The Effect of Return on Assets, Effective Tax Rate, and Company Size on Transfer Pricing in Food and Beverage Companies listed on the Indonesia Stock Exchange

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Research article

Received 20 January 2023; Accepted 30 March 2023


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Abstract: This study aims to determine and explain the impact of Return on Assets, Effective Tax Rate, and Company Size on Transfer Pricing. This type of research is quantity research. The data used is secondary data obtained from Indonesia Stock Exchange Website. The sample in this study amounted to 10 (ten) companies. Data analysis using path analysis and data processing using IBM SPSS 26.0. The results of this study state that Return on Assets has a negative and significant effect on Transfer Pricing, Effective Tax Rate has a negative and significant effect on Transfer Pricing, the results of this study Company Size has a positive and significant effect on Transfer Pricing, and Return on Assets, Effective Tax Rate, and Company Size has a positive and significant effect simultaneously on Transfer Pricing.

Keywords: transfer pricing; ROA; effective tax rate; firm size.

1. Introduction

The food and beverage industry is the largest contributor to the non-oil and gas processing industry sector in the second quarter of 2021 which reached 38.42 percent. In addition, it contributes to the national Gross Domestic Product (GDP) reaching 6.66 percent. The cumulative achievement of this strategic sector in terms of exports is also very good, reaching USD 19.58 billion, up 42.59 percent from the same period in the previous year recorded at USD 13.73 billion (www.suaramerdeka.com, August 8, 2021).

Finance Minister Sri Mulyani Indrawati revealed that the realization of tax revenue in 2020 was worth IDR 1,070.0 trillion or minus 19.7%. With a target in Presidential Regulation Number 72/2020 of IDR 1,198.8 trillion. The Minister of Finance said that tax revenue from the processing industry sector until December 2020 was recorded at minus 20.21% (www.pajakonline.com, January 7, 2021). The manufacturing sector, especially the food and beverage sector, should not experience a decrease in tax revenue, because the food and beverage sector contribute greatly to tax revenue, has subsidiaries in various countries and does a lot of exports and imports.

When a large company has a subsidiary that serves as a supplier or supporter of the parent company, there will be an incentive to minimize their tax payments by implementing transfer pricing practices. Transfer pricing is transferring profits from within the country to companies with special relationships in other countries that have lower tax rates. This can be done by paying a sales price that is lower than the market price, costing more than the fair
price (Pohan, 2019). Transfer pricing is used as an effort to save tax burden by transferring profits from companies in countries with higher tax rates to related companies in countries with lower tax rates (Suandy, 2016). Transfer pricing from a tax perspective is a price policy in transactions carried out by parties who have special relationships (Darussalam, 2013).

Abuse of transfer pricing or abuse of transfer pricing can not only be done in countries that have lower tax rates (tax heaven countries) but abuse of transfer pricing can also be done to companies in one group in a country with higher tax rates as long as the company in that country is experiencing losses or there are many tax loopholes/solutions that do not violate tax regulations that can be used in the country aforementioned. Abuse of transfer pricing can only be carried out by multinational companies that have subsidiaries (affiliated companies) in various countries (international transfer pricing), this shows that abuse of transfer pricing has the potential to cause the risk of reduced state revenue from taxes (Pohan, 2019).

Transfer pricing cases that have occurred in Indonesia are PT. Tiga Pilar Sejahtera Food Tbk (AISA) allegedly inflated Rp 4 trillion in its 2017 financial statements. This was revealed in PT Ernst & Young Indonesia's (EY) Fact-Based Investigation Report on AISA's new management dated March 12, 2019. In addition to the IDR 4 trillion bubbles, there were also findings of alleged revenue bubbles worth IDR 662 billion and other bubbles worth IDR 329 billion in the EBITDA (earnings before interest, taxes, depreciation, and amortization) items of the food business entity of the issuer. Unlike sentences from the report, The EY is the income of bankroll of IDR1.78 trillion through varied schemes from the AISA Group to parties allegedly combined with the old operation. In addition, it was also found that there were relationships and transactions with affiliated parties that did not use adequate disclosure mechanisms to relevant stakeholders. It is suspected that EY has the potential to violate the Decree of the Capital Market and Financial Institutions Supervisory Agency No.KEP-412/BL/2009 concerning Affiliate Transactions and Conflict of Interest in Certain Transactions (www.finance.detik.com, March 27, 2019).

Several previous studies have tried to link factors that affect transfer pricing, including Return On Assets (Anagayanti, 2018) (Sari, 2021) (Ginting, 2019); Effective Tax Rate (Yumna, 2021), (Desi Alfiatus Sarifah, 2019) (Dirvi Surya Abbas, 2020) and Company Size (Wijaya F. V., 2020) (Maulida, 2020). Based on the background described above, the author is interested in conducting further research on the effect of Return on Assets, Effective Tax Rate and Firm Size on transfer pricing in Food and Beverage Companies listed on the Indonesia Stock Exchange.

2. Literature Review

2.1. Agency Theory

A condition that occurs in society where management as executors, in addition to agents and owners of capital as makers of cooperation contracts called "contractual bonds", cooperation contracts contain agreements that explain that the management of the company must work optimally in a way for maximum satisfaction such as high returns for capital. Involvement allows the emergence of opportunistic attitudes among management in the implementation of some deliberate actions, such as:

1) Report bad accounts that are bigger than they really are.
2) Report sales results with moderate improvement.
3) Report to the director that additional funds are needed to support the implementation of the ongoing project, assistance is not provided, the project will be terminated.
4) Leveling profits, in the form of profits not in accordance with actual circumstances, but with the intentions and desires of agents. (Fahmi, 2017)"
Besides, a concept that describes the relationship between the principal (contractor) and the agent (contract receipt), the principal contracts the agent to work in the interests or objectives of the principal so that the principal gives decision-making authority to the agent to achieve those goals (Supriyono, 2018).

The agency relationship can give rise to

1) Agency problems, where there is a separation of duties between owners and management. Agency relationships can lead to information asymmetry, where managers generally have more information about their true financial position than the owner.

2) Conflicts of interest occur due to inequality of purpose, where management does not always act in the interests of the owner. Company owners or shareholders have the goal of increasing their interests through a dividend distribution. Meanwhile, the management has the aim of increasing its importance through compensation (Hery, 2018).

This situation causes management to take decisions that benefit them but are not effective for the company. Given these problems, a control mechanism is needed to be able to align the differences in interests between the two parties. It can be concluded that the agency theory is that the owner of the company (shareholders) gives authority to the company's management to carry out the company's activities in accordance with the agreed contract. In increasing the value of the company, management will act in accordance with the interests of the owner, but in fact, management does not always act in the interests of the company, because management must have personal interests.

Agency theory in this study is used to explain transfer pricing carried out by companies. Agency relationships can lead to various interesting issues that result from it. Agents may commit fraud for certain purposes, including with parties with whom they are related. According to “Minister of Finance Regulation Republic of Indonesia No. 22/PMK.03/2020 Article 4 paragraph 1, a special relationship is a state of dependence or attachment of parties to other parties caused by ownership or participation in capital, control, or blood or kinship family relationships. A state of dependence or attachment of one part to another is a state in which one or more other parts control that can influence decision-making. Transactions between related parties can create problems between transacting parties, which in this case is in line with agency theory.

2.2. ROA on Transfer Pricing

Research results (Yusmaniarti, 2021) states profitability (ROA) affects the company's decision in transferring pricing. One of the reasons for the company to do transfer pricing is to reduce the amount of profit that must be reported by the company to reduce the tax burden that must be borne by the company. In addition, companies that can generate large profits will transfer pricing between companies that have a special relationship with the aim of increasing the value of company profits that will escalate the worth of the troop in the hoops of investors. This means that the higher the level of profitability (ROA) of a company, the greater the company's incentive to carry out transfer pricing practices. The result of Research (Sari, 2021) states that profitability (ROA) has a significant negative effect on transfer pricing. Research results (Ginting, 2019) show that profitability (ROA) has no effect on transfer pricing. The reason for the lack of profitability on transfer pricing is that companies that have a large level of profit or high pre-tax income will have a larger source of internal funding as well, allowing companies to tend to choose to use their own capital, namely from internal funds first, which reduces the company's desire to do transfer pricing to increase the value of his company.
2.3. ETR to Transfer Pricing
The results of the study (Yumna, 2021) states that the Effective Tax Rate (ETR) affects transfer pricing. This indicates that the tax burden borne by the company is one of the factors for the company to transfer pricing. It is concluded that the indication of the company carrying out transfer pricing becomes higher if the tax burden (Effective Tax Rate) is borne by large companies. Research (Maulida, 2020) that tax minimization as measured by the Effective Tax Rate (ETR) has a negative influence on transfer pricing in mining companies in Indonesia, which means that the higher the level of tax minimization by the company, the lower the indication of transfer pricing carried out by the company. Conversely, the lower the level of corporate tax minimization, the higher the indication of transfer pricing.

2.4. Company Size Against Transfer Pricing
Research results (Ridwan, Arofah, Putri, & Ilham, 2023) state that the size of the company has a positive effect on transfer pricing decisions. Large companies that have many segments will encourage the use of transfer pricing policies to transfer goods or services between segments, divisions, or between subsidiaries. Decisions related to transfer pricing are needed so that the profit obtained by the company can be maximized. But inversely proportional to research (Yusmaniarti, 2021) which states that the size of the company does not affect the company in making transfer pricing. Companies with small sizes and companies with large sizes can practice transfer pricing with considerations made by management that can benefit the company.

3. Research Methods
This study used quantitative methods with secondary data. Secondary data in this study is obtained from annual financial reports issued by companies in the consumer goods industry sector of the food and beverage sub-sector listed on the Indonesia Stock Exchange for the period 2013-2020. Another data source used to obtain these data are from Indonesia Stock Exchange. The variables studied are Return on Assets, Effective Tax Rate, and Company Size against Transfer Pricing. The analytical technique for this study is a linear and multiple regression analysis method and coefficient of determination using the SPSS V.26 application. The research model used is as follows:

\[ Y = a + b_1 x_1 + b_2 x_2 + b_3 x_3 + \varepsilon \]

\[ Y = \text{Transfer Pricing} \]
\[ A = \text{Constant Coefficient} \]
\[ b_1 b_2 b_3 = \text{Regression Coefficient} \]
\[ x_1 = \text{Return on Assets} \]
\[ x_2 = \text{Effective Tax Rate} \]
\[ x_3 = \text{Company Size} \]
\[ \varepsilon = \text{error} \]
4. Results and Discussion

Table 1. Results of Multiple Linear Regression Analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1</td>
<td>-59,273</td>
<td>12,538</td>
</tr>
<tr>
<td>ROA</td>
<td>-0,684</td>
<td>0,198</td>
</tr>
<tr>
<td>ETR</td>
<td>-1,242</td>
<td>0,579</td>
</tr>
<tr>
<td>Firm Size</td>
<td>18,222</td>
<td>3,677</td>
</tr>
</tbody>
</table>

Based on the results of the analysis using the SPSS program version 26.0, regression results were obtained between the variables Return on Assets (X1), Effective Tax Rate (X2) and Company Size (X3) against Transfer Pricing (Y) with the following formula:

\[ Y = -59,273 - 0,684X1 - 1,242X2 + 18,222X3 \]

The regression equation has the following meanings:

1) The regression coefficients of two independent variables (Return on Assets and Effective Tax Rate) have a negative and significant effect on the dependent variable (Transfer Pricing). This means that if the variable Return on Assets and Effective Tax Rate increases, the value of Transfer Pricing will decrease.

2) The regression coefficient of the independent variable (Company Size) has a positive and significant effect on the dependent variable (Transfer Pricing). This means that if the Company Size variable increases, the Transfer Pricing value will also increase.

3) From the results of the regression coefficient obtained, shows that the Company Size factor (b1 = 18.222) is a factor that affects Transfer Pricing in Companies in the Consumer Goods Industry Sector of the Food and Beverage Sub-Sector for the 2013-2020 Period.

Table 2: Results of the Coefficient of Determination

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. En-or of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>,5483</td>
<td>,300</td>
<td>,272</td>
<td>171,397</td>
</tr>
</tbody>
</table>

From table 2 thus can be obtained the value of the coefficient of determination of 0.3003 or 30.03% which means that the Return on Assets, Effective Tax Rate, and Company Size on Transfer Pricing have a weak simultaneous effect (together) of 30.03%, because it is included in the interval 0.20-0.399. While the remaining 70.97% is influenced by other factors such as Bonus Mechanisms, and Foreign Ownership (Ginting, 2019).

4.1. Return On Assets to Transfer Pricing

Based on the results of statistical tests that have been carried out, it can be concluded that Return on Assets has a negative and significant effect on Transfer Pricing. This research is in line with research conducted by (Sari, 2021) that profitability (ROA) has a significant negative
effect on transfer pricing. The results of this study are in line with Sartono's theory. Return On Assets shows the extent to which investments that have been invested are able to provide returns on profits as expected (Sartono, 2015).

4.2. Effective Transfer Rate to Transfer Pricing

Based on the results of statistical tests that have been carried out, it can be concluded that the Effective Tax Rate has a negative and significant effect on Transfer Pricing. This research is in line with research conducted by (Maulida, 2020) states that tax minimization as measured by the Effective Tax Rate (ETR) has a negative influence on transfer pricing in mining companies in Indonesia, which means that the higher the ETR, the lower the indication of transfer pricing carried out by the company. Conversely, the lower the ETR, the higher the transfer pricing indication. The results of this study are in line with the theory (Rist, 2015), "Effective tax rates describe the different rates at which corporate income is taxed as a result of different tax jurisdictions both domestic and international."

4.3. Company Size to Transfer Pricing

Based on the results of statistical tests that have been carried out, it can be concluded that the size of the Company has a positive and significant effect on Transfer Pricing. This research is in line with research conducted by (Sari, 2021) which states that the size of the company has a positive effect on transfer pricing decisions. Large companies that have many segments will encourage the use of transfer pricing policies to transfer goods or services between segments, divisions, or between subsidiaries. The results of this study are in line with the theory Hartono, Company size is "The size of the company which can be measured by the full wealth size of the company's wealth utilizing the computation of the logarithmic worth of total wealth." (Hartono, 2015)

5. Conclusion

From the results of research on the Effect of Return on Assets, Effective Tax Rate, and Company Size on Transfer Pricing in Companies in the Consumer Goods Industry Sector of the Food and Beverage Sub-Sector Listed on the Indonesia Stock Exchange for the 2013-2020 Period, it is known that Return on Assets has a negative and significant effect on Transfer Pricing. Effective Tax Rate has a negative and significant effect on Transfer Pricing. Company Size has a positive and significant effect on Transfer Pricing while for simultaneous or joint influence, the results of the study show that Return on Assets, Effective Tax Rate, and Company Size have a positive and significant effect simultaneously on Transfer Pricing and have a weak simultaneous (together) effect of 30.03%.

References


Dirvi Surya Abbas, A. E. (2020). The Effect Of Effective Tax Rate, Tunneling Incentive, And Exchange Rate On Company Decisions To Transfer Pricing: Food And Consumption