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Transfer Pricing Decision Based on Tax Expenses, Tunneling Incentives, Bonus and Audit Quality

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Abstract
This research aimed to empirically examine the effect of tax expense, tunneling incentive, bonus mechanism, and audit quality on the decision of transfer pricing. The tax expense referred to ETR, tunneling incentive referred to TUN, bonus mechanism referred to ITRENDLB, and audit quality which was dummy variable referred as number 1 when was audited by The Big Four; and number 0 when was audited by Non-The Big Four. The population was manufacturing companies and by purposive sampling criteria, there were 23 companies as sample. By using multiple reggression, the research resulted that tax expense, tunneling incentive, bonus mechanism and audit quality did not affect the decision of transfer pricing. It can be explained that it was caused The Directorate General of Taxes had made regulation of the principle of fairness and custom of business. In addition, the principle was applied for transaction between taxpayers and some people who had special relationship. Consequently, the tax payers had to pay attention on its transaction to some people who had special relation and consider its normal price.
Keywords: *Tax Expense, Tunneling Incentive, Bonus Scheme, Audit Quality, Transfer Pricing*
JEL Classification Code: M41, M42, M48

1. Introduction

Era 4.0 forces many business entities to change their business schemes based on economic digitization. Many companies were originally national companies that followed the flow of development and expanded into multinational companies due to the development of the digital economy, so that their business activities do not only focus on one country but on various countries.

Transactions between countries affect competition so that multinational businesses need to control varying prices among their affiliated companies through the transfer pricing mechanism. Thus, the transfer pricing mechanism was originally oriented to price adjustments between affiliated companies to obtain internationally competitive prices so that the company was able to make a profit, and for performance appraisal between divisions. Furthermore, transfer pricing

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practices are widely used for tax planning with the aim of minimizing tax liabilities (Darussalam et al., 2013; Yuhertina et al., 2016), because companies are required to create efficiency, including tax efficiency (Fidiana, 2020).

For companies, transfer pricing is an alternative that can be used to avoid taxes, because companies will tend to transfer tax obligations to countries with lower rates. Transfer pricing is used by some multinational companies to avoid large tax collections by reducing taxes and causing some countries to suffer losses (Refgia et al., 2016). The difference in tax rates between countries triggers several alternatives for companies with the aim of making tax savings by utilizing transfer pricing, namely increasing the purchase price or cost (*over income*) or reduce the sales price (*under invoice*) (Ilyas & Suhartono, 2009). This is done with the aim of diverting profits to countries that have low tax rates by maximizing expenses which ultimately reduce income (Coopers, 2009).

Transfer pricing from a tax perspective is a pricing policy that is carried out between parties with a special relationship affiliation (Darussalam et al., 2013). In managing companies that have relationships between entities that make up the group, it can trigger a strategic role to play a transfer pricing policy (Pavone & Nunzio, 2018). The OECD has also provided procedures as a strategy for cross-border transactions, including price and tax regulations (Talab et al., 2017). Transactions involving related parties can lead to the creation of inappropriate and unreasonable prices. Transfer pricing is an opportunity for multinational companies to avoid taxes by shifting their tax obligations from countries that set higher tax rates to countries with lower tax rates (Purwanto & Tumewu, 2018).

Global Witness discovered tax evasion by PT. Adaro Energy Tbk by transferring some of the profits earned from coal mined in Indonesia to its subsidiary network in Singapore in 2019. Global Witness reports reveal that since 2009-2017 PT. Adaro Energy Tbk through its subsidiary located in Singapore has arranged in such a way that the tax payments made are lower than the rates that should be paid in Indonesia (Wareza, 2019). In addition, the Directorate General of Taxes is also suspicious of companies engaged in manufacturing, namely PT. Toyota Motor Manufacturing Indonesia. PT. Toyota Motor Manufacturing Indonesia is suspected of carrying out transfer pricing by utilizing transactions between affiliated companies. This is done by transferring excess profits from Indonesia to Singapore, which applies a lower tax rate (Kompasiana, 2017).

The tax authority has anticipated transfer pricing practice. The Directorate General of Taxes, prepares a routine agenda "Transfer Pricing Day", which is a forum that aims to explore and analyze potential transfer pricing practices by taxpayers. Every week, a taxpayer transaction operation will be carried out related to affiliated parties, which then can be followed and utilized by tax auditors. Other than that, The application of fairness and business customary principles in transactions between taxpayers and parties with special relationships believes that the transfer pricing scheme can lead to potential loss of tax. However, even though there have been anticipatory efforts from the tax authorities to control transfer pricing, the fact is that this phenomenon still occurs today so that an empirical study on transfer pricing is still needed.

Transfer pricing is proven to be related to tunneling incentives. Transactions between related parties will create a condition where the share ownership structure is concentrated in certain parties. The concentration of share ownership then has an impact on controlling important decision-making in that particular party which tends to benefit itself and does not care about minority shareholders and even tends to harm minority parties. The controlling shareholder can transfer assets temporarily to an affiliate or by means of a transfer pricing mechanism for cost efficiency purposes so that it has an impact on profit minimization.

Transfer pricing can also be motivated by bonus mechanism. When directors and managers want high bonuses, it will encourage the behavior of shifting profits to affiliated companies with a transfer pricing mechanism (Refgia et al., 2016). Transfer pricing can be used by managers with bonus motivation issued by the company on the basis of profit. In other words, the manager can arrange the allocation of profit through a transfer princing scheme for bonus purposes.

Good Corporate Governance (GCG) is proven as one of the indicators capable of controlling the company in its transfer pricing behavior (Fidiana et al., 2019; Jamaluddin et al., 2020; Noviastika et al., 2016). GCG implementation will encourage companies to conduct quality external audits (Suun, 2021) to maintain fairness, transparency, accountability, independence and fairness. An audit carried out by an external party that has a professional and independent attitude will control the company in its transfer pricing practices.

This study differs from previous research in two ways. First, there have been many previous studies discussing transfer pricing decisions related to aspects of taxes, tunneling incentives and bonus schemes (Fauziah & Saebani, 2018; Saraswati

& Sujana, 2017; Tania & Kurniawan, 2019), but there is no link with audit quality. Second, previous research on audit quality is more associated with tax avoidance (Eksandy, 2017; Hidayati & Fidiana, 2017) and no one has yet related to transfer pricing.

This study examines the audit quality of transfer pricing decisions based on the consideration that transfer pricing is considered a tax avoidance effort (Kurniawan, 2015). Tax avoidance can be done both legally (*tax avoidance*) and ilegally (*tax evasion*) (Fidiana, 2017; Suandy, 2016). Thus, the aim of this study is to empirically examine the effect of tax burden, tunneling incentives, bonus mechanisms and audit quality on transfer pricing decisions. This research is expected to provide benefits in developing studies on tax expense, tunneling incentives, bonus mechanisms, and audit quality that can motivate transfer pricing decisions. This research is also expected to be a reference for tax authorities regarding transfer pricing behavior in public companies.

2. Literature Review

Transfer pricing in general is a company's policy in determining the price of a transaction with related parties (Kurniawan, 2015). Transfer pricing has two different definitions, namely a neutral meaning and a pejorative understanding. Neutrally, transfer pricing is a business strategy and trick and does not aim to reduce the tax burden. Meanwhile, pejorative transfer pricing is a strategy to save tax burden, by shifting profits to countries that have low tax rates (Suandy, 2016).

Transfer pricing can be done by lowering the selling price and increasing the buying price between companies in one group. Then the profit is transferred to the company that has a lower tax rate. The higher the tax rate of a country, it will trigger the possibility for companies to carry out transfer pricing. This practice can also arise because of gaps in the regulation and supervision of transfer pricing activities. This regulatory gap often makes taxpayers win in court proceedings so that it further motivates multinational companies to carry out transfer pricing (Refgia et al., 2016).

In fact, taxes are one of the largest incomes for the state to finance public spending. Fiskus hopes that the maximum tax is, but on the other hand, management is required to generate significant profits with a low tax burden (Prakosa, 2014). In addition, taxes are also a burden that reduces the income of multinational companies. Practically, companies with international transaction coverage will tend to divert their revenues to countries with lower tax rates using the transfer pricing mechanism. Previous studies have shown many positive effects of tax burden on the decision to do transfer pricing (Kusumasari et al., 2018). The greater the tax burden that must be borne by the company will encourage the company to carry out transfer pricing (Rachmat, 2019).

The agency perspective teaches that managers have the opportunity to make special relationship transactions and do tax management (Saraswati & Sujana, 2017) through share ownership structure. Concentrated ownership structure (Mutamimah, 2008) will tend to focus on the majority shareholder who holds a controlling role. The majority shareholder will transfer the company's assets and profits for their own benefit and charge the minority shareholders a fee. This kind of behavior of managers or shareholders is called tunneling. The term “tunneling” first appeared in the takeover of minority shareholders in the Czech Republic, namely the transfer of underground tunnel assets (Rosa et al., 2017). Tunneling incentive is the behavior of the majority shareholder to transfer company assets and profits by imposing fees on minority shareholders (Hartati et al., 2015).

Ownership of companies in Asia, especially in Indonesia, uses a concentrated ownership structure. Controlling shareholders because they can monitor and have better access to information than non-controlling shareholders. Controlling shareholders can abuse their control rights for personal gain (Refgia et al., 2016). Research conducted by Santosa & Suzan (2019) and Marfuah & Azizah (2014) gives results that tunneling incentives have a positive effect on the company's decision to do transfer pricing. The bonus mechanism is a component used to calculate the amount of bonus the manager will receive for his success in achieving the target (Hartati et al., 2014). The bonus given to company directors and managers is an appreciation for good company management (Anansta & Putranto, 2020).

Many bonus schemes refer to profit figures so that they can encourage managers to manipulate earnings (Refgia et al., 2016) so that the bonus that the manager will receive also increases. Profit engineering can be implemented through a transfer pricing scheme (Lo et al., 2010). Previous studies by (Fitri et al., 2019) has proven that the transfer pricing mechanism can be used to increase profits so as to maximize bonuses for managers and directors. The bonus mechanism scheme will improve transfer pricing practices (Melmusi, 2016). Audit quality reflects that an auditor will not provide an unqualified opinion on the financial statements with material error (Liu & Wang, 1999). This means, the quality of the audit will guarantee and reflect the reputation of the auditors. Audit quality is an inspection that is carried out systematically and maintains an independent attitude when carrying out an audit work, maintaining the quality and output produced in accordance with applicable regulations. In addition, whether the arrangement can be implemented effectively with its objectives (Simanjuntak, 2008).

Companies that implement good corporate governance are expected to be able to present fair, transparent, accountable, independent and fair financial reports. This means, audit quality represents the implementation of good corporate governance. Companies that implement good corporate governance and have their financial statements audited by public auditors are assumed not to do tax evasion which can reduce state revenue (Khairunisa et al., 2017). The auditor may accept a reputation risk because even though this tax evasion is legal, it is still a deviant thing. Previous research by Widyari & Rasmini (2019) has proven that audit quality has a negative effect on tax aggressiveness.

Hence, this study examined the effect of tax burden, tunneling incentives, bonus mechanisms and audit quality on transfer pricing decisions. The investigation is based on the following hypotheses:

H1: *Tax expense has a positive effect on transfer pricing.*

H2: *Tunneling incentive has a positive effect on transfer pricing.*

H3: *The bonus mechanism has a positive effect on transfer pricing decisions.*

H4: *Audit quality has a negative effect on transfer pricing decisions.*

3. Research Methods and Materials

This research is a quantitative study, to examine the effect of tax expense, tunneling incentives, bonus mechanisms and audit quality on transfer pricing decisions. Quantitative research is used to test and analyze a hypothesis that has been determined in accordance with the theory (Sugiyono, 2017). The population in this study were listed companies in the manufacturing sector on the Indonesia Stock Exchange in 2017-2021, there were 166 companies. The sampling technique in this study was purposive sampling technique. Several companies that did not meet the criteria were not used as samples, namely 41 companies with incomplete financial reports, 80 companies with foreign ownership of less than 20 percent, 11 companies with a loss position, 11 companies with currencies other than rupiah. So, there are 23 companies that fit the criteria so that there are 115 samples of observations.

Measuring tool or proxy that can be used to determine tax expense according to Saraswati & Sujana (2017) is the effective tax rate (ETR). Effective tax rate (ETR) is a tax rate that has occurred and is calculated by comparing the tax burden that must be paid with the overall income before tax. ETR aims to determine the percentage change in paying actual corporate taxes to commercial profits. The effective tax rate expresses the value of the effectiveness of tax management in a company. ETR is widely used in previous research which is used to determine the existence of tax avoidance by looking at the low ETR value (Lanis & Richardson, 2014). If the ETR value is low, it can indicate that the tax burden is smaller than the income before tax.

Based on the Statement of Financial Accounting Standards Number 15, the controlling shareholder is an entity that has a share of 20% or more actively or passively. The controlling shareholder can be owned by individuals, the government or foreign parties. Tunneling shareholders tend to have more control over decisions than non-controlling shareholders. The controlling shareholder (tunneling) or better known as the majority shareholder has a foreign share ownership of more than 20%. Meanwhile, non-controlling shareholders or minority shareholders own less than 20% foreign shares. According to (Saraswati & Sujana, 2017), tunneling incentive can be measured by dividing the largest number of shareholdings to the number of shares outstanding.

The bonus mechanism is given as a token of appreciation which the GMS will give to members of the board of directors if the company earns annual profits. The bonus mechanism refers to the company's profits which are used to reward directors or managers, thereby triggering profit engineering to maximize the profits they earn (Refgia et al., 2016). According to (Scott, 2006) that provide an opinion that bonus motivation can trigger the behavior of managers to perform accounting procedures that tend to shift company profits from the next period to the current period. The bonus mechanism can be measured by the Itrendlb (net profit trend index) (Refgia et al., 2016).

Audit quality can be measured by looking at external auditors who audit the financial statements of a company. Auditor reputation is often used as a measure of audit quality, The big four public accountants firm is expected to maintain independence and professionalism. Audit quality is measured using a dummy. If the financial report is audited by The big four public accountants firm then it will be given a value of 1, whereas if the financial report is audited by The Non-Big Four public accountants firm then it will be given a value of 0. The big four public accountants firm, among others, the first is KAP Tanudiredja, Wibisana, Rintis and Partners affiliated with KAP Price Waterhouse Cooper. The second is KAP Siddharta, Widjaja and colleagues affiliated with KAP Klynveld Peat Marwick Goeldener International. The third is KAP Purwantono, Sungkoro and Surja affiliated with KAP Ernst and Young and the fourth is KAP Osman Bing Satrio Eny and Partners affiliated with KAP Deloitte, Touche and Tohmatsu (Hidayati & Fidiana, 2017).

Transfer pricing is a policy or procedure carried out by a company in determining the transfer price for a transaction, whether in transactions for goods, services, intangible assets, or financial transactions in related party transactions which aim to minimize profits (Refgia et al., 2016). Related parties will trigger regulated transactions and tend to lead to transfer pricing. According to (Refgia et al., 2016) transfer pricing can be measured by dividing trade receivables from related parties against total receivables.

4. Results and Discussion

The results of the study can be described as follows, *first*, transfer pricing (TP) has a mean value of 0.324278 or 32.4278% indicating that of the 115 observations there are 38 observations that perform transfer pricing. It can be seen from the theoretical range values for the transfer pricing variable between 0.1250-0.5000. If the average value of transfer pricing is 0.324278 compared to the theoretical range value of transfer pricing, it can be said that the transfer pricing carried out by the observed companies in this study is classified as moderate.

Second, the tax burden variable proxied by ETR has an average tax burden value of 0.257035 or 25.7035% compared to the theoretical range value of the tax burden of 0.2500, so it can be concluded that the tax burden proxied by ETR is in accordance with the tariff. corporate entity tax, namely 25%. This rate is higher than the tax rates in other countries such as the rates in Singapore, Lebanon and Taiwan which have a tax rate of 17%. Meanwhile, Iraq, Kuwait and Oman have a tariff of 15%.

Table 1: Descriptive Variable

Variable	Stat. Range	Theo. Range	Mean	Std. Dev
TP	0,9786	0,1250-,5000	0,324	0,3379
ETR	0,7225	0,2500	0,257	0,1005
TUN	0,7498	0,1000-,4000	0,519	0,2218
MEK	53,62	0,9000-1,2000	1,594	4,948
KA	1,000		0,669	0,4724
Valid N	0,9786			

Third, the mean value or the average value of the tunneling incentive variable (TUN) is 0.518534 with a standard deviation value of 0.2218256. The theoretical range value for the tunneling incentive variable is 0.2000-0.4000. If the average tunneling incentive value is 0.518534 compared to the tunneling incentive theoretical range value of 0.1000-0.4000, it can indicate that the tunneling incentive or the majority shareholder in a company is very high.

Fourth, the bonus mechanism variable (MEC) has a mean value or average value of 1.594236 with a standard deviation value of 4.9488385. The theoretical range value for the bonus mechanism variable is 0.9000-1.2000. If the average value of the bonus mechanism is 1.594236 compared to the theoretical range value of the bonus mechanism of 0.9000-1.2000, it can indicate that the bonus given by the company to company management or managers is very high. Fifth, audit quality is the only different variable, where audit quality is a dummy variable. So that it cannot be seen through the minimum value, maximum value, mean or average value, and standard deviation value. However, it can be seen through the frequency distribution.

There are 38 companies whose financial statements were audited by the The Non-Big Four public accounting firm with a value of 0, which could be represented as 33%. Meanwhile, companies whose financial statements were audited by the big four public accounting firm with a value of 1 were 77 companies. If the percentage is 67%. From these results it can be seen that most of the manufacturing companies studied were audited by the big four public accounting firm. The effect of tax burden on transfer pricing decisions. Hypothesis testing of the effect of tax burden on transfer pricing decisions obtained a significance value of 0.033. This shows that the significance value of the tax burden is smaller than the p-value of 0.05 with a β value of 0.650. The negative sign on the value of β is against the first hypothesis so that it can be concluded that H_1 is rejected, this shows that the tax expense has no effect on transfer pricing decisions.

Table 2: Hypothesis Results

	Coef Regression	Significance	Conclusion
Tax Expense	-0,650	0,033	H_1 is rejected
Tun Inc	-0,503	0,002	H_2 is rejected
Bon Mech	-0,001	0,832	H_3 is rejected
Audit Qual	0,109	0,156	H_4 is rejected
Constants	0,681		
Adjusted R^2	0,091		
Fcalculation		0,006	

Transfer pricing practice can be carried out through related party transactions by reducing or increasing the price of goods and services between multinational companies. The purpose of transfer pricing practice is to outsmart the amount of profit so that tax and dividend payments are low. In fact, this study cannot prove the agency theory described above that the tax burden affects the transfer pricing decision. Tax expense which is proxied by ETR shows a value of 0.257035 or 25.71%. This proves that the tax burden paid by the observational company in this study is not high or not low, the rate is in accordance with the tax rate of the business entity. It can be concluded that the tax burden cannot indicate or motivate company management to make transfer pricing decisions so that the hypothesis of this study is rejected.

The results of this study are in line with research conducted by (Melmusi, 2016) where the research states that taxes do not affect transfer pricing decisions. The study explains that transfer pricing is not a tax saving mechanism, but the research company makes tax savings through tax planning by making the tax burden to a minimum in the prevailing tax regulations. Another research that is in line by Mispiyanti (2015) which explains that the tax burden has no effect on the transfer pricing decision because of the efforts made by the company to minimize the tax burden that must be paid through tax management.

The effect of tunneling incentives on transfer pricing decisions. Hypothesis testing of the effect of tunneling incentive on transfer pricing decisions is obtained by a significance value of 0.002. This shows that the significance value of tunneling incentive is smaller than the p-value of 0.05 and the regression coefficient (β) value of 0.503. The negative sign on the value of the regression coefficient (β) is against the second hypothesis so that it can be concluded that H_2 is rejected, this indicates that tunneling incentives have no effect on transfer pricing decisions. This can be seen from the average percentage value of the majority shareholder or controlling shareholder owned by the company of 51.8534% which indicates that as controlling shareholder has equal opportunity in the company in making decisions on transfer pricing transactions carried out. So it can be concluded that tunneling incentives cannot indicate or motivate company management to make transfer pricing decisions and the hypothesis of this study is rejected.

The results of this study are in line with the research of Ainiyah & Fidiana (2019) which states that tunneling incentives do not affect transfer pricing decisions because the controlling shareholder gives authority and trust to management in making transfer pricing decisions. This research is supported by Hermanto (2020) which states that tunneling incentives have no effect on transfer pricing decisions. This can occur because the controlling shareholder of a company does not see other supporting factors such as a special relationship with company directors who are unable to influence managers to carry out transfer pricing.

Testing the bonus mechanism hypothesis on transfer pricing decisions has a significance value of 0.832 so it can be concluded that H_3 is rejected, this indicates that the bonus mechanism has no effect on transfer pricing decisions. From the agency theory, management or agents who have more information about the company have the opportunity to manage profits for their own benefit. Management performance which is assessed based on the level of company profits will make management manage and manage company profits in such a way. Not only there, management can also make transfer pricing decisions in order to increase company profits. As a management who wants a high bonus will tend to shift profits between the affiliated companies it manages. With high company profits, it will affect the good value of the management. Not only there, if the company's profit is high, it will provide benefits for management because high company profits will result in high bonuses received. However, the results of this research cannot prove the existence of this theory. This can be seen from the bonus mechanism average value of 159.4236% which indicates that management has received a very high bonus within the company. This proves that the bonus mechanism does not guarantee or does not become the reason for the company's management to make a transfer pricing decision.

The results of hypothesis testing the effect of the bonus mechanism on transfer pricing decisions support the research conducted by Refgia et al (2016) in the basic industry and chemical sector companies on the IDX in 2011-2014. She shows that the bonus mechanism has no effect on transfer pricing decisions, this is because the Itrendlb value has a stable value, thus indicating that companies are less interested in manipulating earnings and transfer pricing to maximize their bonus revenue. Other research results that support this research are Purwanto & Tumewu (2018). This can happen because the board of directors and management will analyze the risks they might face if they make a transfer pricing decision.

Hypothesis testing of the effect of audit quality on transfer pricing decisions obtained a value of 0.156, so it can be concluded that H_4 is rejected, this indicates that audit quality has no effect on transfer pricing decisions. This is due to regulation of The Indonesian Regulatory Authority for the Indonesian Capital Market which require each public accounting firm to provide professional and independent services in accordance with their respective duties towards the audited financial statements. It doesn't matter that public accounting firm is The Big Four public accounting firm or The Non-Big Four public accounting firm. Another regulations by The Indonesian Regulatory Authority for the Indonesian Capital Market also explains that every public accounting firm, whether The Big Four or The Non-Big Four public accounting firm, must maintain the independence, objectivity and professio-nalism of the accountants. Thus, The Big Four and The Non-Big Four public accounting firm have no different duties and have the same responsibility to provide independent, objective, and professional services.

The results of hypothesis testing the effect of audit quality on transfer pricing decisions support the research conducted by Hidayati & Fidiana (2017) that audit quality has no effect on tax avoidance, this is because there has been an increase in audit quality at The Non-Big Four public accounting firm as an implication of the increasingly stringent regulations issued by The Indonesian Regulatory Authority for the Indonesian Capital Market.

5. Conclusions

This study aims to test empirically the effect of tax expense, tunneling incentives, bonus mechanisms, and audit quality on transfer pricing decisions in manufacturing companies in 2017-2021. Based on testing with multiple linear regression, this study concludes that first, the first hypothesis (H_1) which states that tax burden has a positive effect on transfer pricing decisions in manufacturing companies in 2017-2021 is rejected. This means that the high and low corporate tax burden does not motivate the company to make transfer pricing decisions. The results of this study indicate that the tax expense has no effect on transfer pricing decisions. This means that the amount of revenue that affects the high tax burden does not guarantee a company to avoid tax through transfer pricing decisions.

The second hypothesis (H_2) which states that tunneling incentives has a positive effect on transfer pricing decisions in manufacturing companies in 2017-2021 is rejected. This can occur because as the controlling shareholder has the same opportunity in the company in making decisions on the transfer pricing transaction that is carried out. Transactions conducted by the majority shareholder must use fair market prices. Thus, it will not harm minority shareholders. The third hypothesis (H_3) which stated that the bonus mechanism had a positive effect on transfer pricing decisions in manufacturing companies in 2017-2021 was rejected. This shows that the bonus mechanism received by management is very high so that it does not motivate management to shift company profits by making transfer pricing decisions.

The fourth hypothesis (H_4) which stated that audit quality had a negative effect on transfer pricing decisions in manufacturing companies in 2017-2021 was rejected. This shows that there is no difference between The Big Four and The Non-Big Four public accounting firm because each public accounting firm is required to have an independent, objective, and professional attitude in auditing financial statements.

Fifth, the existence of tax regulations that have been made by the Directorate General of Taxes regarding the application of fairness and business practice principles in transactions between taxpayers and parties who have a special relationship requires that these transactions use fair market prices so that transfer pricing practices can be avoided and monitored. The Directorate General of Taxes has paid attention to the practice of transfer pricing which tends to be used as a way of avoiding taxes. Therefore, the tax authorities have strong legitimacy through special relationships and price reasonableness. Not only there, the Directorate General of Taxes has also held a transfer pricing day which aims to dissect taxpayer transactions related to affiliates.

Based on the research results that have been described, this research is still far from perfect. Not only is it far from perfect, the research that has been done has several shortcomings and limitations. Some of the shortcomings and limitations of the study include: first, the population conducted in this study only focused on manufacturing companies listed on the IDX and the observation period used in this study was only 5 years, namely 2017-2021. Second, the variables used in this study are very limited, this is evident from the adjusted R square value in this study, only 9.1% and 90.9% are influenced by other variables outside of this study.

Based on the discussion in the overall research results regarding the effect of tax expense, tunneling incentives, bonus mechanisms, audit quality on transfer pricing decisions, there are several suggestions that researchers can give. Suggestions that researchers can give to improve and perfect this research are as follows, *first*, for researchers who will conduct research in the future. It is hoped that the next researchers will not conduct research on transfer pricing. This is because the Directorate General of Taxes has established regulations regarding the application of fairness and business normality principles in transactions between taxpayers and parties who have a special relationship and the Directorate General of Taxes also performs surgery on taxpayer transactions related to affiliated parties so that the practice of transfer pricing can be detected.

Second, it is hoped that the Director General of Taxes can further clarify and strengthen regulations regarding transfer pricing. A clearer and stronger government regulation regarding transfer pricing can serve as a guide for companies to carry out transfer pricing activities in accordance with the established fair prices and business norms.

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