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Factors Influencing the Determination of Transfer Pricing That Moderates Inflation: Evidence from Multinational Manufacturing Companies Listed on the Indonesia Stock Exchange (2017–2024)

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Abstract

Background: This paper examines how corporate income tax, leverage, exchange rates, company size, profitability, and bonus mechanisms affect transfer pricing decisions. Inflation is included as a moderating variable. This study analyzes the interaction of these factors in the transfer pricing behavior of Indonesian multinational companies.
Objective: The aim of this study was to examine the relationships among various financial and macroeconomic determinants affecting transfer pricing, with inflation acting as a moderating factor.
Methods: Panel data regression and Moderated Regression Analysis (MRA)-based quantitative frameworks were used. The sample includes 19 multinational companies listed on the Indonesia Stock Exchange between 2017 and 2024, with a total of 152 observations. After specification testing, the random-effects model was selected as the best estimator for this study.
Results: This study reveals that corporate income tax schemes and bonus mechanisms have a significant negative effect on transfer pricing. On the other hand, leverage, exchange rates, company size, and profitability do not partially affect transfer pricing. Transfer pricing behavior is largely explained by the independent variables. This research is characterized by the use of inflation as a moderating variable. Furthermore, the moderation analysis shows that inflation is a quasi-moderating factor that weakens the effect of corporate income tax. In contrast, inflation does not weaken the effects of leverage, exchange rates, company size, profitability, or the effectiveness of bonus mechanisms.
Conclusion: These findings underscore the importance of fiscal pressures and managerial incentives in determining transfer pricing behavior, even across different macroeconomic environments.

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INTRODUCTION

With the deepening of economic globalization, a country's economic dynamics are increasingly influenced by the operations of business entities and multinational corporations across jurisdictions. Against this background, transfer pricing has become more of a hot-button issue than ever in the field of international taxation. Simply put, transfer pricing refers to the pricing of cross-border transactions between related companies within a consolidated corporate group, which is intended to reflect the arm's length principle. However, in practice, transfer pricing arrangements are often included within the realm of strategic tax planning rather than merely operational coordination. Multinational corporations can reduce their tax burden by allocating profits to entities in jurisdictions with lower tax rates. The divergence between normative design and practical application has placed transfer pricing at the center of policy

discussions on tax avoidance and the effectiveness of cross-border taxation systems.

Initially, transfer pricing was used as a corporate strategy to evaluate performance across departments and business units within an organization. As global businesses expanded, however, this mechanism began to be exploited by opportunistic multinational corporations. In this context, the behavioral accounting perspective is relevant because it explains how management behavior, incentive perceptions, and ethical considerations affect decision-making in transfer pricing. The ethical aspect is particularly important in repositioning transfer pricing as a legitimate control mechanism rather than as a means of tax manipulation (Henda Safitri & Aulia, 2017).

A negative perception of transfer pricing arises when the practice is conducted unfairly, commonly referred to as transfer mispricing. This refers to pricing arrangements in which the transaction price does not reflect market value. Such practices are carried out by artificially increasing or decreasing transaction prices to exploit differences in tax rates between jurisdictions, thereby reducing tax burdens in countries with relatively high tax rates. In the Indonesian context, transfer pricing practices have been closely scrutinized by the Directorate General of Taxes (DGT), and tax authorities continue to identify related-party transactions suspected of deviating from the arm's length standard. These concerns have led to increased regulatory scrutiny, particularly regarding whether intra-group pricing practices for intangible assets comply with current transfer pricing regulations.

Beginning in the 1990s, international attention toward transfer pricing increased following the emergence of the Base Erosion and Profit Shifting (BEPS) initiative. These developments exposed weaknesses in international tax systems that relied heavily on jurisdictional boundaries for tax allocation. In response, the OECD developed the OECD Transfer Pricing Guidelines, which provide a global framework addressing profit allocation and the consistent application of the arm's length principle. These guidelines have since become an important global standard and are now incorporated into regulatory frameworks in many jurisdictions worldwide, including Indonesia. Therefore, transfer pricing is not only related to corporate strategy, but also to fiscal equity and a country's sovereignty in protecting its tax base.

Tax avoidance through transfer pricing has a significant impact on state revenue. According to a Tax Justice Network report, Indonesia potentially loses approximately USD 4.806 billion in tax revenue annually, largely due to corporate tax avoidance practices. In addition to causing losses in tax revenue, opaque transfer pricing practices hinder tax authorities from verifying corporate income tax obligations and undermine the competitiveness of domestic companies that do not possess the same tax flexibility as multinational corporations.

The complexity of this issue is reflected in the high number of transfer pricing disputes both in Indonesia and internationally. Afan Nuliman, who oversees tax audits and collections at the Directorate General of Taxes, acknowledged that there has been a clear shift in taxpayer behavior, as evidenced by the increasing need for regulatory oversight due to the growing sophistication of corporate tax strategies. Currently, following changes in tax regulations, taxpayers have shifted from direct tax avoidance to indirect tax avoidance through transfer pricing mechanisms.

Similarly, PT Adaro allegedly diverted profits through the sale of coal below fair market value to related companies in Singapore, thereby depriving Indonesia of substantial tax revenues. Other relevant examples include PT Pacific Palmindo Industri, in which tax authorities made significant corrections regarding irregular related-party transactions using the Comparable Uncontrolled Price (CUP) method. At the global level, asymmetric business restructuring and selective tax measures have been used to shift profits across borders, as illustrated in the cases of Holcim BV v. The Netherlands and Apple Inc. in Ireland. These cases were considered contrary to the principles of fairness and healthy business competition.

This evolution suggests that aggressive transfer pricing practices are motivated by differences in statutory tax rates between jurisdictions, flexibility within multinational corporate groups, and inconsistencies in the application of the arm's length principle. These conditions indicate the need to reduce BEPS risks by strengthening supervisory mechanisms and enhancing international cooperation in transparency and taxation.

Various previous studies have examined the determinants influencing corporate policies in determining transfer pricing, including taxes (corporate income tax), leverage, exchange rates, firm size, profitability, and bonus mechanisms. (Christina et al., 2023; Kalsum et al., 2025; Laela

et al., 2025; Oktananda & Lini, 2025; Pandya Aryadutta Perdana et al., 2025; Septiani et al., 2025; Wi & Sulisyowati, 2024). On the other hand, studies conducted outside Indonesia have also examined this issue (Gauß et al., 2024; Sandonis & Yermukanova, 2024; Wier, 2020). However, previous studies indicate that transfer pricing decisions are highly dependent on each company's financial condition and strategic objectives.

In addition to internal factors, macroeconomic conditions such as inflation can also affect transfer pricing decisions. Inflation may distort market prices, influence production costs, and reduce the accuracy of comparability analyses in related-party transactions, particularly in developing countries. A report by the Agency for International Cooperation highlighted that inflation adds complexity to transfer pricing decisions and adjustments; however, empirical studies validating inflation as either an independent variable or a moderating variable remain limited.

This study aims to fill the identified research gap by including inflation as a moderating variable and clarifying whether macroeconomic conditions strengthen or weaken the influence of corporate income tax, leverage, exchange rates, firm size, profitability, and bonus mechanisms on transfer pricing decisions. Theoretically, this analysis expands the literature on behavioral accounting and transfer pricing by incorporating macroeconomic elements into the corporate decision-making framework. Practically, the findings are expected to provide insights into managerial decision-making and assist tax authorities in formulating relevant transfer pricing policies in response to Indonesia's dynamic macroeconomic environment.

This empirical study focuses on manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2024. The study utilizes secondary data obtained from audited annual financial statements. Through a quantitative examination of intervariable relationships, this study aims to provide insights into the determinants of transfer pricing behavior within a broader international taxation framework.

A theoretical foundation is used as the basis for evaluating various factors influencing transfer pricing decisions. The theoretical framework of this study is based on established concepts and regulatory provisions derived from agency theory, positive accounting theory, corporate behavior theory, and transfer pricing. These four theoretical foundations complement one another in explaining managerial motivations, actions, and policies related to transfer pricing practices within companies.

Agency theory explains the contractual relationship between principals and agents, in which principals delegate managerial authority and decision-making discretion to agents to operate the company on their behalf (Jensen & Meckling, 1976). Managers, acting as agents, tend to pursue higher compensation and performance-based incentives through increased reported earnings, whereas shareholders, acting as principals, focus on efficiency and minimizing tax burdens (Mariska, 2011). Tensions may also arise in the relationship between corporate taxpayers and fiscal authorities.

Tax authorities seek to optimize tax collection in accordance with legal provisions, while corporations have incentives to structure transactions in ways that legally reduce their tax burden. These differing objectives create natural friction within the tax compliance and enforcement system (Reinganum, 1985). In the context of this study, transfer pricing may function either as a mechanism for aligning managerial and shareholder interests or as an opportunistic strategy reflecting agency conflicts under the framework of agency theory.

In addition, positive accounting theory provides a theoretical framework for explaining and predicting managerial decisions regarding accounting policy choices. From this perspective, firms adopt and develop accounting practices, including those related to transfer pricing, to maximize expected economic outcomes arising from various policy options and contractual arrangements (Dwi & Dianwicaksih, 2018). The inability of normative approaches to empirically explain observed accounting practices contributed to the emergence of positive accounting theory.

This perspective does not establish ideal standards but instead attempts to explain actual managerial behavior in selecting accounting methods. Positive accounting theory therefore provides a framework for investigating managerial incentives underlying policy choices in transfer pricing and for interpreting how the variables examined in this study influence corporate decisions regarding transfer pricing arrangements.

The theory of corporate behavior proposed by Cyert (1963) argues that managerial decisions are not always based on perfect economic rationality. Corporate decision-making is influenced by limited information, cognitive limitations, conflicts of interest, and the psychological characteristics of decision-makers. Cyert (1963) The concept of bounded rationality, introduced by Herbert Simon, describes individuals and organizations as acting rationally within certain constraints, such as limited information, cognitive limitations, and time constraints (McSweeney, 2010). In accounting, the behavioral approach evolved into behavioral accounting, which examines how accounting information both affects and is affected by human behavior within organizations (Henda Safitri & Aulia, 2017). From the perspective of behavioral theory, transfer pricing is viewed as the result of subjective managerial considerations influenced by incentives, performance pressures, and perceptions of tax risk.

Transfer pricing refers to the determination of transaction prices for goods, services, or intangible assets exchanged between parties with special relationships. In practice, this mechanism is widely used by multinational enterprises (MNEs) in conducting cross-border operations, often by utilizing low-tax jurisdictions while formally adhering to the arm's length principle. The Organisation for Economic Co-operation and Development (OECD) explains that intra-group transactions do not always resemble outcomes generated in competitive markets because corporate groups possess substantial discretion in determining internal pricing arrangements.

The practice of transfer pricing in Indonesia is regulated under the Regulation of the Minister of Finance Number 22 of 2020, which recognizes at least five methods for determining transfer pricing. These include the Comparable Uncontrolled Price (CUP) method, the resale price method, the cost-plus method, the profit split method, and the transactional net margin method (TNMM). These regulatory instruments serve as important mechanisms for assessing whether related-party transactions are conducted fairly or whether aggressive tax planning practices erode public revenues.

In conclusion, the theoretical framework used in this study provides a comprehensive perspective for understanding transfer pricing behavior. Agency theory and positive accounting theory explain managerial and contractual incentives, while behavioral theory and behavioral accounting address psychological dimensions and bounded rationality. By integrating the normative and substantive dimensions of transfer pricing within legal and policy frameworks, this study positions transfer pricing as both a theoretical construct and a practical policy instrument in corporate governance and taxation. Based on the discussion above, this study aims to analyze and verify several variables affecting transfer pricing. As illustrated in Figure 1 below, inflation acts as a moderating variable.

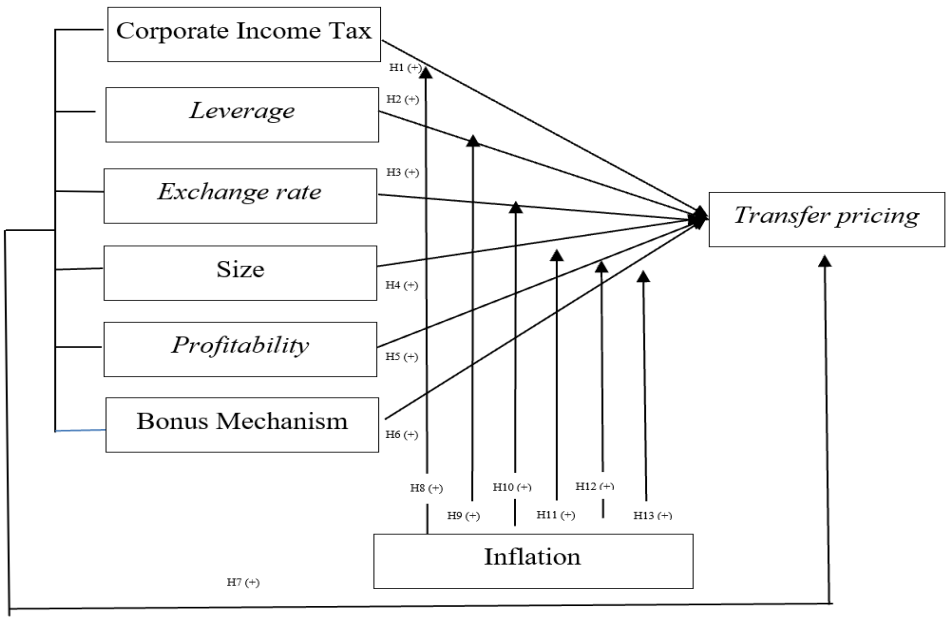

Image 1. Framework

The Impact of Corporate Income Tax on Transfer Pricing

Transfer pricing strategies are heavily influenced by tax considerations and are grounded in agency theory. This theory suggests that management is incentivized to increase net profits through the management of tax burdens, which may also be achieved through the transfer pricing of related-party transactions (Jensen & Meckling, 1976). This perspective is consistent with positive accounting theory proposed by Watts (1986), which states that managers may choose accounting policies that maximize economic and tax benefits through transfer pricing practices. However, behavioral economics suggests that managerial decision-making is also influenced by psychological factors, organizational practices, and perceived tax risks, indicating that responses to financial pressures are not always purely rational.

Empirical evidence generally shows a positive relationship between corporate income tax and transfer pricing decisions, suggesting that increased tax burdens strengthen the motivation to allocate income efficiently among related entities for tax purposes. However, contrary evidence suggests an inverse relationship, as management may act cautiously due to concerns about litigation risks and reputational damage. International research also supports the view that multinational profit-shifting activities are sensitive to regulatory constraints. These theoretical arguments and empirical findings highlight corporate income tax as an important determinant of transfer pricing behavior. Therefore, the following hypothesis is proposed:
H1: Taxes (corporate income tax) affect transfer pricing decisions.

The Impact of Leverage on Transfer Pricing

Leverage refers to the extent to which a company uses debt financing, which simultaneously increases financial risk and signals greater creditor supervision. Similarly, within the framework of agency theory, increased leverage raises the potential for conflicts between managers and lenders, prompting management to implement policies aimed at protecting earnings stability, such as transfer pricing practices. Positive accounting theory also assumes that highly leveraged companies prefer accounting methods that strengthen their contractual positions and maximize economic efficiency.

Empirical evidence presents mixed results. Several studies have identified a positive relationship between leverage and transfer pricing, suggesting that debt pressures encourage income shifting as a means of managing financial burdens. On the other hand, contrasting evidence indicates negative or insignificant effects, suggesting that companies with high debt levels may behave more cautiously under stricter regulations and tighter creditor supervision.

Combining theoretical perspectives with previous empirical findings, leverage is considered a key factor influencing transfer pricing policies. Therefore, the following hypothesis is proposed:
H2: Leverage influences transfer pricing decisions.

The Impact of Exchange Rates on Transfer Pricing

Exchange rates are macroeconomic variables that influence the strategic decisions of multinational companies, including transfer pricing policies. Changes in exchange rates directly affect related-party transactions and the pricing of transferred goods and services, thereby creating incentives for management to increase or decrease intra-group prices to minimize foreign exchange exposure and maintain group profitability. From the perspective of agency theory, managers' preferences may shift in response to exchange rate fluctuations, leading them to transfer revenues across jurisdictions to stabilize earnings and manage balance-sheet exposure.

However, empirical evidence remains inconclusive. Several studies have reported a positive relationship between exchange rate volatility and transfer pricing, indicating that companies adopt transfer pricing strategies to minimize currency risk exposure and maximize profits. On the other hand, some findings suggest that exposure to currency fluctuations does not necessarily lead to transfer pricing adjustments, while others report negative effects. These contrasting results indicate that the impact of exchange rates on transfer pricing is industry-specific and may also depend on corporate risk-management practices. In this context, exchange rates represent a potential determinant of transfer pricing behavior. Based on the theoretical and

empirical foundations above, the following hypothesis is proposed:
H3: Exchange rates affect transfer pricing decisions.

The Impact of Company Size on Transfer Pricing

From the perspective of agency theory, the more complex agency relationships within large companies may encourage managers to adopt various strategies for managing reported profits and tax liabilities, including transfer pricing practices. According to positive accounting theory Watts (2021), larger organizations possess more flexibility in selecting accounting policies that align with management preferences and improve economic outcomes.

Empirical research presents mixed evidence. Many studies have found a positive relationship between company size and transfer pricing practices, suggesting that large firms are better able to implement cross-border tax-planning strategies because they possess greater resources and more sophisticated organizational structures. Conversely, other studies have found no significant relationship due to stricter regulatory oversight and disclosure requirements. These conflicting findings suggest that the influence of company size on transfer pricing decisions depends on operational capacity and the regulatory environment in which the company operates. Based on the arguments and empirical evidence above, the following hypothesis is proposed:
H4: Company size influences transfer pricing decisions.

The Impact of Profitability on Transfer Pricing

From the perspective of agency theory, profitability is an important driver of managerial decision-making. Highly profitable companies generate discretionary cash flows that may be strategically allocated through transfer pricing among related entities to maximize after-tax returns and maintain shareholder value. Consistent with positive accounting theory Watts (1986), companies with strong financial performance are incentivized to adopt accounting policies that maximize favorable economic outcomes, particularly through intra-group pricing arrangements.

Empirical findings regarding profitability and transfer pricing remain mixed. Some studies report a positive relationship between profitability and transfer pricing practices, indicating that highly profitable firms possess greater incentives and resources to engage in cross-border tax planning. Conversely, other studies conclude that there is no significant relationship due to regulatory oversight and disclosure obligations that discourage aggressive transfer pricing practices. These conflicting findings suggest that profitability influences transfer pricing decisions differently depending on managerial capabilities and the regulatory environment. Based on the theoretical arguments and empirical findings above, the following hypothesis is proposed:
H5: Profitability influences transfer pricing decisions.

The Impact of the Bonus Mechanism on Transfer Pricing

The bonus mechanism refers to compensation incentives provided to management based on company performance, particularly profitability. According to agency theory, managers have incentives to manage reported profits in ways that meet shareholder expectations, including through transfer pricing arrangements designed to maintain optimal after-tax returns. In addition, positive accounting theory suggests that companies with high profits are more likely to select accounting policies that increase economic benefits, including intra-group transaction pricing policies. Behavioral theory further suggests that performance pressures and incentive structures may encourage managerial risk-taking under high-return conditions, reinforcing the likelihood of transfer pricing practices.

Theoretical and empirical studies generally support a positive relationship between bonus mechanisms and transfer pricing, suggesting that companies with stronger profit incentives are more likely to shift income among related entities to maximize tax efficiency and overall corporate performance. Therefore, the bonus mechanism is considered a potential determinant of transfer pricing decisions. Based on the arguments and empirical evidence above, the following hypothesis is proposed:
H6: The bonus mechanism influences transfer pricing decisions.

The Impact of Corporate Income Tax, Leverage, Exchange Rates, Company Size, Profitability, and Bonus Mechanisms on Transfer Pricing

Transfer pricing results from the interaction between economic determinants and managerial motivations to maximize profits and improve tax efficiency. Under agency theory, managers, as agents, are motivated to implement strategies that maximize their utility, including income and tax-management strategies. Higher tax rates may increase the likelihood of profit shifting to lower-tax jurisdictions through transfer pricing.

Leverage is another important factor, as companies with high debt levels may adjust intercompany pricing and cost allocations to maintain financial ratios and satisfy creditor demands. Exchange rate fluctuations also create opportunities for multinational companies to adjust cross-border financial positions through transfer pricing strategies.

Company size further contributes to this dynamic, as large firms with complex organizational structures are more likely to engage in related-party transactions and international tax planning. At the same time, profit-based bonus schemes provide managers with behavioral incentives to adopt accounting choices that increase reported income, including transfer pricing practices.

Corporate income tax, leverage, exchange rates, company size, profitability, and bonus mechanisms may influence transfer pricing through interconnected economic motivations, incentive structures, and accounting considerations. This comprehensive perspective is supported by three major theoretical frameworks: agency theory, positive accounting theory, and behavioral theory, all of which suggest that managerial and institutional factors play significant roles in transfer pricing policies. Therefore, the following hypothesis is proposed:

H7: Corporate income tax, leverage, exchange rates, company size, profitability, and bonus mechanisms influence transfer pricing decisions.

The Role of Inflation in Strengthening the Impact of Corporate Income Tax on Transfer Pricing

Agency theory and positive accounting theory assume that management acts rationally to maximize after-tax income, including using transfer pricing to shift profits to lower-tax jurisdictions. In inflationary conditions, nominal income may increase despite limited real economic growth.

Gordon (1980) stated that inflation creates tax inefficiencies because nominal income is an inadequate indicator of real profitability. Furthermore, higher effective interest rates caused by rising price levels increase the real fiscal burden, reduce purchasing power, and increase vulnerability to financial pressures, thereby encouraging actions aimed at minimizing tax liabilities.

Similarly, Finocchiaro (2018) suggest that inflation may exacerbate tax distortions and influence firms' responses through financial manipulations such as income shifting and profit transfers among related parties. In inflationary environments, management may respond more aggressively to tax incentives, making transfer pricing an increasingly important tool for minimizing tax burdens.

Therefore, inflation may strengthen the relationship between corporate income tax and transfer pricing because companies become more sensitive to tax burdens during periods of rising prices. Based on the theoretical arguments and empirical evidence above, the following hypothesis is proposed:

H8: Inflation strengthens the impact of corporate income tax on transfer pricing decisions.

The Role of Inflation in Strengthening the Impact of Leverage on Transfer Pricing

Leverage refers to the amount of debt used by a company to finance its operations. Agency theory suggests that debt can reduce agency conflicts through creditor monitoring while simultaneously creating opportunities for managerial opportunism related to earnings and taxation, including transfer pricing practices (Jensen & Meckling, 1976). Positive accounting theory Watts (1986) further argues that highly leveraged companies are more likely to adopt accounting and financial policies that maximize after-tax income, including transfer pricing strategies. Behavioral theory also suggests that these decisions are influenced by managers' perceptions of financial risk and pressure.

Empirical findings remain inconclusive. Some studies show that companies with higher leverage are more motivated to engage in transfer pricing to maintain financial ratios and improve tax efficiency, whereas other studies report weak or insignificant effects, indicating contextual dependence.

From a macroeconomic perspective, inflation may further strengthen this relationship. Finocchiaro (2018) argue that inflation distorts the real value of debt and interest expenses, thereby increasing firms' sensitivity to fiscal policy. In addition, the Inter-American Center of Tax Administrations notes that tax-planning and transfer pricing behavior are influenced by external factors such as global inflation trends. Consequently, inflation may amplify the effect of leverage on transfer pricing decisions. Therefore, the following hypothesis is proposed:
H9: Inflation strengthens the impact of leverage on transfer pricing decisions.

The Role of Inflation in Strengthening the Impact of Exchange Rates on Transfer Pricing

Exchange rate volatility is one aspect of the global economy that influences how multinational companies determine intra-group transaction prices. According to agency theory, currency fluctuations increase information asymmetry between parent and subsidiary management, thereby creating incentives to adjust transfer prices to maintain consolidated performance. Consistent with positive accounting theory, Watts (1986) argue that firms are motivated to choose accounting policies that minimize tax burdens and reduce financial risks associated with currency exposure. Behavioral theory further suggests that management responses to exchange rate volatility are shaped by subjective perceptions of risk and macroeconomic stability.

Empirical findings are mixed. Several studies report a positive relationship between exchange rate depreciation and transfer pricing activity, suggesting that firms redistribute cross-border revenues to maintain profitability and tax efficiency. However, increased international tax enforcement may limit such behavior.

This phenomenon may become more pronounced during periods of inflation, as inflation increases currency volatility and economic uncertainty. The interaction between inflation and exchange rates may distort cross-border financial decisions, and the Inter-American Center of Tax Administrations argues that inflation and currency pressures can increase multinational firms' risk exposure, encouraging more aggressive transfer pricing adjustments. Therefore, inflation may strengthen the effect of exchange rates on transfer pricing. Based on these considerations, the following hypothesis is proposed:
H10: Inflation strengthens the impact of exchange rates on transfer pricing decisions.

The Role of Inflation in Strengthening the Impact of Company Size on Transfer Pricing

Larger companies generally possess broader networks of related entities and more complex operational structures, increasing opportunities to arrange intra-group transactions for tax-planning purposes, including transfer pricing. From the perspectives of agency theory and positive accounting theory, this organizational complexity allows management greater flexibility in selecting financial policies that improve business performance and reduce consolidated tax costs (Watts & Zimmerman, 1986). Empirical research by Gauß (2024) indicates that larger firms are more likely to engage in transfer pricing practices than smaller firms.

Inflation may intensify these effects at the macroeconomic level. Rising price levels reduce the real value of revenues and assets, encouraging companies with stronger financial and managerial capabilities to adjust transfer pricing policies to maintain real profitability. Evidence published by the Inter-American Center of Tax Administrations and Finocchiaro (2018) suggests that inflation may encourage more aggressive income allocation across jurisdictions by increasing tax distortions and capital costs. Therefore, inflation may strengthen the relationship between company size and transfer pricing decisions. Based on these considerations, the following hypothesis is proposed:
H11: Inflation strengthens the impact of company size on transfer pricing decisions.

The Role of Inflation in Strengthening the Impact of Profitability on Transfer Pricing

Profitability reflects a company's ability to generate profits and is one of the primary determinants of transfer pricing strategies. According to agency theory, higher profitability

increases agency conflicts between management and shareholders, potentially encouraging managerial actions aimed at redistributing profits through transfer pricing to reduce tax burdens and increase performance incentives (Jensen & Meckling, 1976). Positive accounting theory proposed by Watts (1986) also argues that managers may opportunistically select accounting policies that maximize economic benefits, including profit transfers among related entities.

Inflation may strengthen this relationship because declining real profits motivate companies to adjust transfer prices to stabilize nominal performance. Finocchiaro (2018) and related literature suggest that inflation distorts the real value of taxes, assets, and liabilities, thereby influencing pricing behavior and fiscal strategies. Similarly, the Inter-American Center of Tax Administrations emphasizes that inflationary pressures increase incentives for cross-border profit shifting. Empirical evidence largely supports a positive relationship between profitability and transfer pricing. Therefore, inflation may amplify the effect of profitability on transfer pricing decisions by increasing economic and financial pressures. Based on these considerations, the following hypothesis is proposed:

H12: Inflation strengthens the impact of profitability on transfer pricing decisions.

The Role of Inflation in Strengthening the Influence of the Bonus Mechanism on Transfer Pricing

A bonus mechanism is a performance-based compensation system typically awarded to managers based on net income or other profitability indicators during a reporting period. From the perspective of agency theory, this type of compensation structure may create moral hazard, in which managers maximize personal incentives by manipulating reported earnings through discretionary accounting decisions, including transfer pricing practices (Jensen & Meckling, 1976). Empirical evidence also supports this argument, suggesting that bonus incentives increase the likelihood of transfer pricing manipulation to influence reported performance.

This effect may become particularly strong during periods of high inflation. Rising prices increase operational costs and reduce real profits, thereby placing pressure on corporate earnings. The Inter-American Center of Tax Administrations explains that inflationary conditions may weaken fiscal discipline and encourage multinational corporations to shift profits across borders. In this context, managers whose compensation depends on performance metrics may favor aggressive transfer pricing strategies to maintain earnings stability and preserve incentive values. Therefore, inflation may strengthen the influence of bonus mechanisms on transfer pricing decisions. Based on these considerations, the following hypothesis is proposed:

H13: Inflation strengthens the impact of the bonus mechanism on transfer pricing decisions.

METHODS

The research methodology used in this study was quantitative, employing an associative research design to examine the effects of corporate income tax, leverage, exchange rates, company size, profitability, and bonus mechanisms on transfer pricing decisions, with inflation serving as a moderating variable. The research population consisted of companies listed on the Indonesia Stock Exchange during the 2017–2024 period. This study relied on secondary data collected from audited annual financial statements, official stock exchange publications, and inflation data obtained from the Central Bureau of Statistics (Badan Pusat Statistik). Statistical methods, such as Structural Equation Modeling (SEM), were used to test the hypotheses through the proposed research model.

The population of this study consisted of multinational companies listed on the stock exchange during the observation period. Sample selection was conducted using purposive sampling criteria aligned with the research objectives. The selected companies met the following criteria: (i) they were listed on the stock exchange; (ii) they published audited annual financial statements; (iii) they reported earnings in Indonesian rupiah; (iv) they generated positive profits during the research period; and (v) they provided complete data from 2017 to 2024. This well-documented selection process resulted in 19 companies being included in Table 1 based on the specified criteria. Consequently, 152 firm-year observations were obtained. A more comprehensive list of eligible manufacturing companies is provided in the following section of this document.

Table 1. List of manufacturing companies selected for the research sample

No	Company Name
1	Astra Agro Lestari Tbk.
2	Korps AKR Tbk.
3	Sumba Alfaria Trijaya Tbk.
4	Aneka Tamban Tbk.
5	Arwana Chitramulia Tbk.
6	Astra Grafia TBK.
7	Astra International TBK.
8	Bank Indonesia (Persero) Tbk.
9	Global Mediacom (Tbk).
10	Chalong Pokfund Indonesia TBK.
11	Metrodata Elektronik TBK.
12	Majora Indah Tbk
13	Air semen Indonesia (Persero) Tbk.
14	Seramat Sempurna TBK.
15	Tunas Baru Lampung Tbk.
16	Themes, summary.
17	United Tractors Tbk.
18	Wijaya Karya Betong TBK.
19	Mora Telematica Indonesia TBK.

Source: http://www.idx.co.id, processed secondary data

Table 2. Table of operationalization of research variables

Parameters	Operational definition	Measurement	Scale
Transfer Pricing (Y)	Pricing policies for specific purposes, such as tax efficiency or profit transfer in transactions between related parties (Septiani et al., 2025).	TP = Receivables / Amount Receivables from Related Parties	Ratio
Tax (Corporate Income Tax) (X1)	The tax burden borne by the company encourages transfer pricing to minimize the tax burden.	ETR = Tax Expense / Profit Before Tax	Ratio
Leverage (X2)	The use of corporate debt reflects financial risks and pressures on management decision-making (Dwi Hertanti Dia, 2023).	DER = Total Debt / Total Equity	Ratio
***Exchange rate* (X3)**	Changes in the rupiah exchange rate against foreign exchange rates affect the value of transactions related to multinational companies (Agustin & Stiawan, 2022).	ER = Profit or Loss of Foreign Exchange Difference / Profit and Loss Before Tax	Ratio
Squadron Size (X4)	The size of a company reflects the complexity of its operational capabilities, assets, and related activities (Salshabila & Pickpocket, 2024).	Size = Ln (Total Assets)	Ratio
***Profitability* (X5)**	The ability of a company to make a profit from its assets.	ROA = Net Profit / Total Assets	Ratio
Bonus Mechanics (x6)	A system that incentivizes management based on performance and promotes profit	ITRENDBL = Annual Net	Ratio

	management practices, including transfer pricing (Christina et al., 2023).	Profit (t) / Annual Net Profit (T-1)	
Inflation (Z) – Easing of Variability	An increase in general prices that affects the economic condition of a company and strengthens or weakens the influence of independent variables on transfer prices (CIAT, 2023).	INF = Annual Inflation Rate (CPM)	Ratio

The analysis method used descriptive statistics and panel data regression analysis. Since the data contained both time-series and cross-sectional dimensions, the estimation was conducted using EViews version 13. According to Sugiyono (2017), descriptive statistics are used to summarize the characteristics of variables, such as the mean, standard deviation, minimum value, and maximum value.

The test used to determine the appropriate panel regression model consisted of a sequence of specification tests. The Chow test was used to distinguish between the common effect model (CEM) and the fixed effect model (FEM). Subsequently, the Hausman test was conducted to determine whether the FEM or the random effect model (REM) was more appropriate. In addition, the Lagrange Multiplier (LM) test was used to evaluate the adequacy of the CEM compared to the REM (Baltagi, 2005; Gujarati & Porter, 2009). Through this process, the most appropriate model was selected for hypothesis testing.

The main regression equations used to analyze the impact of the independent variables on the related-party transaction (RPT) transfer pricing index were as follows: 1) RPT represented the realization of real profits in the company's future earnings statements. 2) Partial and simultaneous significance tests (Wald tests) were used to test the hypotheses at a significance level of 5%. The adjusted R^2 value was used to assess the overall goodness-of-fit of the regression model and to indicate how much variance in the dependent variable could be explained by the independent variables included in the model.

To investigate the moderating role of inflation, moderated regression analysis (MRA) was used by including inflation interaction terms for each independent variable. The moderation model specification was written as follows:

Importantly, the regression equation was stated as follows:

$$RPT = \alpha + \beta_1 X + \beta_2 INF + \beta_3 (X \times INF) + e$$

In this formula, X represents the independent variables ETR, DER, ER, SIZE, ROA, ITRENDBL, and INF respectively. By including the terms interaction (X × INF), we can verify whether inflation strengthens or decreases the impact of the relevant independent variables.

RESULTS AND DISCUSSION

Results

From 2017 to 2024, we conducted a descriptive statistical analysis of 152 annual observations from 19 companies. The analysis of each variable in this study presents measures of central tendency and basic indicators of variance (mean, median, maximum, minimum, and standard deviation). This analysis provides broad insights into the distribution and variability of the data before conducting further regression testing. The following is a summary of the descriptive statistical results: Table 3.

Table 3. Descriptive Statistical Test Results

	RPT	ETR	THE ER	ER	Size	LONG	Itren	INF
Average	0.244800	0.344150	1.287148	-0.023529	16.40180	0.073778	1.445312	1.547500
Median path	0.083485	0.280475	0.774246	0.001294	16.80359	0.061050	1.111300	0.665000
Max	0.976097	2.544116	6.625971	1.058037	20.84531	0.321000	13.36080	5.510000
Minimum	0.000214	0.011488	0.240977	-5.069681	9.730502	0.002600	0.115800	0.340000
Std. Dev。	0.308435	0.331555	1.387052	0.424107	2.371835	0.054910	1.678744	1.664193
Distortion	1.171120	4.395685	2.468656	-11.08021	-0.897314	1.383731	5.150827	1.589039

Pop	2.973399	25.50035	8.738803	133.8931	4.492087	5.575689	32.56752	4.186568
Jarque Bella	34.74969	3695.842	362.9691	111619.2	34.49776	90.52243	6208.963	72.88481
Probability	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Sam	37.20962	52.31080	195.6465	-3.576347	2493.074	11.21420	219.6874	235.2200
Total Sq. Dev.	14.36495	16.59922	290.5111	27.15990	849.4661	0.455277	425.5453	418.2005
Observations	152	152	152	152	152	152	152	152

Source: Data processed by Eviews13

The transfer price (using RPT as a proxy indicator) has a mean of 0.2448 and a standard deviation of 0.3084, indicating considerable variation in the volume of related-party transactions among companies. The ETR shows a high level of volatility (ranging from 0.0115 to 2.5441), indicating that the effective tax burden and/or corporate tax planning varies substantially across the observed firms. Leverage (DER) averages 1.2871, and the wide dispersion indicates that the capital structures of the companies are not uniform across the sample.

The exchange rate (ER) fluctuated significantly during the study period, while company size (SIZE) and profitability (ROA) reflected variations in firm size and profitability. The bonus mechanism (ITRENDBL) and inflation (INF) also exhibited significant fluctuations, suggesting that they may directly affect transfer pricing or moderate the influence of other variables on transfer pricing.

Three alternative panel data models were used to estimate the data in this study: the common effects model (CEM), the fixed effects model (FEM), and the random effects model (REM). The model selection procedure was conducted sequentially using the Chow, Hausman, and Lagrange Multiplier (LM) tests. The results of the Chow test indicated that FEM was more appropriate than CEM. Furthermore, the Hausman test produced a probability value greater than 0.05, indicating that REM was more suitable than FEM. This finding was further supported by the LM test results, which demonstrated that REM was superior to CEM. Therefore, REM was selected as the final estimation model.

Within the random effects framework, all cross-sectional differences are treated as random components and are assumed to be uncorrelated with the explanatory variables. Parameter estimation was conducted using the generalized least squares (GLS) method Gujarati (2009), which accommodates heteroskedasticity and autocorrelation, both of which are common issues in panel data structures.

Consequently, classical assumption testing, which is typically associated with ordinary least squares (OLS) estimation, is not a primary requirement under the REM specification. As long as the model selection process is conducted within a rigorous specification-testing framework, excluding such tests may be theoretically justified and econometrically appropriate (Basuki, 2021).

Table 4. Panel data regression analysis results

Variable	Coefficients	Standard error	t-Statistics	Maybe.
C	0.276581	0.174988	1.580570	0.1162
ETR	-0.096784	0.026774	-3.614846	0.0004
THE ER	-0.016745	0.015196	-1.101907	0.2723
ER	0.007501	0.016987	0.441582	0.6594
Size	0.002414	0.009255	0.260801	0.7946
LONG	-0.032567	0.180766	-0.180164	0.8573
Itrend BL	-0.009637	0.004689	-2.055497	0.0416

Source: Data processed by Eviews13

The results of the empirical estimation summarized in the table above lead to a modification of the following panel regression equation using the random effects model (REM) presented in Table 4. Then, profits are added and costs are subtracted to estimate the impact of profits on returns.

$$RPT = 0.28 - 0.09ETR - 0.02DER + 0.01ER + 0.01SIZE - 0.03ROA - 0.01ITRENDBL - \varepsilon$$

The constant coefficient of 0.28 indicates that, assuming all other variables remain constant, the baseline level of transfer pricing will be maintained even when the explanatory variables are equal to zero. Therefore, this intercept captures the effects of other determinants that are not directly incorporated into the model.

Discussion

Based on the partial test, Corporate Income Tax (ETR) has a negative effect on transfer pricing. The results show that the higher the effective tax rate, the lower the tendency for profit shifting through related-party transactions. One possible explanation is that companies with higher effective tax burdens may operate in a more stringent tax compliance and oversight environment, thereby limiting aggressive pricing policies. These findings are consistent with the regulatory deterrence hypothesis, which suggests that companies subject to stricter fiscal scrutiny tend to adopt more conservative pricing practices to reduce audit and reputational risks. From the perspective of agency theory, increased tax oversight reduces managers' discretion and limits opportunities for opportunistic income transfers. These results are consistent with Gauß (2024), who noted that regulatory constraints on multinational profit transfers significantly hinder aggressive transfer pricing behavior. In addition, from a behavioral accounting perspective, this negative relationship may also reflect managerial risk aversion in a high-tax environment, where the costs of tax violations are likely to outweigh the potential benefits of income shifting.

Leverage (DER) also has a negative coefficient, indicating that companies with high debt levels tend to limit transfer pricing practices. High leverage can lead to increased scrutiny from creditors, resulting in more conservative financial reporting and reduced incentives for opportunistic income transfers.

In contrast, the exchange rate (ER) and company size (SIZE) were found to have a positive effect on transfer pricing. Exchange rate fluctuations can provide multinational companies with opportunities to shift profits from one jurisdiction to another. Similarly, large companies, which are generally more complex and engage in numerous cross-border transactions, possess the capacity and resources to implement transfer pricing strategies.

Profitability (ROA) has a negative coefficient, indicating that companies with higher profitability are less likely to shift profits through related-party transactions. Subsidiaries with stable and satisfactory returns may have lower incentives to manipulate intercompany pricing. Similarly, the bonus mechanism (ITRENDBL) reflects this negative effect, suggesting that appropriate long-term, performance-based incentive plans reduce managers' incentives to engage in opportunistic transfer pricing practices. For variables that do not achieve statistical significance, namely leverage (DER), exchange rate (ER), company size (SIZE), and profitability (ROA), the absence of significant partial effects must be interpreted within the specific empirical context of this study.

The manufacturing sector in Indonesia is subject to increasingly stringent transfer pricing documentation requirements under Peraturan Menteri Keuangan (PMK) No. 22/2020, which may weaken incentives for large and highly leveraged companies to engage in aggressive intra-group pricing. In addition, the limited sample size of 19 firms over an eight-year period may reduce statistical power, particularly for variables characterized by high volatility, such as leverage and exchange rate exposure. These results are partly consistent with Christina (2023) and Laela (2025), who found mixed effects regarding leverage and firm size significance in similar Indonesian contexts, suggesting that these determinants may be more relevant in broader or more sector-specific samples.

The acceptance of the REM indicates that company-specific cross-sectional differences are treated as random components that are uncorrelated with the explanatory variables. This model provides consistent and efficient parameter estimates based on the specification test results.

Table 4 presents the t-test (partial test) used to determine the effect of each independent variable on transfer pricing at a 5% significance level. The findings show that Corporate Income Tax (ETR) and the Bonus Mechanism (ITRENDBL) have statistically significant effects on transfer pricing. In contrast, leverage (DER), exchange rate (ER), company size (SIZE), and profitability (ROA) are partially insignificant.

The probability estimate of 0.0004 (<0.05) provides strong support for the significance of

the ETR variable in relation to transfer pricing, as reflected in the regression coefficient. The bonus mechanism variable was also found to be significant (p-value = 0.0416). On the other hand, DER, ER, SIZE, and ROA show probability values above 0.05, indicating that these variables individually do not have a statistically significant effect on transfer pricing practices within the study sample.

Table 5. F test and adjusted R^2 results

R square	0.149823
Customized R-square	0.114644
S.E. Regression	0.078868
F Statistics	4.258797
Probability (F-statistic)	0.000556

Source: Data processed by EViews 13

Table 5 of the F-test also shows that corporate income tax (ETR), leverage (DER), exchange rate (ER), company size (SIZE), profitability (ROA), and bonus mechanism (ITRENDBL) simultaneously have a significant effect on transfer pricing decisions. The results validate that the independent variables meaningfully explain the variation in the dependent variable, suggesting that the regression model meets the overall feasibility criteria.

An adjusted R^2 value of 11.46% indicates that 11.46% of the variation in the transfer pricing variable can be explained by the variables included in the model. The remaining 88.54% is attributable to other factors not examined in this study. We argue that this relatively modest explanatory power reflects the multifaceted nature of transfer pricing decisions, which depend not only on internal financial characteristics but also on strategic, regulatory, and macroeconomic factors.

Table 6. Summary of the results of moderate regression analysis (MRA)

Independent variables	Main coefficients	Main probability	Interaction coefficient (x×INF)	Probability of Interaction	The importance of moderation	The role of inflation
Corporate Income Tax (ETR)	-0.149073	0.0000	0.100136	0.0012	Key points	Quasi-reducer (debilitating effect)
Bonus Mechanism (ITRENDBL)	-0.011042	0.1105	0.006678	0.3859	Not important	Not a moderator

Source: Data processed by EViews 13

In Table 6, as shown by the results of the Moderated Regression Analysis (MRA), inflation only moderates the relationship between corporate income tax (ETR) and transfer pricing. Overall, the ETR×INF interaction term was statistically significant (two-tailed p-value ≤ 0.01), indicating that inflation has a moderating effect on the negative impact of corporate income tax on transfer pricing decisions. In other words, even during periods of high inflation, the restrictive effect of the real tax burden on transfer pricing tends to diminish.

This may explain why inflation is treated as a quasi-moderating variable in these results. Inflation not only moderates the effect of ETR, but also directly affects transfer pricing. Under inflationary conditions, companies may adjust prices to maintain real profits, thereby changing the degree of the relationship between taxes and transfer pricing. On the other hand, the interaction term between inflation and the bonus mechanism (ITRENDBL) is not statistically significant. These results indicate that inflation does not weaken the effectiveness of the bonus mechanism in transfer pricing decisions. However, in some model specifications, inflation shows a positive correlation with transfer pricing.

CONCLUSION

Estimates based on panel data regression analysis using a random-effects model show that only corporate income tax (ETR) and the bonus mechanism (ITRENDBL) have a statistically

significant effect on transfer pricing. The corporate income tax variable has a statistically significant negative effect, suggesting that companies with lower effective tax burdens are more likely to engage in transfer pricing practices. These findings reflect firms' efforts to minimize their tax burden through transfer pricing schemes and are also consistent with the propositions of positive accounting theory and agency theory, which view managerial actions as being driven by economic motivations and opportunistic behavior.

The bonus mechanism has a strong negative relationship with transfer pricing, suggesting that a structured long-term managerial incentive plan reduces the likelihood of aggressive profit-shifting behavior. On the other hand, leverage, exchange rates, firm size, and profitability do not have statistically significant partial effects and therefore cannot be considered the primary drivers of transfer pricing in the observed sample.

In contrast, although the independent variables individually do not all have significant effects on transfer pricing, they jointly have a significant effect on transfer pricing. This finding is consistent with the view that transfer pricing decisions are influenced by a combination of financial and operational incentive factors rather than by isolated determinants. These findings highlight the complexity of transfer pricing as a firm-level strategy. In the moderation analysis, inflation functions as a quasi-moderator only in the relationship between corporate income tax and transfer pricing. Specifically, inflation weakens the negative effect of tax burdens on transfer pricing. In other words, higher inflation suggests that companies are less likely to respond aggressively to real tax pressures. This phenomenon may be attributed to increasing economic uncertainty and management's continued focus on financial stability.

On the other hand, inflation does not moderate the effect of bonus incentives. In this case, inflation does not alter the direction or significance of the independent variables and therefore only acts as an additional explanatory variable in certain model specifications. However, the findings generally suggest that inflation affects transfer pricing only in specific contexts, particularly those related to taxation. Corporate transfer pricing policies appear to be more sensitive to tax pressures than to other internal macroeconomic or structural factors.

The results of this study are expected to encourage the Directorate General of Taxes and other tax regulators to become more adaptive and responsive in implementing transfer pricing supervision based on macroeconomic conditions. During periods of high inflation, reliance solely on formal tax indicators, such as effective tax rates (ETRs), may be insufficient. Therefore, supervisory mechanisms should be strengthened through more substantive assessments of the economic substance of intra-group transactions, the implementation of risk-based audit plans, and more comprehensive analyses of companies' functions, assets, and risk allocations.

These findings also highlight the importance of good corporate governance for company management and shareholders, particularly in monitoring related-party transactions and designing management compensation plans. Bonuses based on transparent, performance-oriented, and long-term objectives have been found to reduce incentives for aggressive transfer pricing practices. In addition, companies should implement prudent financial policies to avoid unnecessary exposure to exchange-rate fluctuations and inappropriate capital structures, rather than relying excessively on transfer pricing adjustments to respond to macroeconomic shocks.

This research makes several theoretical contributions. First, it expands the transfer pricing literature by incorporating inflation as a quasi-moderating variable, thereby bridging macroeconomic analysis with a firm-level behavioral framework. Second, it integrates agency theory, positive accounting theory, and behavioral accounting theory to provide a more comprehensive understanding of managerial incentives in intra-group pricing decisions. Third, it provides empirical evidence from Indonesia, a developing economy with unique fiscal and regulatory characteristics, thereby enriching the comparative transfer pricing literature across developed and developing country contexts.

This study also acknowledges several limitations that future research should address. The sample is limited to 19 manufacturing companies listed on the Indonesia Stock Exchange (IDX) between 2017 and 2024, which limits the generalizability of the findings to other sectors and economic contexts. The use of a single proxy for transfer pricing (related-party receivables) may not fully capture the multidimensional nature of intra-group pricing practices. In addition, relevant governance variables, such as board independence and ownership concentration, were excluded from the analysis due to data availability constraints. Future research may employ

alternative proxies for transfer pricing, incorporate governance variables and other firm characteristics, and expand the scope of industries and observation periods. Such extensions may provide broader insights into the determinants of transfer pricing practices and their dynamics across different economic contexts.

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AUTHOR CONTRIBUTION STATEMENT

Asna Damayanti contributed to the conceptualization of the study, data collection, statistical analysis, interpretation of results, and manuscript drafting. Wiwik Pratiwi contributed to research supervision, methodological design, theoretical framework development, and critical revision of the manuscript. Irzan Syahrial contributed to data validation, literature review, interpretation of findings, and final manuscript editing. All authors have read and approved the final version of the manuscript.

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