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INFLUENCE OF TAX MINIMIZATION AND FOREIGN OWNERSHIP ON TRANSFER PRICING DECISIONS

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ABSTRACT

This study aims to determine the effect of tax minimization and foreign ownership on transfer pricing decisions. This type of research uses associative quantitative, the object of research is food and beverage companies listed on the Indonesia Stock Exchange in 2016 - 2020, using purposive sampling method in collecting data samples and the type of data used is secondary data. The total number of samples used in this study were 40 of the 8 food and beverage companies listed on the Indonesia Stock Exchange. Analysis of the data used in this study using panel data regression using the Eviews 10 test tool. The results of this study indicate that together the variables of tax minimization and foreign ownership affect transfer pricing decisions. Based on the results of the T hypothesis test, it shows that inflation has an effect on transfer pricing, tax minimization has an effect on tax minimization decisions.

Keywords: Tax Minimization, Foreign Ownership, Transfer Pricing

1. INTRODUCTION

Along with the development of the era of globalization, economic trade has penetrated the international market. Local companies are transformed into multinational companies (multinational enterprises) that operate under the control of a certain party that does not only operate in one country, but can operate in more than one country. Given that operations carried out by multinational companies may involve several countries that have different tax provisions, tax risks such as tax evasion efforts may occur. Tax avoidance can be done by shifting profits (profit shifting) through transactions between companies that have special relationships, but are in different countries. Differences in the imposition of tax rates in each country, where multinational companies operate, trigger companies to reduce their tax payment obligations by implementing transfer pricing practices (Prananda, 2020).

The phenomenon in this study at the company PT. Coca-Cola Co. v. Commissioner, T.C., No. 31183-15, the IRS thinks Coca-Cola's taxes owed should be \$9.4 billion over the three years. On April 10, 2019, the IRS finally submitted a brief reply in the form of an overview to the Tax Court. The IRS analysis is based on the use of the Critical Path Method (CPM) under the provisions of Section 482 (T.D. 8552) of the US Code. The reply is an answer to the overview sent by the company as of March 15, 2019.

According to Coca-Cola, the method does not properly allocate all the returns from the supply point intangible assets to the parent company which is a US taxpayer. In contrast, the IRS rejects Coca-Cola's interpretation and states that CPM provides a rate of return consistent with function, assets, and risk for a supply point that only carries out the company's routine business activities. "The Coca-Cola argument rests on the wrong premise. On the other hand, there is one alleged flaw in the IRS analysis using the fair-price approach to earnings from other independent bottlers. This is because the ratio is too high and unreasonable between intangible assets and tangible operational assets from Coca-Cola's supply point compared to its independent comparison. "In fact, based on the

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provisions referred to by the IRS, namely Section 482, the rate of return on capital as an indicator of the level of fair profit between the tested company and an independent party should have almost the same value," according to information reported by Tax Notes International Vol. 94 No. 4 (kaw). (<https://news.ddtc.co.id/begini-update-kasus-transfer-pricing-coca-cola--15821>).

2. LITERATURE REVIEW

2.1 Agency Theory

The theory of agency according to (Jensen & Meckling, 1976) is a theory that arises when there are two parties who are bound to each other, where both parties agree to use services. An agency relationship is a contract, in which one or more people (principals) employ another person or party (agent) to carry out a number of jada and delegate authority to make decisions. From this it can be known that management is obliged to account for all decisions against users of financial statements, including investors, stakeholders, shareholders, and creditors. If the decision maker is not from an owner, managerial decisions will affect the welfare of the owner of the company. This is the origin of the agency problem. This problem is certainly not expected because it can lead to conflicts of inefficient allocation of resources.

2.2 Effect of Tax Minimization on Transfer Pricing Decisions

Through transfer pricing, the multinational company concerned can shift its tax obligations from its members or subsidiaries in countries that set higher tax rates to members or subsidiaries in countries that set lower tax rates. Under these conditions, the company can easily manipulate its financial condition and have implications for the low and even the loss of the company's obligation to pay taxes (Melmusi, 2016).

H1 : Tax Minimization Suspected of influencing transfer pricing decisions.

2.3 The Effect of Foreign Ownership on Transfer Pricing

In PSAK No. 15 the controlling shareholder is an entity with a share ownership of 20% or more, either direct or indirect ownership of another entity so that it can exert a large influence in controlling the entity. When the controlling shareholder is dominated by foreign shareholders, the foreign shareholders have greater influence in determining various decisions to be used by the company, including decisions in determining the amount of price determination that can be implemented in transfer pricing practices (Melmusi, 2016).

H2: It is suspected that foreign ownership affects the transfer pricing decision.

2.4 Effect of Tax Minimization and Foreign Ownership on Transfer Pricing

Transfer pricing is used to avoid collecting large taxes by increasing the purchase price and reducing the selling price between companies, especially companies within the same group and transferring the profits earned to the group or domiciled in countries that apply low tax rates. The bigger the tax burden, the company will do transfer pricing in the hope that it can reduce the burden. Because in business practice, entrepreneurs generally identify tax payments as a burden so that they will always try to minimize the burden in order to optimize profits (Refgia, 2017).

H3: It is suspected that Tax Minimization and Foreign Ownership affect the transfer pricing decision.

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3. DATA AND RESEARCH TECHNIQUE ANALISY

3.1 Types of Research

The type of research used in this research is quantitative with associative nature. The data used are secondary data and research data sources obtained through intermediary media or indirectly in the form of books, records, existing evidence, or archives, both published and unpublished in general (Sugiyono, 2017)

3.2 Place And Time Of Research

The location in this study is the Financial Services Company listed on the Indonesia Stock Exchange (IDX) which is accessed through the official website of the Indonesia Stock Exchange (IDX), namely www.idx.co.id. Reason for choosing a location in Bursa Indonesia Stock Exchange (IDX) because it can facilitate researchers in obtaining the data needed and the data presented on the Indonesia Stock Exchange (IDX) is accurate data because it has been audited by an independent auditor before. The research implementation time is in 2021 and the year that will be the object of research is from 2016 to 2020.

3.3 Operational Variable

Tabel 3.1 Operational Variable

| No. | Nama Variabel | Definition | Rumus | Skala |
|-----|--|---|---|-------|
| 1 | <i>Transfer Pricing</i> (Hartina, 2018) | Transfer pricing is a company policy in determining the transfer price of a transaction, be it goods, services, intangible assets, or financial transactions carried out by the company. | $\text{Transfer pricing} = \frac{\text{Piutang pihak berelasi}}{\text{Total piutang}}$ | Rasio |
| 2 | <i>Tax Minimization</i> (Hartina, 2018) | Tax minimization is a strategy to minimize the tax burden payable through cost transfers and ultimately income transfers to countries with low tax rates. | $\text{Tax Minimization} = \frac{\text{Cash tax paid pretax}}{\text{Income}}$ | Rasio |
| 3 | Foreign Ownership (Prasetyo, 2020) | The controlling shareholder according to PSAK No. 15 is an entity that has shares of 20% or more either directly or indirectly so that the entity is considered to have a significant influence in controlling the company. | $\text{KA} = \frac{\text{Jumlah kepemilikan saham terbesar}}{\text{Total saham beredar}}$ | Rasio |

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3.4 Population And Sample

1. Population

The population of this study uses the population of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2016 – 2020.

2. Sample

certain criteria aimed at obtaining a representative sample. The following are the criteria for sampling by purposive sampling in this study:

1. Is a manufacturing company.
2. There are annual financial reports for 5 consecutive years starting from 2016 - 2020 by accessing data through the official website www.idx.co.id
3. The financial statements use rupiah currency and have been audited. The selection of this criterion is because the use of different currencies can cause differences in exchange rates even though they have converted.
4. No loss during the research year because it can cause calculation distortion.
5. The company presents complete and clear company data with research.

the overall sample used is $8 \times 5 \text{ years} = 40 \text{ sample}$.

3.5 Data Collection Techniques

The data used in this study is secondary data obtained from documentary data techniques. Secondary data is a source of data obtained in a form that has been published, the data has been collected by other agencies (J. Supranto, 1991 in Adrian 2011). While the documentary data technique is a data collection technique by collecting and analyzing documents, both written documents, images and electronic documents. The secondary data used comes from external sources, namely data on the financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2016 – 2020.

3.6 Data Analysis Techniques

Data analysis is an activity to process data that has been collected and then can provide an interpretation of the results. Activities in data analysis include grouping data for each variable studied and performing calculations to test the proposed hypothesis (Ghozali, 2017).

3.7 Panel Data Test

Panel data is a combination of time series and cross section data. Panel data is often called pooled data (pooling time series and cross section), micropanel data, longitudinal data, event history analysis and cohort analysis. All of these terms mean the movement over time of the cross-sectional unit. In simple terms, panel data can be defined as a data set in which the behavior of cross-sectional units (eg individuals, companies, countries) is observed over time (Ghozali, 2017).

4. RESULT AND DISCUSSION

4.1 Descriptive Statistical Analysis

Date: 09/24/21 Time: 14:48
Sample: 2016 2020

| | TP | TM | KA |
|----------------------------|----------------------|----------------------|----------------------|
| Mean | 0.361800 | 0.564925 | 0.379625 |
| Median | 0.213500 | 0.279000 | 0.476500 |
| Maximum | 0.947000 | 3.456000 | 0.707000 |
| Minimum | 0.001000 | 0.113000 | 0.047000 |
| Std. Dev. | 0.323359 | 0.803252 | 0.212383 |
| Skewness | 0.153127 | 2.489058 | -0.356432 |
| Kurtosis | 1.328868 | 7.860619 | 1.635329 |
| Jarque-Bera Probability | 4.810790 0.090230 | 80.67876 0.000000 | 3.950838 0.138703 |
| Sum | 14.47200 | 22.59700 | 15.18500 |
| Sum Sq. Dev. | 4.077886 | 25.16331 | 1.759149 |
| Observations | 40 | 40 | 40 |

Source: Data processed Eviews 10.0

Based on table 4.1 above, it can be concluded that variable Y namely Transfer Pricing has a maximum value of 0.947000 contained in PT. Mayora Indah Tbk in 2020. While the minimum value of variable Y of 0.001000 is found in PT. Delta Djakarta Tbk in 2016-2020 and PT. Multi Bintang Indonesia Tbk in 2018. The average (Mean) variable value of Y is 0.361800 and the median value of variable Y is 0.213500.

In variable X1, tax minimization has a maximum value of 3.456000 in PT. Delta Djakarta Tbk in 2020. While the minimum value of variable X1 of 0.113000 is found in PT. Cahaya Kalbar Tbk in 2018. The mean value of variable X1 is 0.564925, and the median value on variable X1 is 0.279000.

In variable X2, foreign ownership has a maximum value of 0.707000 in PT. Indofood Sukses Makmur Tbk in 2016. While the minimum value of variable X2 of 0.047000 is found in PT. Siantar Top Tbk in 2020. The average (Mean) value of variable X2 is 0.379625, and the median value of variable X2 is 0.476500.

4.2 Panel Data Regression Test

1. Chow Test

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

| Effects Test | Statistic | d.f. | Prob. |
|--------------------------|------------|--------|--------|
| Cross-section F | 56.130645 | (7,30) | 0.0000 |
| Cross-section Chi-square | 105.838907 | 7 | 0.0000 |

Source: Data processed Eviews 10.0

The results of the chow test that have been carried out, it can be seen that the effect of tax minimization and foreign ownership on transfer pricing has a chi-square probability value of 0.0000 which is <0.05. So with this H_0 is rejected and H_1 is accepted, in other words the fixed effect model is an appropriate estimation model.

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2. Hausman test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
|----------------------|-------------------|--------------|--------|
| Cross-section random | 1.067697 | 2 | 0.5863 |

Source: Data processed Eviews 10.0

Hausman test that has been done, shows that the probability value generated is 0.5863 which shows the value > 0.05. With this H0 is rejected and H1 is accepted and the appropriate estimation model to be used in this research is the Random Effect Model.

3. Lagrange Multiplier Test

Lagrange multiplier (LM) test for panel data
Date: 09/08/21 Time: 23:09
Sample: 2016 2020
Total panel observations: 40
Probability in ()

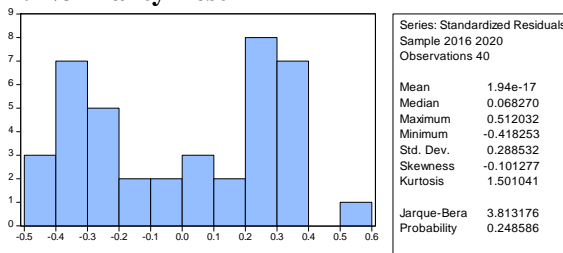
| Null (no rand. effect) Alternative | Cross-section One-sided | Period One-sided | Both |
|---------------------------------------|----------------------------|-----------------------|----------------------|
| Breusch-Pagan | 63.80144 (0.0000) | 2.428593 (0.1191) | 66.23004 (0.0000) |
| Honda | 7.987581 (0.0000) | -1.558394 (0.9404) | 4.546121 (0.0000) |
| King-Wu | 7.987581 (0.0000) | -1.558394 (0.9404) | 3.573524 (0.0002) |
| SLM | 10.03651 (0.0000) | -1.397578 (0.9189) | -- -- |
| GHM | -- -- | -- -- | 63.80144 (0.0000) |

Source: Data processed Eviews 10.0

Based on the results of the tests carried out, it shows that the Breusch-Pagan probability value is 0.0000 which is <0.05. With these results it states that H0 is rejected and H1 is accepted, or in other words the appropriate model used in the study is the Random Effect Model.

4.3 Classical Assumption Test

1. Normality Test



Source: Data processed Eviews 10.0

Based on the table of normality test results above, it shows that the probability value is 0.248486, which means that the value is greater than the significance value of 0.05. So it can be concluded that the 40 samples used in this study are normally distributed and the classical assumption test in the regression model has met the normal assumptions.

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2. Multicollinearity Test

Variance Inflation Factors
Date: 09/09/21 Time: 10:23
Sample: 1 40
Included observations: 40

| Variable | Coefficient Variance | Uncentered VIF | Centered VIF |
|----------|-------------------------|-------------------|-----------------|
| C | 0.009629 | 4.389414 | NA |
| TM | 0.003652 | 1.578535 | 1.047252 |
| KA | 0.052240 | 4.479023 | 1.047252 |

Source: Data processed Eviews 10.0

Based on the multicollinearity test table above, it states that the VIF value obtained by each independent variable (Independent) obtains an X1 value of 1.047252 and X2 of 1.047252. With this, all of these variables obtain a VIF value that is smaller than 10, so that in the test there is no multicollinearity between the independent variables on the regression model.

3. Heteroscedasticity Test

Heteroskedasticity Test: White

| | | | |
|---------------------|----------|---------------------|--------|
| F-statistic | 0.989359 | Prob. F(5,34) | 0.4387 |
| Obs*R-squared | 5.080566 | Prob. Chi-Square(5) | 0.4061 |
| Scaled explained SS | 6.532449 | Prob. Chi-Square(5) | 0.2578 |

Source: Data processed Eviews 10.0

Based on the table of heteroscedasticity test results above, the probability value generated is 0.4061, which means that the value is greater than the significance value of 0.05. This shows that the residual variance in the regression model is constant (homoscedasticity). Thus it can be concluded that there is no heteroscedasticity in the regression model.

5. Auto Correlation Test

| | | | |
|--------------------|----------|-----------------------|-----------|
| R-squared | 0.645162 | Mean dependent var | 1.11E-17 |
| Adjusted R-squared | 0.604609 | S.D. dependent var | 0.288532 |
| S.E. of regression | 0.181429 | Akaike info criterion | -0.459432 |
| Sum squared resid | 1.152082 | Schwarz criterion | -0.248322 |
| Log likelihood | 14.18863 | Hannan-Quinn criter. | -0.383101 |
| F-statistic | 15.90916 | Durbin-Watson stat | 2.039040 |
| Prob(F-statistic) | 0.000000 | | |

Source: Data processed Eviews 10.0

Based on the results of the autocorrelation test that has been carried out, it shows that the Durbin-Waston value obtained is 2.039040. Furthermore, it can be seen in Figure 4.12 showing that the Durbin Waston statistical value is in the area where there is no autocorrelation because the Durbin Waston value of 2.039040 is located between du and 4-du. Thus, it can be concluded that there is no autocorrelation problem in the regression model.

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4.4 Multiple Linear Regression Analysis

Dependent Variable: TP

Method: Least Squares

Date: 09/09/21 Time: 10:23

Sample: 1 40

Included observations: 40

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|----------|-------------|------------|-------------|--------|
| C | 0.441408 | 0.098129 | 4.498222 | 0.0001 |
| TM | -0.184610 | 0.060432 | -3.054840 | 0.0042 |
| KA | 0.065020 | 0.228560 | 0.284475 | 0.7776 |

Source: Data processed Eviews 10.0

$$Y = 0.441408 + 0.184610X_1 + 0.065020X_2 + \varepsilon.$$

Based on the regression equation, it can be seen that the coefficient value of each variable is positive and negative.

1. In the Y Transfer Pricing variable, the value of obtained is positive, namely 0.441408, which if Tax Minimization and Foreign Ownership are 0, then Transfer Pricing is 0.733857
2. In the X1 variable, the Tax Minimization coefficient value obtained is positive, namely 0.184610 which if the X1 variable increases by 1%, the Y variable will also increase.
3. In the variable X2 Foreign Ownership, the coefficient value obtained is positive, namely 0.065020 which if the X2 variable increases by 1%, the Y variable will also increase.

4.5 Hypothesis Test

1. Coefficient of Determination Test

| | | | |
|--------------------|----------|--------------------|-----------|
| R-squared | 0.274971 | Mean dependent var | -0.207137 |
| Adjusted R-squared | 0.535781 | S.D. dependent var | 0.475981 |
| S.E. of regression | 0.416101 | Sum squared resid | 6.406183 |
| F-statistic | 7.016237 | Durbin-Watson stat | 1.288081 |
| Prob(F-statistic) | 0.002610 | | |

Source: Data processed Eviews 10.0

Adjusted R-Squared value is 0.535781 which means that the variation of changes in the ups and downs of Transfer Pricing can be explained by Tax Minimization as X1 and Foreign Ownership as X2 by 53.5%. While the remaining 46.5% is explained by other variables not examined in this study.

2. Hypothesis Test (F)

| | | | |
|--------------------|----------|--------------------|-----------|
| R-squared | 0.274971 | Mean dependent var | -0.207137 |
| Adjusted R-squared | 0.235781 | S.D. dependent var | 0.475981 |
| S.E. of regression | 0.416101 | Sum squared resid | 6.406183 |
| F-statistic | 7.016237 | Durbin-Watson stat | 1.288081 |
| Prob(F-statistic) | 0.002610 | | |

Source: Data processed Eviews 10.0

F-count value is 7.016237 and significant value is 0.002610. Meanwhile, to find the Ftable with the number of samples (n) = 40, the number of independent variables (k) = 2, the significance level = 0.05, df1 = k - 1 or 2 - 1 = 1 and df2 = n - k or 40 - 2 = 38, the Ftable value is 4.10. So that F-count 7.016237 > 4.10 and systematically obtained a significant value of 0.002610 < significant level of 0.05 so it can be concluded that the

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independent variables used in this study consisting of Tax Minimization and Foreign Ownership together have an effect on Transfer Pricing Decisions.

3. Hypothesis Test

Dependent Variable: TP

Method: Least Squares

Date: 09/09/21 Time: 10:23

Sample: 1 40

Included observations: 40

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|----------|-------------|------------|-------------|--------|
| C | 0.441408 | 0.098129 | 4.498222 | 0.0001 |
| TM | -0.184610 | 0.060432 | -3.054840 | 0.0042 |
| KA | 0.065020 | 0.228560 | 0.284475 | 0.7776 |

Source: Data processed Eviews 10.0

1. The effect of Tax Minimization on transfer pricing

Tcount is 3.054840 and the probability value is 0.0042. Meanwhile, to find the T table with the number of samples (n) = 40, the number of independent variables (k) = 2, the significant level = 0.05, $df = n - k$ or $40 - 2 = 38$, the Ttable value is 1.68595. So Tcount $3.054840 > Ttable$ 1.68595 and systematically obtained a probability value of $0.0042 <$ significant level of 0.05 so it can be concluded that Tax Minimization has a significant effect on Transfer Pricing Decisions.

2. The Effect Of Foreign Ownership On Transfer Pricing

Tcount is 0.284475 and the probability value is 0.7776. Meanwhile, to find the T table with the number of samples (n) = 40, the number of independent variables (k) = 2, the significant level = 0.05, $df = n - k$ or $40 - 2 = 38$, the Ttable value is 1.68595. So that Tcount $0.284475 < Ttable$ 1.68595 and systematically obtained a probability value of $0.7776 >$ a significant level of 0.05 so it can be concluded that Foreign Ownership has no significant effect on Transfer Pricing Decisions.

4.6 Discussion of Research Results

1. Effect of Tax Minimization on Transfer Pricing Decisions

Based on the results of the hypothesis test (T) that has been carried out previously, the value of Tcount is $3.054840 > Ttable$ 1.68595 and systematically obtained a probability value of $0.0042 <$ a significant level of 0.05 so it can be concluded that Tax Minimization has a significant effect on Transfer Pricing. Thus H1 Tax minimization affects the Transfer Pricing decision is accepted.

This increases the amount of tax that must be submitted to food and beverage companies with the aim of implementing various ways to minimize the amount of tax that must be launched, one of which is implementing transfer pricing.

2. The Effect Of Foreign Ownership On Transfer Pricing

Based on the results of the hypothesis test (T) that has been carried out previously, the value of Tcount is $0.284475 < Ttable$ 1.68595 and systematically obtained a probability value of $0.7776 >$ a significant level of 0.05 so it can be concluded that Foreign Ownership has no significant effect on Transfer Pricing. Thus H2 Foreign Ownership has an effect on Transfer Pricing decisions is rejected because the results of the hypothesis state that Foreign Ownership has no effect on Transfer Pricing decisions.

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The effect of foreign ownership on the practice is possible because there are other non-foreign controlling transfer pricing shareholders in the sample company which can influence pricing decisions. The large number of foreign share ownership transfers may not necessarily put shareholders in a strong position to control the company, including implementing transfer pricing policies (Melmusi, 2016).

3. Effect of Tax Minimization and Foreign Ownership on Transfer Pricing Decisions

Based on the results of the hypothesis test (F) that has been carried out previously, it shows the F-count value $7.016237 > 4.10$ and systematically obtained a significant value of $0.002610 < \text{significant level of } 0.05$ so it can be concluded that the independent variables used in this study consist of of Tax Minimization and Foreign Ownership together have an effect on Transfer Pricing, with the Adjusted R-Squared value of 0.235781 which means that the variation of the fluctuations in Transfer Pricing can be explained by Tax Minimization as X1 and Foreign Ownership as X2 of 23.5 %. Thus H3 Tax Minimization and Foreign Ownership affect the Transfer Pricing decision.

5. CONCLUSION

This study aims to determine the effect of Tax Minimization and Foreign Ownership on Transfer Pricing Decisions. in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange for the period 2016 – 2020. Following are the results of the research:

1. Tax Minimization has a significant effect on Transfer Pricing Decisions.
2. Foreign Ownership has no significant effect on Transfer Pricing Decisions.
3. Tax Minimization and Foreign Ownership together have an influence on Transfer Pricing Decisions.

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