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Optimizing Transfer Pricing in Indonesia: Exploring the Impact of Tax Minimization, Tunneling Incentives, and Audit Committees

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Abstract: Transfer pricing has become a crucial aspect, especially for natural resource companies in Indonesia, which includes monitoring tax compliance, mitigating tax dispute risks, and maintaining corporate reputation due to its complex and high-priced commodities. This research aims to test and analyze the direct influence of tax minimization strategy, tunnelling incentive, and bonus mechanism on transfer pricing decisions. Meanwhile, the indirect effect involves the audit committee as a moderating factor to explore their influence on transfer pricing practices. The data was derived from the annual reports of natural resource sector companies listed on the Indonesia Stock Exchange. A total of 185 companies used the purposive sampling method, resulting in a sample of 146 data analyzed using WarpPLS 8.0. According to the research results, tax minimization directly influences transfer pricing. In contrast, tunnelling incentives do not affect transfer pricing, and audit committees moderate the influence of bonus mechanisms on transfer pricing.

Keywords: Transfer Pricing, Tax Minimization, Bonus Mechanism, Tunnelling Incentive, Audit Committee.

Introduction

Transfer pricing has become crucial in the complexity of global business, especially for natural resource companies in Indonesia. It involves monitoring tax compliance, reducing the risk of tax conflicts, and safeguarding the company's reputation, especially as it manages complex and high-value commodities. Judicious decisions on transfer pricing are essential to maintaining corporate integrity, ensuring the availability of investment finance, and supporting long-term growth. However, with the increasing complexity of global corporations, transfer pricing has been exploited for price manipulation and tax avoidance (Niu, 2023). Transfer pricing methods evolve due to globalization, potentially facilitating more manipulation (Rogers & Oats, 2022). Natural resource companies are particularly vulnerable to unfair transfer pricing practices due to the complexity and high value of their resources, leading to profit shifting and negatively impacting corporate transparency (Luhende, 2020). Indonesia has implemented tax laws and regulations to prevent losses to the state and society, as stated in Minister of Finance Regulation (PMK) Number 172 of 2023, which replaces PMK No. 22/PMK.03/2020. MoF Regulation No. 172 Year 2023 regulates the application of the Fairness and Usuality Principle (PKKU) in transactions involving transfer pricing. This PMK is designed to improve compliance, transparency, and orderliness in transfer pricing practices in Indonesia, with the aim of ensuring that inter-company transaction prices are set reasonably and in accordance with the principles of market fairness, then, with the legalization of Law No. 7 of 2021 regarding Harmonisation of Tax Regulations (HPP), which includes renewal of Article 18 paragraph 3 of the Income Tax Law. These regulations emphasize the importance of fair pricing methods to avoid tax disputes and comply with transfer pricing regulations. Guidelines for transfer pricing OECD (2022) aims to prevent tax base erosion and profit shifting (Rathke et al., 2021). The Indonesian government must develop relevant regulations, strictly monitor their implementation, and minimize transfer pricing irregularities to support fair and sustainable tax revenue for the country (Butarbutar, 2022).

Evidence of irregularities in the implementation of transfer pricing practices has become a widespread topic of discussion in recent years in Indonesia, including the transfer pricing case involving PT Adaro Energy Tbk., which conducted transfer pricing practices through its subsidiary in Singapore to reduce tax payments in Indonesia. Specifically, PT Adaro Energy Tbk. has transferred profits to a network of companies located in tax-free jurisdictions, which allegedly resulted in the avoidance or reduction of taxes payable in Indonesia, amounting to USD 125 million. The company carried out the practice to obtain tax benefits (Global Witness, 2019). In the same year, according to a report from Tax Justice Network (2019), British American Tobacco's Indonesian subsidiary stated that they incurred USD 164 million in debt interest payments, resulting in a net loss of 27%. The Indonesian government has imposed a tax of 20% on these payments. However, the fund transfer scheme has allowed this tax to be avoided, which could result in the country losing around USD 2.7 million per year in tax revenue as the tax treaty between Indonesia and the UK reduces the tax rate to 15%.

The effect of tax minimization on transfer pricing is a complex issue. Companies often use transfer pricing practices to alleviate their tax liabilities by transferring profits to subsidiaries in jurisdictions with lower tax rates (Kalra & Afzal, 2023). In this endeavour, fair transfer pricing practices are essential to prevent abuses that have the potential to adversely affect the country's tax revenues (Edward et al., 2022). Comprehending the relationship between tax minimization and transfer pricing is crucial since it affects tax revenue, tax compliance, and the stability of the worldwide tax system. This is evidenced in research by Marfuah et al. (2021), Devi & Suryarini (2020), and Sulistyawati et al. (2020), which states that there is a significant effect of tax minimization on transfer pricing. However, this differs from research by Megadiana & Kurnia (2023), which found that tax minimization only significantly affects transfer pricing.

Inequitable transfer pricing practices are also associated with tunneling incentives as they illustrate a company's motivation to transfer capital or assets to a subsidiary in a lower tax jurisdiction to reduce its overall tax liability. These schemes are often associated with inequitable transfer pricing arrangements where transfer pricing of commodities, services, or assets between multinational entities is established to maximize the tax deduction (Kristina & Muhyarsyah, 2023). The impact of providing incentives by transferring funds through lower-taxed subsidiaries has considerable implications for countries' tax revenues and inequalities in the global tax system (Gravelle, 2022). Therefore, the relationship between tunnelling incentives and transfer pricing practices is crucial to understanding international taxation's impact and developing more competent tax policies, especially in Indonesia. This is indicated by research Marheni et al. (2022); Murtanto & Bonita (2021); Rahmadhani & Ananda (2022), which states that tunneling incentive has a significant influence on transfer pricing. However, this is different from the research of Herlina & Murniati (2023), Rahman & Ernawati (2022), and Lestari (2021) regarding the insignificant effect of tunnelling incentives with transfer pricing.

Transfer pricing is also influenced by bonus mechanisms providing financial incentives to managers as a form of performance achievement (Ginting et al., 2021). In some cases, managers interested in bonuses are motivated to manipulate the transfer pricing of goods, services, or assets between subsidiaries and parent companies (Khotimah & Dewi, 2022). The impact of the bonus mechanism on transfer pricing is relevant to firm performance and firm transparency (Priyanti & Suryarini, 2021). This relationship could generate a deeper understanding of the transfer pricing practices of natural resource sector companies and their implications for the global economy, as well as the potential to design more effective tax regulations to control unethical transfer pricing practices. Research from Ramdhany & Andriana (2022) and Sujana et al. (2022) shows a significant influence of the bonus mechanism on transfer pricing. However, it aligns differently with the research conducted by Farkhah Elfa et al. (2022) and Putra & Rizkillah (2022), which explains the insignificant relationship between the bonus mechanism and transfer pricing.

The novelty of this research consists of considering audit committee variables as moderators on factors affecting transfer pricing: tax minimization, tunnelling incentive, and bonus mechanism, which reflects the importance of audit committee supervision in controlling transfer pricing practices in natural resources sector companies in Indonesia. This is based on the phenomenon of transfer pricing cases that occur in Indonesia and previous research Handayani (2021); Lingga et al. (2022); Solihin & Utami (2022); Sulistyawati et al. (2020); Irawan & Sari (2022) which provide inconsistent results of the influence of tax minimization, tunnelling incentive and bonus mechanism on transfer pricing. Concerning this, additional factors can strengthen or weaken the influence of the previous two variables on transfer pricing decisions. Therefore, the author proposes using an audit committee as a moderating variable to influence tax minimization, tunnelling incentives, and bonus mechanisms on transfer pricing decisions.

This study aims to test and analyze the direct impact of tax minimization efforts, tunnelling incentives, and bonus mechanisms on transfer pricing decisions. Given the discrepancy between research results and transfer pricing practices in Indonesia, this study integrates the audit committee as a moderator variable. Previous findings place the audit committee as an independent variable along with bonus mechanism, tax deduction, and tunneling incentive. Therefore, this study tests and analyses the direct impact of tax minimization, tunnelling incentives, and bonus mechanisms on transfer pricing decisions. Meanwhile, the indirect influence is identified by including the audit committee as a moderating factor to assess its effect on transfer pricing practices through corporate governance moderation.

Literature Review

Agency Theory

Agency theory is the theoretical basis for explaining this research, suggesting that decisions are often influenced by differences in interests between owners as principals and managers as agents (Jensen & Meckling, 1976). The occurrence of transactions between business entities that have unique relationships may give rise to potential conflicts of interest (Krug, 2022). In companies with many divisions in one group, managers tend to be opportunistic in maximizing their performance to obtain bonuses (Cheng et al., 2020), while owners seek to increase the expected profitability of managers' performance as a form of trust in the capital they have invested. In companies with multiple divisions within a group, each division may have complex interests and activities (Sugosha, 2020). The effect of tax minimization, tunneling incentive, and bonus mechanism on transfer pricing, which is often related to agency issues, requires an essential role of the audit committee in overseeing and implementing appropriate policies and incentive structures to moderate agent behavior and reduce the risk of harmful transfer pricing practices. The audit committee serves as a control mechanism that can protect shareholders' interests and ensure corporate integrity in the context of complex transfer pricing practices (Gupta & Chauhan, 2021). Agency theory provides a strong basis for a deeper analysis and understanding of the implications of managerial actions of profit-shifting with transfer pricing.

Transfer Pricing

Transfer pricing is setting transaction prices between subsidiaries or divisions within a company to allocate profits and taxes and optimize the tax burden through transactions between related companies by directing profits to tax jurisdictions with lower rates (Moshkovska, 2022). Related party has a broader meaning than a percentage of capital ownership, as set out in Regulation of the Minister of Finance of the Republic of Indonesia No.22/PMK.03/2020 Article 4 paragraph 1. It is explained that the related party includes dependence or attachment arising from three factors: ownership or equity participation, control, and blood family or sibling relationship. The guidelines on related parties serve as the basis for evaluating the extent to which affiliates or subsidiaries can utilize certain tax facilities, such as tax exemptions, dividend and capital gains deductions, profit consolidation, or loss transfers (Pramana, 2022; Prataviera et al., 2022). Related party receivables are financial transactions between affiliated entities involving the transfer of funds, which could indicate improper transfer pricing practices (Capatina-Verdes, 2022). By monitoring related party receivables, the company and stakeholders can ensure that transfer pricing practices are by tax regulations, do not harm the company, and maintain transparency with related parties (Lee et al., 2020).

Tax Minimization

Tax minimization is a broad range of strategies that firms legally employ in an effort to minimize their tax payments. While the term is not always used explicitly in the literature-with terms such as tax avoidance or tax planning appearing more frequently-the term “tax minimization” was chosen to emphasize legitimate tax reduction strategies rather than avoidance or evasion. Tax minimization is proxied by the Effective Tax Rate (ETR) measure, which is calculated by dividing total tax expense by profit before tax (Bernard et al., 2006).

ETR is considered more appropriate than other measures, such as the difference between fiscal and commercial profit, because ETR directly reflects the proportion of profit paid as tax and provides insight into the effectiveness of a company's tax reduction strategy.

Tunneling Incentive

Tunneling incentive means the motivation of controlling shareholders to divert company resources for personal gain, often at the expense of minority shareholders' interests. The measurement of tunneling incentive is calculated by a ratio that measures the proportion of shares owned by the largest shareholder compared to the total shares outstanding (Suripto & Novitaria, 2021). The greater this ratio, the greater the power and influence that controlling shareholders have in corporate decision-making. Thus, shareholders with significant ownership tend to have a stronger incentive to engage in tunneling for their personal interests. This ratio analyzes how much potential controlling shareholders have to influence decisions related to related party transactions (RPTs). The higher the proportion of shares owned, the higher their chances of conducting transactions that can be considered as tunneling, as they can use their power to divert resources without adequate supervision.

Bonus Mechanism

The bonus mechanism is part of the executive compensation structure that incentivizes managers to achieve certain performance targets, measured by the percentage change in net income from year to year, which has a direct effect on the bonus received by managers (Farkhah Elfa et al., 2022). When net profit increases, their bonus also increases, this encourages managers to make decisions that increase profitability, including decisions related to transfer pricing. By proxying the percentage of managerial bonus to total compensation, we can see how much incentive managers have to increase profits, which can affect corporate strategy and potential risks for minority shareholders.

Audit Committee

Audit committees are key in maintaining the integrity of financial reporting by ensuring that companies comply with applicable regulations, thereby preventing extreme transfer pricing practices. In practice, an audit committee consisting of experienced members with relevant expertise can effectively oversee and assess financial statements, thereby minimizing the risk of non-compliance or manipulation (Fuller et al., 2021). Audit committee measurement is usually done by looking at how many audit committee members this factor is an indicator of the committee's supervisory ability and thoroughness in reviewing financial practices, including transfer pricing.

Hypothesis Development

1. Tax minimization on Transfer Pricing

Transfer pricing can be particularly complex when companies engage in aggressive tax minimization strategies (Mpofu & Wealth, 2022). The interaction between tax minimization and transfer pricing practices, as explained by agency theory (Yeye & Egbunike, 2021), involves corporate managers in setting transfer pricing that reduces the corporate tax burden, often without considering the interests of the ultimate shareholders. This situation raises

agency problems where managers tend to act self-interested to increase their compensation while company owners seek to maximize net income accessible to shareholders (Suryani & Herianti, 2023). This problem creates agency difficulties, where managers seek to prioritize their self-interest to increase their compensation while company owners strive to optimize the net income available to shareholders. Tax minimization strategies may overlook the sustainability and integrity aspects of transfer pricing. For companies that focus on tax reduction without considering long-term impacts and integrity, there can be an imbalance in risk management and business sustainability. Research by Fatmi & Amin (2023) found that tax minimization significantly impacts transfer pricing.
H1 = Tax minimization influences transfer pricing

2. Tunnelling Incentive on Transfer Pricing

When tunneling incentive levels increase, transfer pricing practices can become more influential and potentially problematic. Tunneling incentives create an incentive for majority shareholders to manipulate transfer pricing practices. Majority shareholders and managers may manipulate transfer pricing practices to transfer assets or income from business organizations they control to other entities they own if there is a strong incentive for tunneling (Larasati & Arieftiara, 2023). In agency theory, tunneling incentives are related to transfer pricing practices where management or majority shareholders influence the company. Majority shareholders and managers may use transfer pricing to shift income from subsidiaries or divisions they control to other companies they own. High tunneling incentives can increase the risk of transfer pricing manipulation, thereby harming the interests of the company and minority shareholders. With increased tunneling incentives, transfer pricing practices are more likely to be manipulated, which may jeopardize the viability and credibility of the business. A study by Budiaji et al. (2022) and Rahma & Wahjudi (2021) stated that tunnelling incentive significantly influences transfer pricing.
H2 = Tunnelling incentive influences transfer pricing

3. Bonus Mechanism on Transfer Pricing

As the level of bonus mechanism increases, along with the potential impact on transfer pricing practices. Conflicts of interest can arise because managers have incentives to act according to their interests, which are only sometimes in line with the interests of company owners. Implementing a performance-based bonus scheme within the agency theory framework can impact transfer pricing practices. Bonus schemes linked to financial performance can pressure managers to achieve profit targets. Managers motivated by bonus incentives related to net income or economic performance are likely to use transfer pricing strategies to manipulate the profits reported by their subsidiaries (Holderness et al., 2023). This manipulation is undertaken to meet performance targets that make them eligible for bonuses (Martin et al., 2023). Equipped with such bonuses, managers tend to use transfer pricing practices to achieve their goals, even if it is harmful to the business in the long run. Research from Agustiningsih et al. (2022) and Christina & Irawati (2023) shows a significant influence of the bonus mechanism on transfer pricing.
H3 = Bonus mechanism influences transfer pricing

4. Audit Committee Moderating Tax Minimization on Transfer Pricing

The audit committee supervises the company's policies relating to transactions between subsidiaries and parent companies that may affect profit and tax transfers (Cinaj et al., 2020; Darmawati & Triyanto, 2022; Machmuddah et al., 2022). The audit committee actively assesses the tax risks associated with transfer pricing practices. It ensures that such policies do not involve practices that harm the company or lead to tax disputes. In agency theory, the audit committee is expected to address the divergence of interests between management and shareholders by ensuring that corporate policies, such as transfer pricing practices, fulfil the short-term objectives of shareholders and management (Ardillah & Vanesa, 2022). The audit committee conforms the transfer pricing with the company's policy to achieve long-term goals. Therefore, the audit committee maintains the integrity and transparency of the company's transfer pricing practices.
H4 = Audit committee moderating the influence of tax depreciation on transfer pricing

5. Audit Committee moderating Tunnelling Incentive on Transfer Pricing

The audit committee performs as an internal control mechanism that detects and prevents majority shareholders and management from incentivizing tunneling through transfer pricing. This is accomplished by evaluating the company's transfer pricing policy to monitor compliance with applicable ethical standards, tax regulations, and accounting principles. The audit committee acts as a watchdog for the integrity and sustainability of the company, reducing the potential risk of tunneling through transfer pricing and balancing the interests of the company, shareholders, and tax obligations. In agency theory, the audit committee is regarded as an independent representative of shareholders and protects the interests of shareholders (Handriani, 2020; Mardjono & Chen, 2020). This proves the importance of the audit committee's role in maintaining a balance of interests and ensuring management acts in the interests of shareholders and the company's long-term sustainability.
H5 = Audit committee moderating the influence of tunneling incentive on transfer pricing

6. Audit committee moderating Bonus Mechanism on Transfer Pricing

The audit committee must oversee the Bonus Mechanism so that it is in line with the company's sustainable policies and does not prejudice the interests of shareholders. Evaluation of the bonus mechanism policy by the audit committee involves analyzing the extent to which the incentive system encourages management to engage in unethical transfer pricing practices. Audit committee supervision involves internal and external audit processes to ensure that the bonus mechanism does not create risks or procedures detrimental to the integrity of the financial statements and compliance with accounting and taxation standards (Čular et al., 2020; Faisal et al., 2022). In agency theory, the audit committee minimizes the risk of agency conflicts by ensuring that management acts in the interests of shareholders. The audit committee maintains the balance of interests between management and shareholders. It ensures that the bonus mechanism does not provide incentives for transfer pricing practices that can harm the company.
H6 = Audit committee moderating the effect of bonus mechanism on transfer pricing

Methods

This study employs a quantitative approach to test and analyze hypotheses, identifying how tax minimization, tunneling incentives, and bonus mecha-nisms influence transfer pricing decisions, with an audit committee acting as modera-tion. This study uses secondary data obtained by accessing the Indonesia Stock Exchange website or the website of each sample company. The population in this study are natural resource sector companies listed on the Indonesia Stock Exchange during 2020-2022. The measurement of each variable is presented in table 1:

Table 1. **Definition of Variables and Measurement**

Dependent Variable (Y)	**Measurement**	**Source**
Transfer Pricing	$\frac{Related\ Party\ Receivables}{Total\ Receivable}$	(Suhartono et al., 2022)
Independen Variabel (X)		
Tax Minimization	$\frac{(Tax\ expense\ -\ Deferred\ tax\ expense)}{Earnings\ Before\ Tax}\ X\ 100\ \%$	(Bernard et al., 2006)
Tunnelling Incentive	$\frac{Amount\ of\ most\ significant\ shareholding}{Total\ Shares\ Outstanding}\ X\ 100$	(Ubaidillah, 2023)
Bonus Mechanism	$\frac{Net\ profit\ in\ year\ y}{Net\ profit\ in\ year\ y-1}\ X\ 100\ \%$	(Ginting et al., 2021)
Audit Committee	Proxied by the amount of audit committees owned by the company.	(Handoyo et al., 2022)

The purposive sampling method was applied to sample companies from 2020 to 2022. The results show that 146 data were collected as samples, according to the sample conditions, as explained in Table 2.

Table 2. **Purposive Sampling**

No	**Criteria**	**Total**
1	Natural resource sector companies listed on the IDX	185
2	Companies that did not publish annual reports in 2020-2022	(9)
3	Companies that have incurred losses in 2020-2022	(99)
4	Companies that had no balance of related party receivable transactions	(18)
Total Sampling		59
Observation 2020-2022		3
Total observation (59*3)		177
Outlier		(31)
TOTAL		**146**

This study uses multiple linear regression data analysis methods, in which there is a moderation principle known as Moderating Regression Analysis (MRA) using WarpPLS 8.0 software support. Applying the Moderated Regression Analysis (MRA) technique to examine and analyze how including moderating variables influences or changes the relationship between the independent and dependent variables (Park & Yi, 2023). This modelling technique simplifies how the audit committee functions by examining the connection between tax minimization, tunnelling incentives, and bonus systems in influencing transfer pricing practices in natural resource sector companies in Indonesia.

Findings

Statistic Descriptive

Table 3. **Results of Descriptive Statistics**

	N	Min	Max	Mean	Std. Deviation
Transfer Pricing (Y)	146	0.005	1.834	0.28621	0.327168
Tax Minimization (X1)	146	0.009	0.793	0.25797	0.140809
Tunneling Incentive (X2)	146	0.135	0.898	0.51355	0.166527
Bonus Mechanism (X3)	146	0.018	93.975	2.55817	7.943617
Audit Committee (Z)	146	2	6	3.12	63
Valid N (listwise)	146				

Source: Author's Calculation

The results of descriptive statistics depicted in Table 3 for the transfer pricing variable with the average value of 0.28621 and extreme values of 0.005 and 1.834 with a standard deviation of 0.327168 indicate that Indonesia's natural resource sector companies pay relative attention to transfer pricing practices. The company's average tax minimization is 0.25797, and the extreme values are 0.009 and 0.793, with a standard deviation of 0.140809. The average value of the tunnelling incentive is 0.51355; the extreme values are 0.135 and 0.898, with a standard deviation of 0.166527. The average value of the bonus mechanism is 2.55817, and the extreme values are 0.018 and 93.975, with a standard deviation of 7.943617. The average value of the audit committee is 3.12, and extreme values are 2 and 6, with a standard deviation of 0.463, indicating that almost all energy sector companies in Indonesia have more than three audit committee members.

Model Fit Test

Table 4. **Results of Model Fit Test**

Model Fit and Quality Index	Index	Criteria	Result
Average path coefficient (APC)	0.090	P>0.067	Fit Models
Average R-squared (ARS)	0.103	P>0.052	Fit Models
Average adjusted R-squared (AARS)	0.064	P<0.109	Fit Models
Average block VIF (AVIF)	1.806	if <= 5, ideally <= 3.3	Fit Models
Average full collinearity VIF (AFVIF)	1.537	if <= 5, ideally <= 3.4	Fit Models
Tenenhaus GoF (GoF)	0.320	small >= 0.1, medium >= 0.25, large >= 0.36	Medium
Simpson's paradox ratio (SPR)	1.000	acceptable if	Fit Models

Model Fit and Quality Index	Index	Criteria	Result
		>= 0.7, ideally = 1	
R-squared contribution ratio (RSCR)	1.000	acceptable if >= 0.9, ideally = 1	Fit Models
Statistical suppression ratio (SSR)	1.000	acceptable if >= 0.7, ideally = 1	Fit Models
Nonlinear bivariate causality direction ratio (NLBCDR)	0.667	acceptable if >= 0.7, ideally = 1	Unwell

Source: Author's Calculation

Evaluation of model fit is an essential aspect of data analysis using WarpPLS, as it determines the extent to which the model fits the data and provides an overview of the quality of the model. The model fit test results from secondary data processing using WarpPLS 8.0 are presented in Table 4, showing that data collection and analysis successfully established correlations between the variables under study. The evaluation of the fit and quality indices in the table evidences the suitability and accuracy of the model. The statistical significance of the P-value Average Path Coefficient (APC) indicates that the causal relationship between exogenous and endogenous factors, both direct and indirect, meets the requirement of P <= 0.05. This suggests that the variables in the research model are unaffected by multicollinearity problems, and the model can be trusted to predict how exogenous factors will affect endogenous variables.

Hypothesis Test Results

Figure 1. **Results of Configuration Model**

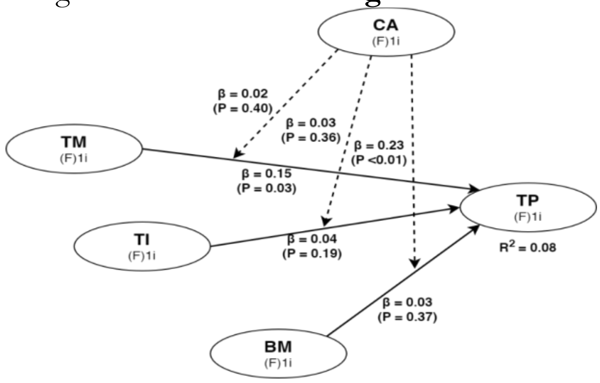

Table 5. **Summary of Hypotheses**

	Hypothesis	Criteria	Sign	Summary
H1 :	Tax minimization influences transfer pricing	<0.05	0.033	Accepted
H2 :	Tunneling incentive influence transfer pricing	<0.05	0.139	Rejected
H3 :	Bonus mechanism influences transfer pricing	<0.05	0.373	Rejected
H4 :	Audit committee moderating the influence of tax minimization on transfer pricing	<0.05	0.402	Rejected
H5 :	Audit committee moderating the influence tunneling incentive on transfer pricing	<0.05	0.373	Rejected
H6 :	Audit committee moderating the influence bonus mechanism on transfer pricing	<0.05	0.002	Accepted

Source: Author's Calculation

Tax minimization Has an Influence on Transfer Pricing

Based on the figure analysis results and hypothesis summary in Table 5, this study shows a significant influence between tax minimization and transfer pricing. Companies use transfer pricing to maximize tax benefits by arranging transfer pricing between business units. The existence of a transfer pricing agreement to minimize the corporate tax burden becomes the main focus of the transfer pricing practice. Tax minimization is the main driver behind transfer pricing arrangements to optimize tax benefits in various jurisdictions (Rathke, 2021; Vržina, 2021). Agency theory has an essential role in explaining the behaviour of management as agents acting on behalf of owners or shareholders. Management's tendency to take action to reduce taxes is not always in line with the long-term interests of shareholders, who are more focused on the growth and sustainability of the company (Lutsenko, 2020).

Transfer pricing can provide fiscal benefits but also transfer pricing risks, creating inequalities in profit allocation and potential tax disputes (Mukhtar, 2021; Wágner, 2020). Optimizing transfer pricing can be a strategy to reduce a company's tax burden legally. A deep understanding of this dynamic is essential for companies to manage risk and ensure tax compliance in complex global businesses. With changing tax rules and increased scrutiny from tax authorities, companies need to understand the impact of transfer pricing on corporate tax obligations to prevent potential disputes and safeguard the company's reputation. The complexity of transfer pricing highlights the need for caution in designing tax and transfer pricing policies to comply with regulations and business ethics (Garcia-Bernardo et al., 2021).

Tunneling Incentive Has No Influence on Transfer Pricing

Based on the results of the analysis and summary of the hypotheses presented in Table 5, in the following researches of Cristina & Murtiningtyas, (2021); Riyadi & Kresnawati, (2021) this research proves that there is no significant impact of tunneling incentives on transfer pricing. Tunnelling incentive refers to the manipulation of financial statements to minimise taxes and maximise profits, transfer pricing practice involves pricing transactions between related parties in a multinational company to minimise tax burden and maximise profits (S. Lestari & Hasymi, 2022). Transfer pricing objectives established to ensure that transactions between related entities are conducted at fair market value, rather than at prices that would artificially shift profits from one entity to another (Ramadhan et al., 2022). This is essential for tax purposes and to ensure that each entity is fairly compensated for the goods or services it provides.

Asset identification certainly involves tunneling practices. However, its use provides a deeper understanding of a company's internal dynamics that can be managed independently (Solikhah et al., 2021). This indicates that the company has internal controls to address potential risks and conflicts of interest. By considering the specific aspects of each practice, company policies and decision-making can be structured to improve the rigour, compliance, and effectiveness of the company's strategy in the long term. Tunnelling techniques provide insight into a company's internal dynamics. Still, they can be managed separately from transfer pricing practices, allowing companies greater control over their policies and effectively mitigating risks and conflicts of interest (Ubaidillah, 2023).

Bonus Mechanism Has No Influence on Transfer Pricing

The analysis results in Figure 1 and the summary of the hypothesis are listed in Table 5, indicating that the bonus mechanism does not influence transfer pricing, which aligns with the study (Harahap & Delfina 2021). Although system bonuses are often used as an additional incentive for managers whose performance improves, the use of system bonuses in transfer pricing practices may be hampered by the complexity of the business structure. Optimizing the bonus mechanism may be reduced if it is not fit for purpose and the complexity of the business structure, so managers may not feel sufficient encouragement to optimize transfer pricing policies. Transfer pricing often involves long-term considerations regarding the sustainability and financial health of the firm, so some of the reasons for the lack of influence may stem from the bonus mechanism's more short-term focus (Purnomo et al., 2021). Viewed from an agency theory perspective, the success of a bonus mechanism in influencing transfer pricing may depend on the extent to which it prevents conflicts of interest between owners and managers (Fomina & Shushakova, 2021; Osho & Ogedengbe, 2023).

The effectiveness of the bonus mechanism in shaping transfer pricing practices is highly dependent on the clarity of performance targets and assessment criteria (Aberg & Paz, 2022; Derchi et al., 2021). Managers may need help in achieving desired results if the performance targets related to transfer pricing need to be clarified or defined. Clear performance targets related to transfer pricing can improve the efficiency of the bonus mechanism by providing managers with appropriate guidelines. If the bonus assessment criteria do not appropriately reflect the firm's desired transfer pricing practices, managers may not be motivated to optimize transfer pricing by the firm's policy. Performance targets and bonus assessment criteria that are measurable and relevant to transfer pricing practices can encourage managers to implement transfer pricing policies as expected.

Audit Committee Cannot Moderate the Influence of Tax Minimization on Transfer Pricing

Based on the analysis results depicted in Figure 1 and the hypothesis synopsis in Table 5, this research shows that the audit committee cannot moderate the impact of tax minimization on transfer pricing. Decisions regarding transfer pricing practices are more related to corporate strategy, which is beyond the direct scope of the audit committee. The audit committee received asymmetric information regarding transfer pricing practices in conducting tax management with tax minimization. Audit committee members in natural resource sector companies need to gain more knowledge of taxation. Consequently, the method of tax management with tax minimization in transfer pricing increases so that tax monitoring could be more optimal.

According to agency theory, owners cannot control all agents' actions, especially those related to technical matters or requiring specialized skills (Bauchadze, 2022; Maraire et al., 2021; Tekin & Polat, 2020). The owner relies on the agent to manage the company's operations and make decisions that require specialized skills. This leads to limitations on the owner's ability to control any technical decisions or actions the agent takes. Owners must understand this risk and establish effective monitoring and control mechanisms, including adequate knowledge of transfer pricing practices.

Audit Committee Cannot Moderate the Influence of Tunneling Incentive on Transfer Pricing

This study disagrees with the fifth hypothesis depicted in the analysis results and hypothesis summary table, which states that the audit committee cannot moderate the impact of tunneling incentives on transfer pricing. Information asymmetry between the audit committee and management prevents a thorough knowledge of company practices related to tunnelling incentives and transfer pricing. Limited access to information and less in-depth understanding can make it difficult for the Audit Committee to identify potential agency conflicts accurately (Evodila et al., 2020). This conflict of interest can influence the ability of audit committee members to provide objective and independent oversight of transfer pricing practices. An audit committee that cannot fully understand the risks of transfer pricing practices and thus cannot provide adequate internal control may increase the agency risk associated with tunnelling.
Agency theory emphasizes the importance of providing sufficient and accurate information to shareholders to minimize the risk of information asymmetry (Ugur & Trushin, 2023). Intervention from executive management and majority shareholders may hamper the audit committee's independence to control harmful practices. External auditors' involvement is crucial in guaranteeing auditor independence and ensuring objective monitoring of transfer pricing practices (Mwombeki, 2023). Transfer pricing practices must be monitored and evaluated objectively to minimize potential conflicts of interest. Thus, objective monitoring of transfer pricing practices will reduce potential conflicts of interest more effectively.

Audit Committee Moderates the Influence of Bonus Mechanism on Transfer Pricing

The analysis results in Figure 1 and the hypothesis summary in Table 5 provide evidence supporting Hypothesis 6. In hypothesis three, which states that the bonus mechanism has no significant influence on transfer pricing, the audit committee's role as a moderator becomes even more critical. This result highlights the relevance and essential role of the audit committee as a moderating mechanism in the relationship between bonus mechanism and transfer pricing. The audit committee's role becomes more crucial in controlling the complex interaction between bonus mechanism and transfer pricing to ensure the company's sustainability (Putra & Rizkillah, 2022). This ensures that transfer pricing practices are not carried out in a personally beneficial way to management. In agency theory, a well-performing audit committee helps overcome conflicts of interest. It makes the bonus mechanism a more effective tool to encourage transfer pricing practices following company policy and shareholder interests.

The audit committee ensures that internal controls are in place for transfer pricing and that the remuneration system provides incentives that align with the company's long-term objectives. Transfer pricing-related performance criteria are included in management's performance appraisal. By monitoring transfer pricing practices as part of the performance evaluation, the Committee helps ensure management is rewarded for fairness and compliance with transfer pricing rules. The Audit committee develops the bonus mechanism to support long-term performance and prevent bonuses that may encourage adverse transfer pricing practices (Suryana & Yudianto Gouw, 2021). This ensures that the relationship between agents and principals remains strong to achieve the company's long-term goals and shareholders' interests.

Conclusion

Based on the results of this research, Transfer pricing practices aiming to minimize taxes by adjusting transfer prices between business units are commonly used by corporations. The main goal is to achieve optimal tax efficiency, with alignment of transfer pricing being crucial to reducing the tax burden. Tunneling incentives involving asset transfers do not significantly impact the determination of transfer pricing for goods or services. This suggests that companies have adequate internal controls to manage these transactions separately. On the other hand, the bonus mechanism does not significantly influence transfer pricing policy due to the complexity of business structures and the short-term nature of the mechanism. Although limited in its ability to moderate tax minimization effects on transfer pricing, the audit committee plays a vital role in managing agent behaviour and ensuring honesty in transfer pricing practices related to the bonus mechanism. Moreover, the audit committee is essential in controlling transfer pricing practices in line with company policy and shareholders' interests.

The implications of this research highlight the urgency for companies, particularly in Indonesia's natural resources sector, to consider the audit committee's role in making transfer pricing decisions. Companies can develop more optimal and responsive policies by understanding global business dynamics. Awareness of the importance of audit committees as a monitoring and control mechanism can help companies better deal with transfer pricing complexities. Therefore, improving the quality of audit committees is expected to provide a solid foundation for sustainable decision-making following the principles of business sustainability. The shortcomings of this research are related to the inability to exploit the findings in companies outside the natural resource sector on the Indonesian stock exchange. Furthermore, the statistical analysis produced a small value of 0.08 for Adjusted R Square, indicating that the study only considers five factors. Future research is expected to consider including more factors and indicators related to transfer pricing and enlarging the sample size and criteria. This will enable it to produce broader findings that can describe the impact of transfer pricing more accurately.

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