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THE EFFECT OF TAXES ON TRANSFER PRICING ON TOURISM, RESTAURANT, AND HOTEL COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE IN 2019-2020

Tri Nur Rohmah
Politeknik API Yogyakarta, Indonesia
Email: trinur@poltekapi.ac.id

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ABSTRACT

Transfer pricing by multinational companies is driven by tax or non-tax reasons. Along with the times, practice Transfer pricing is often done to minimize the amount of tax that must be paid. The growing tax burden triggers companies to carry out transfer pricing in the hope of suppressing the load. Transfer pricing in the sale of goods or services. This research on profitability aims to examine the effect of taxes on transfer pricing. The population in this research are tourism, restaurant, and hotel companies listed on the Indonesia Stock Exchange in 2019 - 2020. The sample in this research was selected through purposive sampling, so that a sample of 31 companies was obtained. The statistical test tool uses multiple regression analysis. Taxes in this research was measured by the effective tax rate (ETR), while transfer pricing was measured using dummy criteria. The dummy criteria used is a value of 1 if the company makes a sale transaction to a third party special, while the value 0 for entities that are not make sales to special parties. The results show that taxes has positive and insignificant effect on transfer pricing.

INTRODUCTION

(Kiswanto, 2014) explain that the rapid growth of international economic activity also stimulates development of multinational companies. In multinational companies various international transactions occur between members (divisions), one of which is sale of goods or services. Most of these business transactions are usually occurs between related companies or between companies that have special relationship. Pricing for various transactions between members (divisions) This is known as transfer pricing/transfer price.

(Soebyakto & Agustina, 2014) states that transfer pricing is a company policy in determining transfer prices a transaction, be it goods, services, intangible assets, or financial transactions made by the company.There are two groups of transactions in the transfer pricing, namely intra-company transfer pricing and inter-company transfer pricing. Intra-company transfer pricing is transfer pricing between divisions in one company. Meanwhile, inter-company transfer pricing is transfer pricing between two companies that have a special relationship. The transaction itself can carried out in one country (domestic transfer pricing) or with other countries different (international transfer pricing). The purpose of transfer pricing is to assess the performance between members or divisions of the company and transfer pricing transactions are legal transactions (Schön, 2012).

Transfer pricing by multinational companies is driven by tax or non-tax reasons. Along with the times, practice Transfer pricing is often done to minimize the amount of tax that must be paid. The growing tax burden triggers companies to carry out transfer pricing in the hope of suppressing the load. Transfer pricing in the sale of goods or services

This is done by reducing the selling price between companies in one group and transfer the profits earned to a company domiciled in countries with low tax rates. But because it hasn't availability of tools, experts, and standard regulations, the transfer inspection Pricing is often won by taxpayers in tax courts so that multinational companies are increasingly motivated to make transfers.

According to (Soebyakto & Agustina, 2014), taxes have a role in which is very important in the life of the state, especially in the implementation of development because taxes are a source of income to finance all expenditure includes development expenditure. Tax becomes significant contributor to the government, but for companies tax is a expenses that can reduce company profits. Of course, a high tax burden can motivate companies to practice transfer pricing.

Saraswati and (Soebyakto & Agustina, 2014) explain that transfer pricing is the determination of prices for transactions for products, services, financial transactions, or intangible assets between related companies. Transfer pricing is classified into two, namely transfer pricing between divisions that are still in the same company and the determination of transfer prices for transactions between companies that have a special relationship. (Gao & Zhao, 2015) Determination method transfer prices for transactions between divisions that are still present within the same company is called intra-company transfer pricing. While the method of determining the transfer price between companies that have special relationship is called inter-company transfer pricing. Inter-company transfer pricing itself can be classified as domestic transfer pricing and international transfer pricing. The difference between the two is domestic Transfer pricing is carried out between companies located in the same country while international transfer pricing is carried out between companies that domiciled in a different country. In the environment multinational companies will arise special relationship transactions where transactions between members of the company or within a group (intra-group) transactions). This can give rise to indications of the practice of transfer pricing for tax avoidance, because it is carried out with third parties special, the determination of the selling price may occur unreasonably because market forces do not apply as is (Anglin, Rutherford, & Springer, 2003).

Several studies have been conducted to examine the effect of taxes on transfer pricing. Research conducted by (Kiswanto, 2014), (Tiwa, Saerang, & Tirayoh, 2017), and Saraswati and (Saerang, Poputra, & Tirayoh, 2017) shows that taxes have a significant positive effect on transfer pricing. Meanwhile, research conducted by (Refgia, Ratnawati, & Rusli, 2017), (Rosa, Andini, & Raharjo, 2017) shows that taxes have a significant negative effect on transfer pricing. Meanwhile, research conducted by (Pratiwi, 2018) shows that taxes have an insignificant effect on transfer pricing.

State that the tax variable positive effect on the indication of transfer pricing, where transactions This is done with related entities located in other countries for the purpose of to reduce the amount of tax paid by an entity. Entity perform related transactions by transferring wealth to the entity others who are abroad to reduce profits so that they can reduce corporate group tax burden. This is in line with the results of research conducted by (Tiwa et al., 2017), (Tiwa et al., 2017) which states that taxes have a significant positive effect on the implementation of transfer pricing. This indicates that the amount of tax burden that must be paid by the company becomes a benchmark for company management to implement transfer pricing as an effort to reduce the number of taxes that must be paid in order to maximize the profits to be received by the company.

METHOD RESEARCH

The population is a collection of elements that have certain characteristics that can be used to make conclusions (Chandrarin, 2017). This research uses a population of tourism, restaurant, and hotel companies listed on the Indonesia Stock Exchange in 2019 - 2020. The sample is a collection of subjects that represent the population. The sampling in this research used purposive sampling, namely the sampling method based on certain criteria. The sampling in this research used purposive sampling with certain criteria so that a sample of 60 tourism, restaurant, and hotel companies listed on the Indonesia Stock Exchange in 2019 - 2020. The type of data based on the data source used in this research is secondary data. states that secondary data is data that comes from parties or institutions that have used or published it so that testing the validity and reliability of secondary data is not necessary. This research used secondary data in the form of 2019 - 2020 financial statements on the IDX. The data is obtained by downloading the financial statements and other related information from the IDX official website. The method used to collect data in this research is the documentation method. Documentation is a method used to obtain data and information in the form of books, archives, documents, writings, numbers and images in the form of reports and information that can support research. In this research, data were obtained by downloading financial reports from the official website of the Indonesia Stock Exchange.

The independent variable is a variable that is thought to have an effect on the dependent variable. The independent variable in this research is transfer pricing. Transfer pricing variable is proxied by the presence or absence of sales to special parties. Sales to special parties are indicated transfer pricing practices. The price set in the sale to the parties relationship usually overrides the principle of reasonableness by increasing or lower prices (Saraswati & Sujana, 2017). The dummy criteria used is a value of 1 if the company makes a sale transaction to a third party special, while the value 0 for entities that are not make sales to special parties.

The dependent variable is the main variable that becomes the attraction or focus of research. The dependent variable in this research is taxes. The tax variable is measured by the effective tax rate (ETR) where ETR is a percentage of the tax rate borne by the company. ETR is often used as a basis by stakeholders in making decisions and deciding policies as well as to find out about governance taxation applied by an entity (Saraswati and Sujana, 2017).

RESULT AND DISCUSSION

1. RESULT

Theoretical Framework And Hypotheses Formulation

a. Agency Theory

Agency theory explain how conflicts occur due to differences in interests between management and shareholders. Agency conflict arises due to information asymmetry between owners and managers companies where individual goals tend to be prioritized by managers than company goals. With the authority given by shareholders to managers, then the assets of the entity are managed by managers so that managers have the opportunity to conduct relationship transactions privilege to do tax management (Sujana, Widnyana, & Suparsa, 2017).

b. Taxes

According to Prof. Dr. P.J. Adriani: "Taxes are community contributions to state (which can be forced) without getting reciprocal services (contra-performance) that can be directly demonstrated and which is used to pay general expenses" (Kiswanto, 2014). In Article 1 of the Income Tax Law, Income Tax is a tax that imposed on the tax subject on the income received or earned in the tax year. Corporate Income Tax (Corporate Income Tax) is a tax that imposed on income received or earned by the Agency as referred to in the KUP Law. The subjects of Corporate Income Tax are: domestic corporate taxpayers and foreign corporate taxpayers. Which the object of corporate income tax is income. Due to differences in the recognition of income and expenses in the determining Income Tax between taxation and commercial, it is necessary fiscal adjustments or reconciliations are made. Fiscal reconciliation carried out to final income, non-taxable income, expenses incurred may not be a deduction from income (Article 9 of the Income Tax Law), expenses that may be be deducted (fiscal costs) but the method of recognizing these costs is regulated by fiscal provisions, and the costs incurred together to obtain income that has been subject to final income tax. In the fiscal reconciliation there is a fiscal correction consisting of corrections positive which results in an increase in taxable profit or a decrease in fiscal loss and negative correction resulting in reduced taxable profit or tax loss increases.

Income Tax calculated based on Taxable Income which is actually paid to the government, is referred to as income tax payable while Income Tax is calculated based on Income (Feldstein, 1999). Before Tax referred to as Income Tax Burden. Some of the differences occurs as a result of the difference between Income Tax Payable and Tax Expense, as long as concerning time differences, it should be recorded and reflected in the commercial financial statements, both in the deferred tax asset account as well as deferred tax liabilities. Deferred tax assets can be equated such as overpayment of taxes, which will be replaced in the future when temporary difference recovery. Meanwhile, deferred tax liability can be equated with underpaying taxes, which will be paid in the future comes at the time of recovery of temporary differences (Kiswanto, 2014).

One way to measure how well a company is manage their taxes is to look at the effective tax rate. With the ETR, the company will be able to find out what part of the income the company actually pays for taxes. Due to the time difference realized in future, then to measure the effective tax rate on taxes that actually paid by the company using cash ETR (payment of taxes in real time) cash) as a proxy in this study. Cash ETR is a payout ratio in cash (cash taxes paid) on company profits before income tax.

c. Transfer Pricing

The Organization for Economic Co-operation and Development (OECD), in (Tiwa et al., 2017), defines transfer pricing as the price determined in transactions between group members in a multinational company where the price the specified transfer may deviate from the fair market price as long as it is suitable for the group. They may deviate from the fair market price because their position is in a state of being free to adopt whatever principle remains for the corporation. Gundai in his book (Tiwa et al., 2017) describes transfer pricing as an engineering price manipulation systematically with the intention of artificially reducing profits, making it appear as if the company is at a loss, with the aim of to avoid taxes or duties in a country.

According to Plasschaet, in (Kiswanto, 2014), the definition of transfer pricing is an engineering systematic price manipulation with the intention of reducing profits, making as if the company is losing money, avoiding taxes or duties in a country. The engineering can take advantage of the tax rate in a country by shift the profit to the lowest tax rate. Transfer pricing is usually set for products intermediate products, which are goods and services that are supplied by the selling division to the buying division.

Based on the background of the problem, the hypothesis in this research is:
H1+ : Taxes has a significant positive effect on the company's transfer pricing.

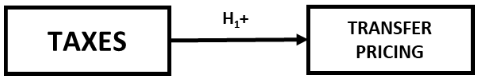

Figure 1. Research Framework
Source: Processed secondary data, 2022

2. DISCUSSION

Multiple linear regression analysis was used to determine the direction and magnitude of the effect of firm size on the capital structure of tourism, restaurant, and hotel companies listed on the Indonesia Stock Exchange in 2019 - 2020 using SPSS 20.0. Multiple linear results for this research can be seen in table 1 as follows:

Table 1. t test results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-.089	.576		-.155	.878	-1.241	1.063
	TP	1.187	.776	.197	1.530	.132	-.367	2.741

a. Dependent Variable: TX

Source: Processed secondary data, 2022

Based on the results of the t test above, it can be seen that taxes has a positive and insignificant effect on the transfer pricing of the tourism, restaurant, and hotel companies listed on the Indonesia Stock Exchange in 2019 – 2020. This can be seen from the results of the 1187 testing level with a significance of 0.132. Because the significance value is 0.132 > 0.05, partially Tax does not have a significant effect on Transfer Pricing. This insignificant result indicates that transfer pricing is one way to reduce taxes by the companies sampled in this study.

(Soebyakto & Agustina, 2014) explains that the notion of transfer pricing is more connoted as something that is not good and has a pejorative meaning, namely the transfer of taxable income from one company in a multinational group of companies to other companies in the same group of companies in a country with a tax rate. lower. Of course, companies carry out transfer pricing practices not only to implement tax savings mechanisms but for other purposes, namely:

a. Production Efficiency
b. Is an order from the parent company
c. It is stated in the cooperation contract with other parties
d. Securing a competitive position
e. Evaluation of the performance of overseas subsidiaries
f. Manage adequate cash flow of subsidiaries
g. And others

Based on the purpose of transfer pricing above, it can be seen that the company does not merely carry out transfer pricing practices to reduce its tax burden. However, there are various other reasons why companies practice transfer pricing apart from the tax saving mechanism.

The results of this study are in line with previous research conducted by (Winarso, 2019) which showed that there was a positive but not significant relationship between the taxes borne by a company and transfer pricing. This study is not in line with research conducted by (Kiswanto, 2014), (Tiwa et al., 2017), and Saraswati and Sujana (2017) which show that there is a positive and significant relationship between the taxes borne by a company on transfer pricing.

CONCLUSION

Based on the discussion of the research results, it can be concluded that taxes has a positive and insignificant effect on transfer pricing of the tourism, restaurant, and hotel companies listed on the Indonesia Stock Exchange in 2019 – 2020. Based on the results of the conclusions of the research that has been done regarding the practice of transfer pricing, the researcher has some suggestions and recommendations for further as follows. Future research is expected to be able to use samples other sector companies or expand the research sample, not only companies only manufactures are listed on the Indonesia Stock Exchange so that the results can be generalized. Further research can add research variables that are also affect transfer pricing practices such as foreign ownership and debt variables covenants.

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