

Tax Planning and Transfer Pricing

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Abstract

The purpose of this research is to examine the influence of tax burden, currency rate, and tax planning on transfer pricing choices made by manufacturing businesses listed on the Indonesian Stock currency between 2019 and 2023. Purposive sampling was used to pick the sample, which was chosen by 12 firms. In this research, employ the double linear regression analysis approach for analysis. According to the findings of this research, tax burden has a favorable influence on transfer pricing, however exchange rate and tax planning have no effect on transfer pricing.

Keywords: Tax burden, exchange rate, tax planning, transfer pricing

Introduction

There are many transactions between members (divisions) in the environment of multinational businesses, conglomerates, and divisionalizations, such as the sale of products and services, licensing of rights and other intangible property, loan provision, and so on. Transactions in this kind of business setting will be difficult to determine the price to be transferred. Transfer price refers to the pricing of different transactions between members or divisions.

Initially, the corporation used transfer pricing to evaluate performance amongst members or divisions of the organization. Over time, some multinational corporations exploited transfer pricing to reduce the amount of taxes they had to pay. Increasing tax costs have driven businesses to engage in transfer pricing tactics in the intention of lowering their tax liability. Companies with subsidiaries or affiliates based outside the nation are more likely to engage in transfer pricing owing to tax rate discrepancies between the parent firm and the subsidiary company located outside. Transactions with multinational corporations that use transfer pricing systems account for more than 44% of global trade value.

According to the research (Princess, 2021), transfer pricing is a company's policy for establishing the transfer price of a transaction between parties impacted by a privileged connection. Transfer pricing has two connotations when it comes to taxes.

According to (Princess, 2020), disparities in tax treatment in each nation have an impact not just on corporate tax, but also on investment choices and tax settlement. In reality, businesses often associate tax payments with burdens. In today's economic circumstances, severe rivalry among enterprises motivates management to lower the burden to the bare minimum in terms of enhancing availability and competitiveness in order to maximize profits.

In 2022, government revenue from taxes amounted for 87.7% of total income. It demonstrates that taxes are the main source to government revenue, yet for businesses, taxes are a burden that may lower company profitability. High tax burdens may induce businesses to shift profits via transfer pricing.

There has been a lot of study done on the link between taxes and transfer pricing manipulation. According to a Princess (2022) poll, there has been an upsurge in the decision-making of businesses to transfer prices.

According to Princess (2022), the present application of transfer pricing policy is evolving into an international tax problem in which transfer pricing policy is utilized as a tool to decrease the total tax burden for multinationals or global-scale corporations. Those with less developed businesses often levy lower tax rates, while those with more advanced businesses levy higher tax rates. Companies may want great earnings but become burdened when they must pay hefty corporation taxes.

Corporations opted to carry out transfer pricing based on the phenomena, which is one of the corporations' methods to decrease their tax burden. The firm uses transfer pricing since it is an affiliate whose parent company is located elsewhere, and there is a tariff gap between Indonesia and the allied

nations, allowing them to sell at a low cost. The corporation pays a greater price for raw materials. As a result, firms in Indonesia incur losses while corporations overseas prosper.

Differences in the exchange rate of a multinational company's cash flows denominated in a number of currencies, where the value of the currency relative to the dollar value varies over time, may have an impact on transfer pricing. When exchange rates are continually moving, the price of the product or service to be exchanged is affected, and the transfer pricing choice becomes an alternative for management to ensure the quantity of cash available to make payments.

Suryanto et al., (2020) discovered that exchange rates impacted enterprises' decisions to carry out transfer pricing "that exchange rate has no influence on transfer pricing decisions".

Methods

The goal of research is to achieve a certain goal in order for anything to be objectively proven. The purpose of this research is to investigate the impact of Tax Burden, Exchange Rate, and Tax Planning on Pricing Transfer Decisions in Manufacturing Companies Listed on the Indonesian Stock Exchange from 2019 to 2023.

Population is a generalization area made up of things or people that have particular attributes and characteristics that the researcher choose to study and then draws conclusions from (Sugiyono,2019). The time frame chosen is 2019-2023.

When two or more independent variables as predictor factors are modified, double regression analysis is used to forecast how the state of a variable changes (Sugiyono, 2019). A double linear regression model is a regression model with more than one independent variable.

If the model fits the data's normalcy assumption and is free of assumptions, it is a good model. The study is used to examine the influence of Tax Burden (X1) and Tax Planning (X2) on price transfer in tandem. (Y).

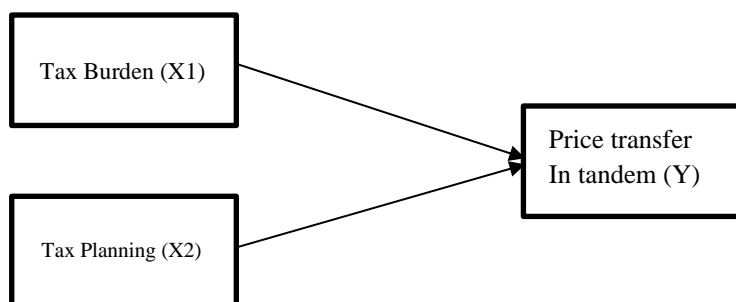


Figure 1.
 Source: Processed Data (2024)

Results and Discussion

Table 1. Result t Test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std Error	Beta		
(Constant)	.513	.051		10,043	.000
Tax Burden	.872	.196	.522	4,439	.000
Tax Planning	-.022	.062	-.047	-.418	.677

Source: Processed Data (2024)

The findings of the test t in this research may be viewed in the table data and described as follows: H1: Tax burden influences the choice to implement Transfer Pricing. The tax burden variable test findings demonstrate that the rate is significant of 0,000, the value is 0,04, and H1 is acceptable.

H2: Tax planning influences the choice to carry out Pricing Transfer. The results of the tax planning variable test revealed that H3 was rejected with a significant rate of 0.677, a value > 0.04 and a t count of -0.318. As a result, it is possible to infer that the variable of tax planning has a little impact and a negative impact on transfer pricing.

The results of the regression analysis show a significant value of 0.000 > 0.04 and a t count of 3,339, implying that the research findings indicate that the tax burden has a significant influence on the decision to carry out transfer pricing on manufacturing companies listed on the Indonesian Stock Exchange.

The size of a nation's tax rate will raise the presence of a manufacturing business's transfer pricing, which is done on purpose to decrease the tax burden of a company situated in a country with a high tax rate to a connected firm in a country with a low tax rate.

The regression analysis results show a significant value of $0.677 > 0.04$ and a t count of -0.318 have a negative value, implying that the research findings show that there is no negative influence between tax planning and the decision to carry out transfer pricing on manufacturing companies listed on the Indonesian Stock Exchange.

The study's findings revealed whether the company's tax planning, as assessed by tax payments for this time, was unsuccessful in controlling the growth in transfer pricing behavior. Companies prefer to conduct business with affiliates in tax haven states to maximize their tax payments. When a government imposes high tax rates and lax legislation governing tax-related transactions between associated parties, the likelihood of corporations engaging in transfer pricing increases. Companies that make a lot of money in a nation with a lot of taxes will move their money to a tax-free jurisdiction. The corporation estimates that paying taxes would diminish the company's earnings since taxes are seen as a burden that reduces profitability.

Conclusion

During the period 2019-2023, this research examined the influence of excellent corporate governance, company size, and leverage on the quality of financial reporting in 12 BUMN firms listed on the Indonesian Stock Exchange. The data analysis strategy used is the testing of the whole model with the assistance of WarpPLS 7.0. The hypothesis test findings are as follows:

1. Good corporate governance has a beneficial influence on the financial statement quality of BUMN firms listed on the Indonesian Stock Exchange between 2019 and 2023, validating the study hypotheses.

2. The size of the firm has a favorable impact on the Quality of the firm's Financial Statements throughout the same time, hence the hypothesis is accepted.

3. Leverage reduces the value of a business financial report, validating study ideas.

This study has implications for company management, regulators (Financial Services Authority), and users of financial statements. Improved corporate governance, the function of the independent board of commissioners, regulatory laws limiting the proportion of the independent board of commissioners, and more attentive attention from financial statement readers are among the proposals. The limitations of the research include sample and study periods, as well as recommendations for future research to account for industry changes, prolong the study time, and quantify variables using more diverse methodologies.

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