observation period carried out was 3 (three) years, namely 2014 to 2016.

### **Population and Sample**

The target population studied was 34 manufacturing companies listed on the Indonesia Stock Exchange for the 2014-2016 period. If the population is large and it is not possible to research all members of the population, samples taken from the population can be used. The sampling technique used in this research was Purposive Sampling. Purposive Sampling (Judgement Sampling/Expert Choice) is a technique for selecting sampling units that are carried out based on consideration of several criteria. The criteria determined are as follows: Manufacturing Companies that consistently publish financial reports on the Indonesia Stock Exchange from 2014 to 2016, Manufacturing Companies that have yet to be delisted or changed sectors during this research period, Sample companies use the rupiah currency in presenting financial reports during the observation period from 2014 to 2016.

### **Method of collecting data**

The documentation approach, which involves gathering, documenting, and examining secondary data in the form of 34 manufacturing firm financial reports released by the Indonesia Stock Exchange, is the data collection strategy employed in this study. Data on annual financial reports that have been audited for manufacturing companies listed on the Indonesia Stock Exchange for

the time in question was collected for this study 2014 - 2016 which are accessed using internet media via the BEI, BI and other websites.

#### 4. Results

##### Descriptive Statistical Analysis

**Table 1. Results of Descriptive Statistical Analysis**

	N	Minimum	Maximum	Mean	Std. Deviation
Tax	102	,095	,261	,156	.3169
Size Company	102	14.72	28.56	19.37	3,156
Mechanism Bonus	102	-41.8	23,384	2.25	5,341
Transfer Pricing	102	8.81	24.31	15.36	3,133

Source: Processed data (2020)

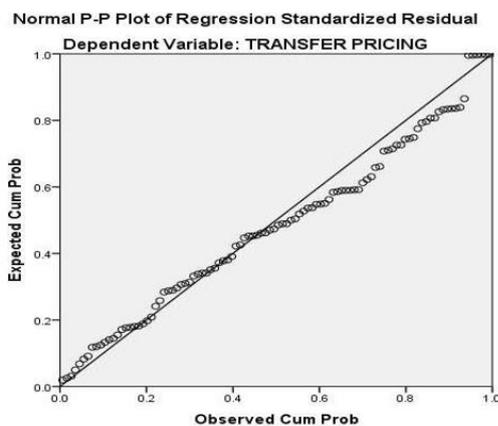
Based on the descriptive statistics in Table 1 above, tax in this study is measured by the effective tax rate, which is the result of the tax burden minus the deferred tax burden divided by taxable profit. The tax has a standard deviation value of 0.3169.

LN of total assets measures company size. The average (mean) value of the Company Size variable is 19.37. The lowest (minimum) value is 14.72 for companies with the BUDI code, and the highest (maximum) value is 28.56 for companies with the TMAS code. Company size has a standard deviation value of 3.156.

In this research, the Bonus Mechanism variable is measured based on the percentage of net profit achieved in year t to net profit in year t-1. The average (mean) value of the bonus mechanism variable is 19.37. The lowest (minimum) value is -41.8, which is found in companies with the code CTBN. The highest (maximum) value is 23,384, which is found in companies with the UNIC code. The bonus mechanism has a standard deviation value of 5.341.

In this research, the transfer pricing variable is measured based on the percentage of related-party transactions or transaction receivables with related parties to total receivables. The average (mean) value of the transfer pricing variable is 15.36. The lowest (minimum) value is 8.81, which is found in companies with the code TKIM, and the highest (maximum) value is 24.31, which is found in companies with the code CEKA. Transfer pricing has a standard deviation value of 3.133.

##### Normality test



**Figure 2. P-Plot graph**

Figure 2 shows that the normality assumption has been fulfilled because the data distribution has a line-shaped pattern that follows the direction of the diagonal line and is around it. Therefore, these results indicate that the data are normally distributed.

**Multicollinearity Test**

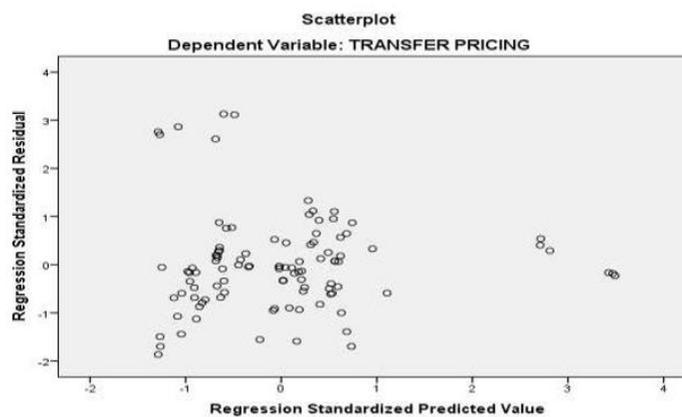
**Table 2. Multicollinearity Test Results**

Model	Sig	Collinearity Statistics	
		Tolerance	VIF
Tax	,007	,595	1,679
Company Size	,003	,594	1,684
Bonus Mechanism	,020	,997	1,003

Source: Processed data (2020)

Based on Table 2, it can be concluded that the tax variable (X1) has a tolerance value of  $0.595 > 0.10$  and a VIF value of  $1.697 < 10$ . The company size variable (X2) has a tolerance value of  $0.594 > 0.10$  and a VIF value of  $1.684 < 10$ . Bonus mechanism variable (X3)  $0.997 > 0.10$  and VIF value of  $1.003 < 10$ . It can be concluded that all independent variables (X) has a tolerance value greater than 0.10 and a VIF value smaller than 10, which means the regression model is free from multicollinearity.

**Heteroscedasticity Test**



**Figure 3. Scatterplot graph**

Based on Figure 3 above, the sample data is distributed randomly and does not form a particular pattern. The data is spread both above and below the number 0 on the Y-axis; thus, it can be concluded that there is no heteroscedasticity problem in the regression model. So, the regression model is suitable for use and then proceeds to hypothesis testing.

**Autocorrelation Test**

**Table 3. Autocorrelation Test Results**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.852a	,726	,717	1.6666	2,182

Source: Processed data (2020)

Based on Table 3 above, the dU value with  $n = 102$  and  $k = 3$  is 1.738 (rounded, obtained from the DW table, as attached) so that the value  $(4-dU)$  is 2.262. The dL value with  $n = 102$  and  $k = 3$  is 1.617 (rounded, obtained from the DW table, as attached), so the value  $(4-dL)$  is 2.383.

## Multiple Linear Regression Test

**Table 4. Multiple Linear Regression Test Results**

Model	Unstandardized Coefficients		Standardized Coefficients
	B	Std. Error	Beta
(Constant)	1,636	1,299	
Tax	9,307	,000	,188
Company Size	,698	,068	,703
Bonus Mechanism	.073	.031	.126

Source: Processed data (2020)

Based on Table 4 above, the constant in the equation above is 1.636. This result means that if all the independent variables (H1, H2 and H3) have a value of zero, then the dependent variable (Y) is 1.636.

Tax Coefficient (H1) on Transfer Pricing (Y) The tax coefficient value is 9.307 and has a positive sign. This indicates that tax has a unidirectional relationship with transfer pricing. If the value of other independent variables is constant and the tax variable increases, it can be interpreted that a one-percent increase in tax will increase the transfer pricing variable by 9.307.

Company Size Coefficient (H2) on Transfer Pricing (Y) The Company Size coefficient value is 0.698. This shows that company size has a direct relationship with transfer pricing. A one-percent increase in company size will increase the transfer pricing variable by 0.698, assuming other variables remain constant.

Bonus Mechanism Coefficient (H3) on Transfer Pricing (Y) The Bonus Mechanism coefficient value is 0.073 and has a positive sign; this indicates that the bonus mechanism has a unidirectional relationship with transfer pricing. This result means that if the value of other independent variables is constant and the bonus mechanism increases, it can be interpreted that a one percent increase in the bonus mechanism will increase the transfer pricing variable by 0.073.

### Partial Test (t-Test)

**Table 5. Partial Test Results (t-Test)**

Model	Unstandardized Coefficients		t
	B	Std. Error	
(Constant)	1,636	1,299	1,259
Tax	9,307	,000	2,747
Company Size	,698	,068	10,243
Bonus Mechanism	.073	.031	2,373.

Source: Processed data (2020)

Based on Table 5 above, the results of data testing show that the calculated Tax variable has a value of 2.747. The sig level shows a value of 0.007. It can be concluded that count (2.747) > table (1.987) and the Sig level. 0.007 < 0.05. So Ho1 is rejected, and Ha1 is accepted, meaning that tax has a positive effect on the company's decision to carry out transfer pricing.

The results of data testing show that the t-calculated Company Size variable obtained a value of 10.243. The sig level shows a value of 0.003. It can be concluded that count (10.243) > table (1.987) and the Sig level. 0.003 < 0.05. So, Ho2 is rejected, and Ha2 is accepted. This finding means that

company size partially has a positive effect on the company's decision to carry out transfer pricing.

The results of data testing show that the calculated bonus mechanism variable has a value of 2,373. The significance level shows a result of 0.020. It can be concluded that t-count (2.373) > t-table (1.987) and the Sig level. 0.020 < 0.05. So Ho3 is rejected and Ha3 is accepted, which means that the bonus mechanism partially has a positive effect on the company's decision to carry out Transfer Pricing.

### Coefficient of Determination Test

**Table 6. Coefficient of Determination Test Results**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.852a	,726	,717	1.6666

Source: Processed data (2020)

Based on table 6 above, shows that the coefficient of determination (Adjusted R Square) is 0.717. This result means that the variation in the dependent variable, namely Transfer Pricing, can be explained by the independent variables, namely tax, company size and bonus mechanism, which is 71.7%. This finding indicates the adequacy of the independent variable's ability to explain the dependent variable at 71.7%, while the remaining 28.3% is explained by other variables not explained in this research.

## 5. Discussion

### The Influence of Taxes on the Decision to Conduct Transfer Pricing

Based on the results in Table 5, the first hypothesis states that taxes have a positive effect on the company's decision to carry out transfer pricing. This finding means that the higher the tax that the company must pay, the greater the urge or motivation to carry out transfer pricing with the aim of keeping taxes as low as possible. This effect is because manufacturing (multinational) companies that gain profits will shift income from countries with high tax rates to countries with low tax rates. So, the higher a country's tax rate, the greater the possibility of companies carrying out transfer pricing practices. These results are supported by research by Rizanti and Karlina (2024), which states that taxes have a positive effect on transfer pricing.

### The Influence of Company Size on the Company's Decision to Conduct Transfer Pricing

Based on the results in Table 5, the second hypothesis states that company size has a positive effect on the company's decision to carry out transfer pricing. In general, the larger the size of a company, the greater the need to support the company's continuity/going concern. Therefore, company leaders use transfer pricing policies as a way to overcome this. This impact means that the larger the company size, the greater the company's decision to carry out transfer pricing. Research conducted by Agustina (2019), Sa'idah & Afriyenti (2021), Kurnila et al. (2024), and Liza et al. (2020) stated that company size has a positive effect on transfer pricing decisions.

### The Influence of the Bonus Mechanism on the Company's Decision to Conduct Transfer Pricing

Based on the results in Table 5, the third hypothesis states that the Bonus Mechanism variable has a positive effect on the company's decision to carry out transfer pricing. So, the bonus mechanism has a positive influence on the decision to carry out transfer pricing. This finding means that the bigger the bonus desired by the directors or managers of a company, the greater the motivation of the directors or managers to increase profits in each period. Therefore, to increase company profits, one method used is to implement a bonus mechanism through transfer pricing. By giving bonuses to directors and managers, company owners will see the performance produced during one period. In this case, the company owner will look at the company's overall net profit as a measure in assessing performance. This research is in line with research conducted by Surianto et al. (2023), Manggalla & Sipi (2023), and Rizanti & Karlina (2024) stated that the bonus mechanism influences

transfer pricing decisions. This effect is because of the profit level. Directors or managers can manipulate profits in order to maximize their bonuses. To maximize bonuses, managers tend to maximize net profit. Evaluation of overall profit achievement encourages managers and directors to make maximum efforts to optimize company profits through the implementation of transfer pricing practices (Anggraeni et al., 2023).

## 6. Conclusion

Based on the results of the discussion above, the following conclusions can be drawn: Taxation exerts a positive influence on a company's decision to engage in transfer pricing. This finding indicates that as the tax burden increases, so does the motivation for companies to implement transfer pricing strategies aimed at minimizing tax liabilities. Additionally, company size also positively affects the decision to adopt transfer pricing. Generally, larger companies have a greater need to ensure their long-term viability; thus, company leaders often leverage transfer pricing policies as a means to address this requirement. This implies that as company size increases, so does the likelihood of adopting transfer pricing practices. Lastly, the Bonus Mechanism has a positive impact on transfer pricing decisions. This effect suggests that the higher the bonuses sought by directors or managers, the stronger their motivation to enhance profits during each period. Consequently, one strategy employed to boost company profits is the implementation of a bonus mechanism facilitated by transfer pricing.

The managerial implication is that management should take into account the international tax structures and regulations applicable in different jurisdictions to effectively optimize the company's tax burden through legal transfer pricing. Decisions regarding transfer pricing must consider the scale of the company's operations, as well as their effects on operational efficiency and administrative costs. Implementing a transparent bonus structure, along with a focus on fairness, can deter managers from making transfer pricing choices aimed solely at achieving short-term bonus targets, which could prove detrimental to the company's long-term success.

## Recommendations

Some particular recommendations for business management about how taxes, firm size, and bonus structures affect the choice to implement transfer pricing are as follows: To guarantee adherence to tax laws, work with tax advisors that specialize in transfer pricing in multiple jurisdictions. This recommendation includes developing comprehensive transfer pricing documentation that aligns with local and international laws, such as the OECD guidelines.

## References

- Adelia, M., Santioso, L. (2021). Pengaruh Pajak, Ukuran Perusahaan, Profitabilitas dan Exchange Rate Terhadap Transfer Pricing. *Jurnal Multiparadigma Akuntansi*, 3(2) <https://doi.org/10.24912/jpa.v3i2.11793>
- Agustina, N. A. (2019). Pengaruh Pajak, Multinasional, Ukuran Perusahaan, Profitabilitas dan Mekanisme Bonus Terhadap Keputusan Melakukan Transfer Pricing. *Prosiding Seminar Nasional Mahasiswa Universitas Islam Sultan Agung*, 53-56
- Anggraeni, S. P., & Dkk. (2023). Pengaruh Mekanisme Bonus dan Intangible Assets terhadap Transfer Pricing dengan Tax Avoidance sebagai Variabel Moderasi. *Sinomika Journal*, 718
- Dwi, B. K., Gabriella, S. F., Widyatiningsih, T., Suryaputri, R. V. (2022). Faktor Determinasi Transfer Pricing (Studi Empiris Pada Perusahaan Food and Beverages Periode 2017-2020). *Jurnal Magister Akuntansi Trisakti*, 9(1) <https://doi.org/10.25105/jmat.v9i1.9690>
- Karisma, R., Rinaldo, J. Putri, S. Y.A. (2023). Penghindaran Pajak, Mekanisme Bonus Dan Debt Covenant Terhadap Keputusan Trajnsfer Pricing Pada Perusahaan Pertambangan Yang Terdaftar Di Bursa Efek Indonesia. *Pareso Journal*, 5(1) <https://doi.org/10.54259/akua.v1i1.254>
- Kurniawan, A. M. (2015). *Buku Pinter Transfer pricing untuk Kepentingan Pajak*. Yogyakarta: Andi.
- Kurnila, Alvia., Hapsari, D. P., Octaviani, Santi. (2024). Pengaruh Beban Pajak, Kepemilikan Asing Dan Ukuran Perusahaan Terhadap Transfer Pricing, 3(1) <https://doi.org/10.30656/lawsuit.v3i1.1385>

- Kusumasari, R. D., Fadilah, S., Sukarmanto, E. (2018). Pengaruh Pajak, Kepemilikan Asing dan Ukuran Perusahaan Terhadap Pricing (Studi empiris pada Perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia Periode 2012-2016). *Prosiding Akuntansi*, 4(2)
- Liza, Asma., Dewi, R. C., Ramadhan, M. F. (2020) Beban Pajak, Tunelling Incentive, Exchange Rate, Ukuran Perusahaan Dan Profitabilitas Terhadap Transfer Pricing Perusahaan Manufaktur. *Journal Of Business and Economics*, 5(2) <https://doi.org/10.35134/jbeupiyptk.v5i2.110>
- Mangngalla, M., Sipi, A. D. S. (2023). Pajak Sebagai Variabel Moderasi Pada Determinana Transfer Pricing. *Paulus Journal of Accounting*, 4(2)
- Mineri, M. F., & Paramitha, M. (2021). Pengaruh Pajak, Tunneling Incentive, Mekanisme Bonus dan Profitabilitas Terhadap Transfer Pricing. *Jurnal Analisa Akuntansi dan Perpajakan*, 37. <https://doi.org/10.25139/jaap.v5i1.3638>
- Ningtyas, F., Mutmainah, K. (2022). Determinan Tax Heaven, Bonus Scheme, Tunneling Incentive dan Debt Covenant Terhadap Keputusan Perusahaan Untuk Melakukan Transfer Pricing. *Journal of Economic Business and Engineering (JEBE)*, 3(2) <https://doi.org/10.32500/jebe.v3i2.2651>
- Nurwati. (2021). Pengaruh Tunneling Incentive Dan Debt Convennat Terhadap Transfer Pricing Dengan Tax Minimacation Sebagai Variabel Moderating Pada Perusahaan Sektor Pertambangan Yang Terdaftar di Bursa Efek Indonesia. *Jurnal Digital Akuntansi (JUDIKA)*, 1(2)
- Resmi, S. (2019). *Perpajakan: Teori dan Kasus*. Salemba Empat
- Rifqiyati, & Et al. (2021). Pengaruh Pajak, Multinasionalitas, dan Tunneling Incentive terhadap Keputusan Transfer Pricing. *Jurnal Akuntansi, Keuangan, dan Manajemen (Jakman)*, 171. <https://doi.org/10.35912/jakman.v2i3.214>
- Rizanti, D. F., Karlina, Lilis. (2024). Pengaruh Pajak, Mekanisme Bonus Dan Tunneling Incentive Terhadap Transfer Pricing. *Jurnal Mahasiswa Humanis*, 4(2)
- Sa'idah, F., Afriyenti, M. (2021). Pengaruh Tax Avoidance, Ukuran Perusahaan dan Dewan Komisaris Independen Terhadap Kebijakan Transfer Pricing. *Jurnal Eksplorasi Akuntansi*, 3(3), 501-516. <https://doi.org/10.24036/jea.v3i3.385>
- Sulistiyawati, A. I., Santoso, A., & Rokhawati, L. (2019, Juni). Deteksi Deteriminan Keputusan Transfer pricing. *Jurnal Administrasi dan Bisnis*, 13(1), Hal. 22-33. <https://doi.org/10.33795/j-adbis.v13i1.61>
- Sulistiyowati, & Kananto, R. (2018). The Influences of Tax, Bonus Mechanism, Leverage and Company Size Through Company Decision on Transfer Pricing. *Advances in Economics, Business and Management Research*, 73.
- Surianto, N. M., Kartini., Indrijawati, A. (2023). Pengaruh Tunneling Incentive, Mekanisme Bonus Dan Keverage Terhadap Transfer Pricing Dengan Tax Minimization Sebagai Variabel Moderasi. *SEIKO: Journal Of Management & Business*, 5(1)
- Wahyudi, I., & Fitriah, N. (2021). Pengaruh Aset Tidak Berwujud, Ukuran Perusahaan Kepatuhan Perpajakan, dan Leverage Terhadap Transfer Pricing. *Jurnal Akuntansi*, 389. <https://doi.org/10.28932/jam.v13i2.3885>