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The Impact of Bonus Mechanisms, Tunneling Incentives, and Good Corporate Governance (GCG) on Transfer Pricing Activities

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Abstract

This study aims to analyze the transfer pricing used by companies as a technique to save taxes and analyze the effect of bonus mechanisms, tunneling incentives, and good corporate governance on transfer pricing activities in multinational companies listed on the Indonesia Stock Exchange. The data for this study were obtained from multinational companies in Indonesia listed on the Indonesia Stock Exchange from 2015 to 2020, with data collection techniques using database collection techniques. The population of this study were 18 companies so that 90 observations were obtained. The sampling technique in this research is purposive sampling. This study uses secondary data, namely annual reports and financial statements.The results show that the bonus mechanism has no effect on transfer pricing practices, and this study also shows that tunneling incentives have no effect on transfer pricing practices, but this study shows that good corporate governance has a positive effect on transfer pricing aggressiveness activities. This research contributes practically in providing information to company management for consideration in implementing transfer pricing and for the Director General of Taxes to anticipate the implementation of transfer pricing for multinational companies.

Keywords: *Aggressive Transfer Pricing, Tunneling Incentive, Bonus Mecanisms, Good Corporate Governance, Multinational Company*

INTRODUCTION

Income is a source of individual and organizational productivity. From the simplest organization to the most complex certainly recognizes the existence of revenues and expenses. A country is no exception, which also recognize sources of revenue and expenditure for financing, funding and investment. The role of tax revenue is crucial during the pandemic in supporting countercyclical government policies (Ministry of Finance of Republic of Indonesia, 2021). This policy is the government's strategy to minimize reductions and increase revenue at the same time, one of which comes from tax revenue. From this, it can be seen that taxes play a major role in the development and sustainability of a country. Taxes are the main source of revenue for the state. In 2020, revenues from taxes have contributed around 91% of total state revenues in Indonesia (Ministry of Finance of Republic of Indonesia, 2021). It can be seen that without taxes, most state operations would be challenging to run smoothly.

To assess the achievement of tax revenue, the government will make a target at the beginning of each year. The level of tax revenue has a fairly high target from year to year. The following chart is a comparison of the target and tax revenue from 2015 to 2019 in Indonesia.

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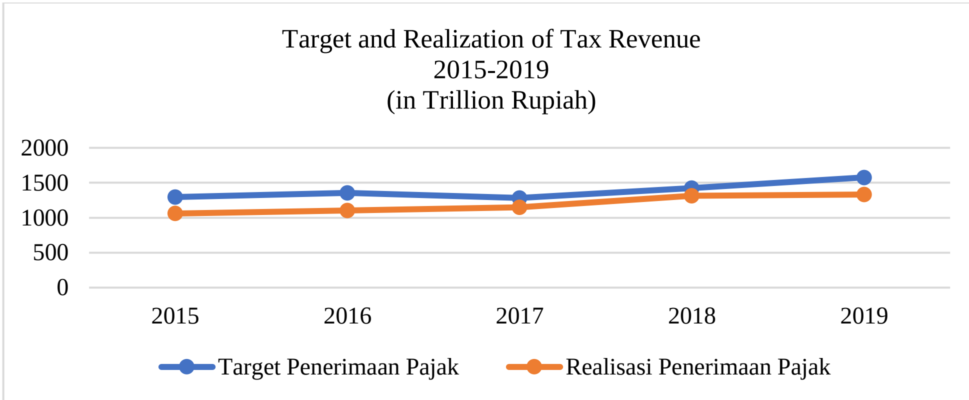

Figure 1.1 Target and Realization of Tax Revenue for 2015-2019

Sumber: Ministry of Finance, processed (2021)

In 2015, the target of tax revenue in the APBN (State Budget) reached Rp. 1,294.25 Trillion, but the realization only reached 82%. The percentage of achievement is stagnant in the following year. In 2017, the target of tax revenues in the APBN decreased to IDR 1,283.57 trillion with a fairly high realization from the previous year, which is 91%, and improved in 2018 with an achievement percentage of 92%. Achievements in 2019 decreased to 84% with the achievement target increasing to Rp 1,577.56 Trillion. From this data, it can be observed that the Dirjen Pajak (Tax Directorate General) requires to optimize its tax revenues so that it is able to meet the predetermined achievement targets. The more optimal the source of APBN revenue, the better national development will be.

Tax avoidance, in the opinion of (Xynas, 2011), is tax evasion done without breaking the law. Additionally, numerous studies demonstrate that top management has an effect on tax evasion. More broadly, in the book (Braithwaite, 2016) it is stated that, if compliance or non-compliance is a messy binary classification after tax evasion is carried out. Tax evasion creates what is known as creative compliance where taxpayers adhere to strict legal rules, but identify loopholes and caveats to minimize their taxes without paying attention to the law. Specifically, the research (Dyreng et al., 2010) focuses on CEOs and identifies that individual characteristics and attributes also play a role in influencing taxpayers' behavior in tax avoidance such as education, age, gender, and tenure. Several other studies have also shown that personal preferences can impact decisions in the work environment (Ignatowski & Korte, 2014). Based on the previous research, the practice of tax avoidance occurs due to the assumption that taxes are a burden that must be avoided to optimize profits. One form of tax avoidance activities that can be carried out by companies is transfer pricing.

The practice of transfer pricing refers to a company's propensity to move its tax liabilities from high-tax jurisdictions to low-tax countries (Permatasari, 2014). This problem cannot be resolved unilaterally, the state alone, but must be carried out together (multilateral cooperation). In addition, research from Permatasari (2014) analyzes that this action is carried out by considering the business aspects of multinational companies that tend to minimize costs including income and corporate taxes. While based on teh book, Suandy (2008) divides transfer pricing based on its nature, namely (1) neutral, a corporate strategy and approach called "transfer pricing" that has no intention of reducing taxes, and (2) negative (pejorative), transfer pricing as an action to save money.Moving profits from a country with a high tax rate to a country with a lower tax rate to reduce the tax burden. This is supported by a report issued by Global Witness entitled "The Adaro Overseas Company Network" in an article (Thomas, 2019), The tax evasion is allegedly being committed by PT Adaro Energy Tbk. Additionally, there is still a lawsuit involving a British American Tobacco (BAT)-owned tobacco corporation that omits taxes in Indonesia by using PT Bentoel Internasional Investama, resulting in a loss of US$ 14 million annually (Agata et al., 2021). These two companies reinforce that multinational companies have the potential to do tax avoidance through transfer pricing activities.

Transfer pricing methods can be impacted by non-tax factors such as the bonus mechanism in addition to avoiding a higher tax burden (Rachmad, 2019). The bonus is based on the company's performance assessment as identified from the profit earned. This motivates management to manipulate or regulate net income with the intention of getting the bonuses they will receive (Purwanti, 2010). Additionally, the controlling shareholder or largest stakeholder may engage in transfer pricing, a process known as tunneling incentive (Johnson et al., 2000). Because majority shareholders will focus on huge profits to gain large dividends, one of which is transfer pricing, they will focus on this practice, which has a beneficial impact on tunneling incentives in research (Saraswati & Sujana, 2017).

The agency theory is the main hypothesis in this investigation. Conflicts arise because management and shareholders' interests differ, according to agency theory (Jensen & Meckling, 1976).Agency conflict arises as a result of information asymmetry between the owners and managers of the company where individual goals tend to be prioritized by managers over company goals. With the difference in authority and knowledge of management information, managers have the opportunity to carry out specific relationship transactions to carry out tax management.

Positive Accounting Theory can also be used as a reference to analyze how the accounting procedures selected by managers can increase revenue to chase bonuses established by business owners. The manager should report net income as high as feasible if the attainment of the company's total profit is a requirement for the manager's bonus.

Based on these two theories, the researcher includes other factors that can affect how transfer pricing is carried out by businesses, namely corporate governance. A corporation that practices good corporate governance manages its operations and growth ethically, abides by the law, and protects the environment in accordance with strong socio-cultural values. Shareholders, directors, commissioners, managers, employees, audit committees, investors, public accountants, audit quality, and other factors are part of strong corporate governance (Sutedi, 2011).

This research is expected to be a literature in learning about bonus mechanisms, good corporate governance and transfer pricing activities. The benefits of research can be used as an input to review the laws and regulations related to transfer pricing activities carried out by multinational companies. Therefore, the purpose of this study is to evaluate and demonstrate if corporations employ transfer pricing as a means of reducing their tax obligations and how the influence of factors such as bonus mechanisms, tunneling incentives, and good corporate governance in influencing transfer pricing activities.

LITERATURE REVIEW

Agency Theory

In his book, (Tandiontong, 2015) desscribes that agency theory which was first introduced by (Jensen & Meckling, 1976) is a separate version of game theory by incorporating a contractual element between the owner of capital (principal) and management (agent). Agency theory emphasizes the importance of company owners handing over the management of the company to professionals called agents who are more understanding in running a company's day-to-day business. Agency theory explains the existence of a conflict of interest between the two parties and contradicts each other. This is reinforced by the emergence of information asymmetry due to differences in access to information between management as the company's internal party who directly manages operations and the principal who usually does not go directly to oversee the company's operations. In essence, management has the power to transfer or transfer company assets so that managers can carry out accounting procedures such as transfer pricing practices (Saraswati & Sujana, 2017).

Positive Accounting Theory

Based on the book of Accounting Theory: Concept and Analysis Approach, (Hery, 2017) explains how positive accounting theory, which makes use of accounting knowledge, skills, and understanding as well as the adoption of accounting policies thought to be best suitable to deal with certain conditions in the future, is used to explain a process.. Positive accounting theory essentially has a goal to predict and explain accounting practices (Setijaningsih, 2012). In its development, positive accounting theory explains and predicts the reality of existing practices in society. In this study, positive accounting theory is used to predict transfer pricing practices.

Bonus Mechanism

Bonus refers to additional compensation or awards given to employees for the achievement of the goals targeted by the company. The board of directors bonus scheme is a calculation of the total bonus received by the board of directors due to their achievements. Awards in the form of bonuses will be given to directors who have achievements that can advance the company with maximum profits according to the company's targets and even exceed the set targets (Ayshinta et al., 2019). Companies most frequently employ the profit-based compensation system when awarding directors or managers (Refgia, 2017). The board of directors bonus program can also be seen as giving the company's directors compensation for their efforts beyond their base salaries by evaluating how well they perform as directors. Directors or managers can therefore influence these earnings dependent on the degree of profit to increase bonus payments (Irpan, 2011). In his research, (Lo et al., 2010) found that managers prefer to increase earnings reports by increasing profits from related party sales if bonuses are based on company earnings reports. The higher the overall company profit achieved, the higher the appreciation given by the owner to the board of directors. Therefore, the practice of transfer pricing is selected by the board of directors in order to increase business earnings by implementing transfer pricing practices.

Tunneling Incentive

By moving the company's assets and income to the benefit of the majority shareholder, tunneling originally referred to the circumstance of expropriating minority shareholders. Tunneling can also be interpreted as an act of transferring assets or profits from a subsidiary to the parent company by the controlling shareholder and can harm non-controlling shareholders (Hidayat et al., 2019). Meanwhile (Yuniasih et al., 2012) stated in their research that one of the emergences of agency problems between majority shareholders and minority shareholders, is the weak protection of minority shareholders' rights, encouraging controlling shareholders to the tunnel which can cause shareholder that owns minority shares losses.

Good Corporate Governance

Appropriate corporate governance The notion of strong corporate governance, according to Cadbury in (Sutedi, 2011), is managing the business to strike a balance between its power and authority. According to CEPS defines good corporate governance as the entire system formed from rights, processes, and controls both inside and outside the company's management with a note that rights here are the rights of all stakeholders and not only from only one stakeholder.

The following are the fundamentals of effective corporate governance:

Transparency

Accountability

Fairness

Transfer Picing

The definition of transfer pricing can be broken down into two categories: a derogatory meaning and a neutral one. Transfer pricing is a corporate strategy and practice without a motivation to lower the tax burden, according to neutral understanding While the derogatory definition of transfer pricing relates to a strategy for reducing taxes by moving revenues to nations with lower tax rates (Suandy, 2008). A company's policy for establishing a transaction's transfer price is known as transfer pricing. A company's policy for establishing a transaction's transfer price is known as transfer pricing. Both intracompany and intercompany transfer pricing might take place between businesses that are connected by a particular connection (Arham et al., 2020).

Transfer pricing, which is a price determined for management control over the transfer of goods and services between members (group of firms), is also sometimes referred to as intracompany pricing, intercorporate pricing, and interdivisional or internal pricing (Rachmad, 2019). Prof. Plasschaet's concept of transfer pricing, in accordance with him, is the systematic manipulation of prices intended to diminish profits and make it appear as though the corporation is losing money while evading taxes or penalties in a particular nation.

Hypothesis Development

The Impact of Bonus Mechanism on Transfer Pricing Aggressive Activity

According to the positive accounting theory that predicts each accounting activity (Setijaningsih, 2012), transfer pricing activities can be motivated by the existence of a bonus mechanism to get the maximum bonus that management can receive. If the incentive is based on company profitability, management has a propensity to exploit transfer pricing transactions to increase the bonus they will earn. Therefore, it may be inferred that managers will frequently operate in a way that controls net income in order to maximize the incentives they will receive (Nurjanah et al., 2016).

According to earlier study (Patriandari & Cahya, 2020), the bonus system significantly improves transfer pricing. Based on the journal described above, the bonus mechanism has a positive influence on transfer pricing because the greater the bonus given by the owners of capital to the board of directors, the greater the board of directors adopting accounting policies to practice transfer pricing. Thus the hypothesis in this study is as follows:

H_1: The bonus mechanism has a positive effect on the aggressive practice of transfer pricing

Impact of Tunnelling Incentive on Transfer Pricing Aggressive Activity

The act of shifting firm assets and income to the dominant shareholder, who has power over the minority shareholder, is known as tunneling. Based on agency theory, which defines a situation where both the agent and the principal act in a way that maximizes their welfare and results in an agency conflict (Jensen & Meckling, 1976), agency theory predicts the existence of aggressive transfer pricing activities (Saraswati & Sujana, 2017).

A previous study (Saraswati & Sujana, 2017), according to (Noviastika et al., 2016), taxes have a favorable impact on transfer pricing practices. According to the journal mentioned above, taxes have a favorable impact on transfer pricing since the more taxes that are levied in a nation, the more opportunities there are for businesses to adopt transfer pricing. Thus the hypothesis in this study is as follows:

H_2: *Tunneling incentive has a positive effect on transfer pricing aggressiveness activities*

The Impact of Good Corporate Governance on Transfer Pricing Aggressive Activities

Regarding the indications in conducting Transfer Pricing, audit quality is one of the Good Corporate Governance (GCG) elements that was employed in this study. The auditor's examination's quality can be perceived as being good or bad. An essential GCG principle is transparency. This can be accomplished by reporting issues pertaining to capital market taxation and the Rapat Umum Pemegang Saham, or RUPS (General Meeting of Shareholders). According to Annisa and Kurniasih's (2012) research, audit quality has an impact on how tax avoidance is carried out. It will become more challenging to implement an aggressive tax policy if a company is audited by the Public Accounting Firm (KAP) of The Big Ten. Companies are less likely to alter results for tax purposes the greater the audit quality of a corporation (Chai and Liu in Annisa and Kurniasih, 2012:132). Transfer pricing is one method of avoiding taxes. Thus the hypothesis and model of this research framework are as follows:

H_3: *Good Corporate Governance has a positive effect on the aggressiveness of transfer pricing*

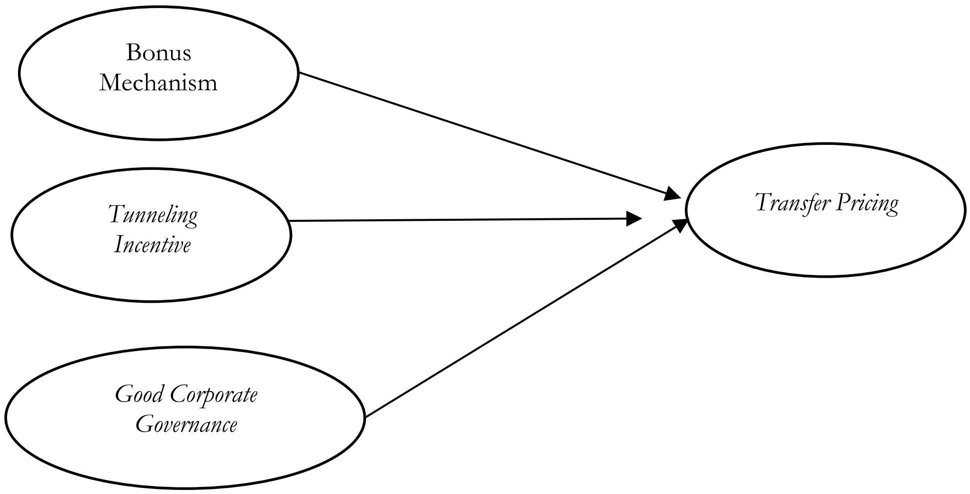

Figure 2.1 Research Model

RESEARCH METHOD

This research is included in the category of quantitative research which is processed using statistical methods. The focus of this study is Indonesian multinational corporations that list on the Indonesia Stock Exchange between 2015 and 2020. The term "secondary data" refers to information gathered from already-existing sources, which is the type of data employed in this study. Data collecting methods with database collection methods and document studies for data collection. The annual report on the Indonesia Stock Exchange through www.idx.co.id is sought for data relating to political connectivity through the General Elections Commission through correspondence.

The population of this study was 18 companies so 90 observations were obtained. Purposive sampling, which is a component of non-probability sampling, was used as the sample technique in this study. Purposive sampling, according to (Sekaran & Bougie, 2016), is a constrained design for particular objects that can offer the required information because only those who have the information or meet the study's criteria can participate.. The criteria for selecting the sample required for this research are as follows:

Multinational companies listed on the Indonesia Stock Exchange (IDX) during 2015-2020.

Multinational companies that publish complete and consistent annual reports and financial reports during 2015 – 2020.

Multinational companies that are not delisted in IDX in the 2015-2020.

Variable Measurement

Bonus Mechanism

According to the article (Hansen & Mowen, 2009), a manager may receive a bonus based on net income or in accordance with the goal of increasing net income if the bonus mechanism is a compensation given by the owner of the firm to the management for reaching the company's performance targets. So this study uses the **TRENDLB** formula which is based on the percentage of net profit achievement in year t to net income in year t-1. And the data in this study were taken from the company's annual commercial financial statements. Based on the article (Ayshinta et al., 2019) the proxies for the bonus mechanism are as follows:

$$\text{TRENDLB} = \frac{\text{Net Income Year t}}{\text{Net Income Year t-1}}$$

Tunneling Incentive

In Accounting Standards or Pernyataan Standar Akuntansi Keuangan (PSAK) no. 15 that voting rights 20% are considered to have significant influence, unless it can be proven otherwise if voting rights < 20% are considered to have no significant influence, unless it can be proven otherwise. With voting rights that exceed 20% of the shareholders have full authority to make or determine in terms of making decisions for the company (Krutova et al., 2019). The data in this study were taken from the company's annual commercial financial statements. Based on the article (Hidayat et al., 2019) the proxies for tunneling incentives are as follows:

$$\text{TUN} = \frac{\text{Largest Number of Shareholdings}}{\text{Number of Shares Outstanding}}$$

Good Corporate Governance

The audit committee and the percentage of independent commissioners serve as proxy indicators of good corporate governance. Independent commissioners are members of the board of commissioners who are not connected to the board of directors, other commissioners on the board, or the controlling shareholders. They are also free from any business ties or other relationships that might limit their ability to act impartially or only in the company's best interests (Lestari, 2018). The indicator of the number of independent commissioners within a firm is used to quantify independent commissioners.

The audit committee, according to the Indonesian Institute of Audit Committee (IKAI), is a body created by the board of commissioners that functions independently and professionally. As such, it has the responsibility of supporting the board of commissioners (or supervisory board) in carrying out its oversight function (oversight) over the financial reporting, risk management, auditing, and implementation of corporate governance processes in businesses. The audit committee's primary responsibilities include reviewing and supervising the internal controls and financial reporting process. The number of audit committees in a corporation serves as a proxy for the audit committee's size.

Transfer Pricing

A company's policy for establishing the transfer price of a transaction—whether it involves the transfer of commodities, services, intangible assets, or financial assets—in order to maximize profits is known as transfer pricing.

Based on the regulation of the Minister of Finance No. 213/PMK.03/2016, transfer pricing is determined using related party transactions, so that transfer pricing can be proxied by the value of Related Party Transactions (RPT) in financial statements called related party receivables. While the data in this study were taken from the company's annual commercial financial statements. In research (Patriandari & Cahya, 2020) the transfer pricing formula is as follows:

*Transfer Pricing*is measured by:

$$\text{PRT Value} = \frac{\text{Related Party Receivables Transaction}}{\text{Receivables Total}} \times 100\%$$

Model Measurement

The data analysis technique used is Regression Analysis (Sekaran & Bougie, 2016). The link between the independent and dependent variables, as well as their level of effect, are explained using the analytical model. Multiple regression analysis is not possible if the study's data fail the traditional assumption test. Extreme data (outliers) will be excluded from the sample or using a non-parametric regression test. The calculation of multiple linear regression analysis in this study uses the SPSS application, computer software used to perform statistical calculations. The multiple regression model used is as follows:

$$Y = a + bX_1 + bX_2 + bX_3 + e$$

Y : *Agresivness Transfer Pricing*

a : Comstant

X_1 : Bonus Mechanisms

X_2 : Tunneling Incentive

X_3 : Good Corporate Governance

e : Error Standard

RESULTS AND DISCUSSION

Results

Based on the data obtained, there are 18 companies analyzed to determine the effect of the bonus mechanism, tunneling incentive, and GCG on transfer pricing. From the 18 companies, each of them took financial statements from 2015-2019. So that obtained as many as 73 samples of financial statements, after the extreme data reduction.

Table 4.1: Descriptive Analysis Results

	Mean	Std. Deviation	N
LN_Y	-3,5163	2,48046	73
Tunneling_X2	0,6657985	0,23387456	73
LN_X3	4,5776	0,08529	73
SQRT_X1	1,0533	0,26755	73

The data analysis used in this research is multiple linear regression analysis. The normality test carried out in this study showed that the shape of the data followed a straight line diagonal to the P-P plot. Thus, the data from this research variable is normally distributed, so the research data is feasible as one of the prerequisites for regression analysis. The heteroscedasticity test is one type of classical assumption test to find out if the inequality shows a certain pattern and spreads on the scatterplot so that the regression model does not occur heteroscedasticity symptoms. The multicollinearity test showed that the VIF (Variance Inflation Factor) value of all research variables was 1 < 10 or the tolerance value was above 0.9 > 0.10. The results of the multicollinearity test indicate that the research data does not have multicollinearity problems. The autocorrelation test refers to the criteria according to Field (2009), so this research data is free from autocorrelation because the Durbin-Watson value is above 1 and less than 3.

Hypothesis testing in this study was conducted using multiple linear regression analysis. The following table 3 results of the research hypothesis testing:

Table 3: Hypothesis Test Result

Hypothesis	Description	Coefficient (β)	S.E	Sig.	Interpretation
	(Constant)	-41.870	15.503	0.008	**Significant**
H1	Bonus Mechanism—>*transfer pricing*	-0.245	1.069	0.819	**Not Significant**
H2	*Tunneling incentive*—>*transfer pricing*	-1.834	1.256	0.149	**Not Significant**
H3	*Good Corporate Governance*—>*transfer pricing*	8.702	3.420	0.013	**Significant**

(Source: Processed Data, 2022)

The test results in table 3 show that the probability (Sig.) for the constant (α) is 0.009 < 0.05, which means that when there are no other variables in this study, the transfer pricing value is -41.870. The bonus mechanism is 0.819 > 0.05, so H1 is rejected. The statistical value means that changes in the X1 variable have no significant effect on the Y variable. Thus, the bonus mechanism does not significantly affect the aggressiveness of transfer pricing practices. For the effect of tunneling incentive on transfer pricing is 0.149. Referring to the results of the analysis, shows that the probability value (Sig.) is more than 0.05, so H2 is rejected. Thus, the tunneling incentive variable has no significant effect on the aggressiveness of transfer pricing activities. The effect of good corporate governance on transfer pricing aggressiveness is 0.013 < 0.05, so H3 is accepted. These statistical results have meaning if the X1 variable has a positive and significant effect on the Y variable, so that good corporate governance has a positive and significant effect on the aggressiveness of transfer pricing activities. The value of beta 3 (β3) is 8,702, which means that if good corporate governance increases by 1 unit, the value of transfer pricing aggressiveness will increase by 8,702, assuming other independent variables are considered constant.

Discussion

Bonus Mechanism and Aggressive Transfer Pricing

The first hypothesis is disproved based on the outcomes of the data analysis, which has been explained, using data from the business yearly financial statements. Transfer pricing procedures are not affected by the bonus system.

According to this study, if net income rises year over year, the company will grow, but the owner of the company won't value the directors' efforts. No matter how much the company's net income rises year over year, the directors will not receive bonuses.

However, this bonus is not the main factor that the directors will be motivated to make the company grow by finding out what accounting policies are appropriate to apply in the company they are holding.

This is inconsistent with previous research, namely the research of Tania and Kurniawan (2019) that Bonus is an award given to directors from company owners for their hard work that has run the company well. Because this is what makes the board of directors want to achieve the company's target so that the net profit is greater than the previous year. Additionally, the Board of Directors has the power to decide on actions that the business will take. If the company has a large profit from the previous year and even exceeds the expected target, the directors will get a bonus. Therefore, the board of directors can adopt a policy of transfer pricing practices so that profits become larger.

Contrary to earlier research (Purwanti, 2010), this analysis does not support the notion that management is motivated to manipulate or control net income through aggressive transfer pricing practices. Another reason why the results of this study are not in accordance with some previous studies, is because the sample data studied suffered losses in the last three years of the study period. So, it can be said that these conditions do not allow management to optimize their bonuses through profit maximization with transfer pricing aggressiveness activities.

Agree with (Setyorini & Nurhayati, 2022) in their research which results in testing the absence of influence between the bonus mechanism as a trigger for transfer pricing practices. Thus, the bonus obtained by management can be maximized without having to do transfer pricing aggressiveness. In research (Refgia, 2017) it has also been discussed if the owner of the company does not only see the performance made by the directors in managing the company through profit alone as a bonus consideration. Surely there are more indicators in calculating the bonus in management performance appraisal. This is what causes the absence of influence between the bonus mechanism on the aggressiveness of transfer pricing activities.

Tunneling Incentive and Transfer Pricing Aggressive Activities

Based on the data analysis described above, it is stated that the second hypothesis is rejected. The tunneling incentive variable has no influence and is not significant or has no meaning on transfer pricing practices because the value is more than 5%. Thus, the presence of a majority shareholder does not affect management in making accounting decisions in the form of transfer pricing practices because the company is trying to stabilize profits with transfer pricing without causing conflict within the company. With the high expropriation (transfer of resources) made by the majority shareholder, it will cause the cash dividends paid will also be low. The main shareholder and the minority shareholder will clash as a result of this. Additionally, the dispute between the management (agent) and the majority shareholder (principal) will have an effect on the business' operations and investing activities. Because the controlling shareholder will consider everything, in this scenario, the controlling shareholder's level of authority won't have an impact on the transfer price choice.

A high tunneling incentive has no effect because the accounting policy has been determined by management and the majority shareholder does not use his authority as the owner of the company to determine what policies will be taken against the company. The majority shareholder will see the final result, whether the company can be profitable or not even though the management implements a transfer pricing policy. And even in positive accounting theory, one must understand the accounting policies that are considered most suitable for the company.

This research is supported by previous research, namely (Saifudin & Putri, 2018) which states that the controlling shareholder does not exercise his right to instruct management to carry out a transfer pricing policy or it can also be interpreted that the company's controlling shareholder has the authority to continue to transfer pricing. Controlling shareholders will agree with what management does as long as it can benefit them.

This might mean that, if there are foreign shareholders, the company will continue to transfer prices, or it could mean that foreign shareholders do not exercise their control rights to direct management to do so.

The findings of this study are consistent with those of Dewi and Jati's (2014) study, which found that institutional ownership has no bearing on tax avoidance, contrary to popular belief. Institutional owners are only concerned with maximizing their own welfare, so any management decisions are beneficial as long as they are profitable for them. How to transfer pricing in situations where institutional ownership contains foreign share ownership.

These results indicate that a large number of foreign owners may not necessarily make shareholders in a strong position to control the decision to tunnel into the practice of transfer pricing. This activity is due to an agreement within the company, either operation or investment that must be discussed with other shareholders, especially with the majority shareholder.

Good Corporate Governance and Transfer Pricing Aggressive Activities

Based on the results of the data analysis that has been carried out, it is stated that good corporate governance (GCG) has a positive effect on the aggressiveness of transfer pricing activities. This means that the third hypothesis is accepted.

These findings suggest that the presence of more audit committees inside an organization will enhance the standard of good corporate governance in how those operations are carried out. In order to decrease the incidence of choices about transfer pricing, the audit committee will be more accountable and open inside a company for overseeing the presentation of financial statements and making decisions.

Because Indonesia's system of good corporate governance has not been successful in defending the interests of stakeholders, research conducted (Rosa et al., 2017) that suggests that excellent corporate governance has a favorable influence on transfer pricing is supported by the findings of this study. Therefore, the external auditors are not transparent in reporting the company's financial statements, by utilizing transfer pricing practices.

In conducting Transfer Pricing, audit quality is used as a component of financial governance in this study. The quality of the audit in question is the results of the examination that has been audited by the auditor indicating whether the audit is good or not. It is known that one of the characteristics of healthy governance is transparency.

CONCLUSION AND FUTURE RESEARCH

The results show that the bonus mechanism has no effect on transfer pricing activities, tunneling incentives have no effect on transfer pricing practices, and good corporate governance has no effect on transfer pricing aggressiveness activities. So that the study of these problems can have an impact on strengthening transfer pricing policies carried out by companies to reduce the tax burden. This research is important for developing countries such as Indonesia, which because of the practice of transfer pricing has the potential to reduce state tax revenues, because multinational companies tend to shift their tax obligations from countries that have higher tax rates to countries that apply lower tax rates. This research also contributes to provide recommendations for improvement in the process of stricter supervision.

Suggestions for future researchers are a) There is a need for further studies on the mechanism of bonuses and tunneling incentives in different sectors, b) Additional research samples, and c) It is necessary to measure good corporate governance using other indicators, to know the different effects of good corporate governance on transfer pricing.

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