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# The Role of Bonus Mechanism in Moderating Transfer Pricing Determinants: Supporting SDG 16 on Transparent Institutions

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**ABSTRACT**

***Objective:*** *To examine the role of bonus mechanisms in moderating the effects of tax management, intangible assets, and debt covenants on transfer pricing decisions. The study highlights the importance of transparent corporate governance and responsible financial practices in supporting Sustainable Development Goal (SDG) 16, particularly regarding accountable institutions and transparent reporting.* ***Method:*** *The study employed a quantitative approach with hypothesis testing using companies listed on the Indonesia Stock Exchange during the 2016–2019 period. Using purposive sampling, 122 observation units were obtained. Data were collected from annual reports and financial statements, while hypothesis testing was conducted using path analysis with IBM SPSS Amos 24.* ***Results:*** *The results indicate that tax management and debt covenants have a positive and significant effect on transfer pricing, while intangible assets have a negative and significant effect on transfer pricing. Furthermore, the bonus mechanism significantly moderates the relationship between tax management and transfer pricing. However, the bonus mechanism does not moderate the effects of intangible assets and debt covenants on transfer pricing.* ***Novelty:*** *Contributing by incorporating the bonus mechanism as a moderating variable to explain how managerial incentives influence transfer pricing decisions. The findings provide implications for strengthening corporate accountability, tax governance, and transparent financial practices aligned with SDG 16.*

## INTRODUCTION

Tax avoidance is a way to avoid paying taxes legally by taxpayers, by reducing the amount of tax owed without violating tax regulations (Sundvik, 2019). One kind of tax avoidance is the implementation of transfer pricing practices. Transfer pricing practices is the price calculated on the delivery of goods and services as well as other intangible assets from one company to another company, that has special relationship, based on the principle of a fair market price PMK No 7/PMK.03/ (2015). Transfer pricing is pricing in transactions between related parties. However, the practice of transfer pricing has become an international issue, companies that practice transfer pricing carry out this practice in a way that deviates and violates applicable regulations (Koskenniemi et al., 2011). On the government's side, the practice of transfer pricing is believed to reduce a country's tax revenues, because transfer pricing tends to transfer income from subsidiaries or holding companies to companies that have special relationships (Holmes et al., 2015).

Reporting from liputan6.com, the Directorate General of Taxes at the Ministry of Finance stated that around 2,000 multinational companies did not pay Corporate Income Tax Articles 25 and 29 because of their loss. According to the Director of Counseling, Services and Public Relations of the Ministry of Finance, Mekar Satria Utama, one of the reasons used to absent from the obligation to pay taxes is the practice of transfer pricing. The example of transfer pricing's practices has been done by PT Adaro. This practice was carried out because it was motivated by the imposition of taxes in Singapore, which was lower than in Indonesia, which was around 10% in Singapore, while in Indonesia the tax imposed was around 50% higher. PT Adaro has also transferred their profits in Singapore to a subsidiary, located in Mauritius, which is known as a tax havens country because there is no tax's subjects at all.

A lot of research has been done to prove related to the factors that affect transfer pricing, including tax management, intangible assets, debt covenants. However, inconsistencies are still found (Cho & Lim, 2018). Researching the effect of taxes, bonus mechanisms, and tunneling incentives on transfer pricing shows that taxes have an effect on practices transfer pricing (Bhaumik & Gregoriou, 2010). This research also supported by the research of which examines the effect of tax planning, tunneling incentives and intangible assets on transfer pricing. The results show that tax planning factors affect companies in transfer pricing's behavior. In line with this research, the research conducted by Fitri et al. (2019) on the effect of tax management, bonus mechanism and foreign ownership on transfer pricing shows that tax management has an effect on the transfer pricing's decision. Another research conducted by Mispiyanti (2015) on the effect of taxes, tunneling incentives and bonus mechanisms on transfer pricing in a case study of manufacturing companies listed on the Indonesia Stock Exchange in 2010-2013. The results show that taxes have no effect on the company's decision to transfer pricing. Herawaty & Anne (2019) studied the effect of income tax rates, bonus mechanisms and tunneling incentives on transfer pricing, the results show that income tax rates have no effect on transfer pricing.

The second factor that influences transfer pricing's decision is intangible assets. The research that conducted by Yulia et al. (2019) found that intangible assets have an effect on transfer pricing. This research is supported by the research of Novira et al. (2020), found that intangible assets have a positive effect on transfer pricing's decisions. In contrast to the research by Jafri & Mustikasari (2018), which is found that intangible assets do not affect companies to practice transfer pricing. This study is in line with the research by Anh et al. (2018) who found that intangible assets had no effect on the company's decision to practice transfer pricing aggressiveness.

Another factor that affects the practice of transfer pricing is debt covenants. Research conducted by Nuradila & Wibowo (2018) found that debt covenants have an influence on the company's decision to transfer pricing. Sari & Mubarok (2022) and Solikhah et al. (2021) found that debt covenants affect the company's decision to practice transfer pricing. However, contrary to this research, research conducted by Sundari & Susanti (2019) found that debt covenants have no influence on company decisions in carrying out about transfer pricing's practices in manufacturing companies listed on Indonesia Stock Exchange in 2012-2014. In line with the research of Sundari & Susanti (2019), research conducted by Mintorogo & Djaddang (2020) and Maulida & Wahyudin (2021) found that debt covenants have no influence towards company's decision to do transfer pricing.

The aims of this study is to empirically examine the effect of tax management, intangible assets, debt covenants on transfer pricing's decisions, also to find and prove out the existence of bonus mechanism's role in moderating the effect of tax management, intangible assets, and debt covenants on transfer pricing's decisions in Indonesia Stock Exchange's listed companies, which are used as objects in this study, and also being the originality of this study.

***Theoritical background & hypotesis development***

Agency theory and positive accounting theory are used in this study to become the foundation for this research. Agency theory explains that there is a conflict that occurs due to differences in interests between the principal and the agent. This situation requires an alignment of interests between two parties (MacCallum et al., 2002). This theory will cover the variables of tax management and intangible assets. Positive accounting theory explains that management has various methods which is used to regulate earnings to be reported in accordance with the circumstances desired by the company (Setijaningsih, 2012). This theory is used to explain variables debt covenant and bonus mechanism.

According to UU No. 36 Tahun (2008) concerning in Income Tax, one type of tax object is operating profit, companies expand abroad with the aim of obtaining higher profits, but also trying to get minimum tax burden. The company seeks to minimize the tax burden by using proper tax management. The Board of Directors conducts tax management with the assumption that with proper tax management, it will make tax payments to the state efficiently. Tax management carried out to reduce tax payment obligations often uses deviant practices through transfer pricing. This is in line with agency theory which is explain that there are differences in interests between shareholders and agents. Companies in minimizing taxes should use the fair price principle, but transfer pricing's practices are more often used to minimize the taxes (Herawaty & Anne, 2019). With good tax management, the efforts of directors or managers to do transfer pricing aggressively, will be limited. Because transfer pricing will give whole impact on the company's sustainability (Jafri & Mustikasari, 2018). Previous research is related to the factors that affect transfer pricing, such as research conducted by Jafri & Mustikasari (2018) and Sari & Mubarok (2022) which show that taxes have an negative effect on transfer pricing.

H1: Tax Management has a negative effect on transfer pricing

Based on PSAK 19, intangible assets are assets that generally have a long useful life and do not have a physical form and uses in company's operations. Based on agency theory, the presentation of intangible assets caused the conflicts between majority shareholders and minority shareholders can be minimized. Intangible assets make the value of the company higher, this condition can be maintained by reducing transfer pricing' practices aggressively. The presentation of intangible assets by the company is considered to make it easier to get capital practices. Transfer pricing can be reduced because of the trust from stakeholders, so management tries to try various ways to maintain company value in accordance with applicable regulations. Research conducted by Kusuma & Wijaya (2017) shows that intangible assets have a negative effect on transfer pricing, because the higher of intangible assets owned by the company, the more reluctant the company is to implement transfer pricing's practices.

H2: Intangible assets have an effect negative impact on the decision to transfer pricing

Debt covenants are agreements to prevent and protect lenders against actions that damage the interests of creditors lately, such as excessive dividend distribution, or leaving equity below a predetermined level (Sari & Mubarok, 2022). Proxy in the measurement of debt covenants, namely leverage. Interest expense in the company's operations is a debt for the company. This interest expense can reduce taxable income, which makes companies use alternative accounting methods that can increase taxable income. One of the schemes that can be used is practices transfer pricing. Based on positive accounting theory in the debt covenant hypothesis, it explains that the higher the company's debt, the closer the company is to the limitations contained in the debt agreement. Research conducted by Arvinar Qiansyah (2016) shows that debt covenants have an influence on transfer pricing's decisions. Nuradila & Wibowo (2018) found that debt covenants affect transfer pricing's decisions in multinational companies listed on the Indonesia Stock Exchange 2012-2014.

H3: Debt covenants have a positive effect on transfer pricing

The bonus mechanism is thought to influence the role of corporate tax management in conducting transfer pricing. Hartati et al. (2015) illustrates that when giving bonuses to directors, company owners will review the performance of the directors in managing their company. The assessment of the review is seen in the company's overall profit. The existence of this assessment makes the board of directors try to obtain bonuses that will be given as much as possible by increasing the profits earned by the company, including using transfer pricing practices. Based on the bonus plan hypothesis in positive accounting theory, it explains that companies with bonus plans tend to choose accounting procedures that can increase reported earnings in the current period. The motivation of this bonus plan makes corporate tax management more improved, so that making decisions to carry out transfer pricing practices, tax management will examine the strategy more carefully, so that the application of transfer pricing can streamline the tax burden received by the company, and increase profit receipts by the company.

H4: The bonus mechanism significantly moderates the effect of tax management on transfer pricing

The existence of a bonus plan motivates managers to take actions that will provide overall benefits for the company. If a company has intangible assets, then the profit to be obtained by the company will increase. This higher profit makes managers motivated to carry out practices transfer pricing. This is reinforced by the motivation of the bonus plan that will be given by the owner of the company, because it has the aim of maximizing the profit earned. In line with the positive accounting theory of the bonus plan hypothesis. Companies that have intangible assets and implement bonus plans are likely to choose actions to improve transfer pricing' practice decisions to minimize taxes to be paid.

H5: The bonus mechanism significantly moderates the effect of intangible assets on transfer pricing

The bonus plan hypothesis in positive accounting theory explains that the presence of a bonus plan tends to choose accounting procedures that can increase reported earnings in the current period. The motivation of the bonus plan encourages company managers to use accounting methods, that can minimize the tax burden so the profits obtained are maximized. Efforts made by managers are to increase the company's debt so that the taxes paid by the company can be minimized. The debt will be transferred from the holding company to the subsidiary, in a country with lower tax rate to a country with higher tax rate, where the company located. The strategy was carried out aimed at increasing the debt owned by the subsidiary company, the company was left in a state of loss due to large debt interest and reduced company profits, this treatment was carried out in order to minimize tax payments (Ginting et al., 2020). Based on that, this practice can increase profits for holding companies located in countries with low tax rates.

H6: The bonus mechanism significantly moderates the effect of debt covenants on transfer pricing

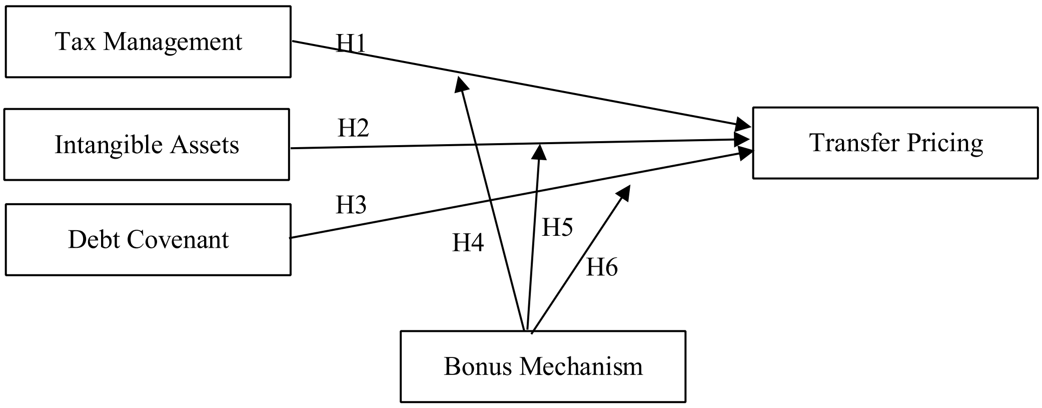


**Figure 1.** Framework

## RESEARCH METHOD

The research's type used in this study is a quantitative approach with a hypothesis testing study design. This study uses all companies listed on the Indonesia Stock Exchange ([www.idx.co.id](www.idx.co.id)) in the period 2016 to 2019 totaling 516 companies. Non-random sampling technique (non-probability) with purposive sampling method was used in determining the sampling technique in this study. Some of the criteria used in determining the sample are in the table below.

The endogenous variables in this study are transfer pricing with tax management, intangible assets, and debt covenants as exogenous variables and bonus mechanism as moderating variables.

**Table 1.** Operational definition of variable

| No | Variable | Measurement |
|---|---|---|
| 1 | Transfer Pricing (Y)<br>Transfer pricing is determination of prices for transactions of products, services, financial transactions, or intangible assets between related companies | $TP = \frac{RPT\ Asset + RPT\ Liabilities}{Equity} x\ 100\%$ |
| 2 | Tax Management (X1)<br>Tax management means to fulfill tax obligations properly by pressing the amount to be paid as low as possible with the aim of obtaining maximum profit | $MP = \frac{Cash\ Tax\ Paid}{Pretax\ income} x100\%$ |
| 3 | Intangible Assets (X2)<br>Intangible assets are assets that generally have a long useful life and have no physical form and useful in company's operations. | IA $=\frac{Intangible\ Assets}{Sales} x100\%$<br>IA = |
| 4 | Debt Convenant (X3)<br>Debt covenant is an agreement to prevent and protect lenders against actions that will damage creditors' interests, such as excessive dividend distribution, or leaving equity below a predetermined level. Debt covenants are proxied by leverage ratio, Debt to Equity Ratio (DER). | $DC = \frac{Total\ liability}{Total\ equity} x100\%$ |
| 5 | Bonus Mechanism (Z1)<br>Short-term employee benefits with a maturity of approximately 12 months, given by the company or | BON = $\frac{Net\ Profit\ period\ t}{Net\ Profit\ period\ t-1} x100\%$ |

| No | Variable | Measurement |
|---|---|---|
| | shareholders through the GMS to members of the board of directors who are considered to have good performance every year and also if the company earns a profit. | |

## RESULTS AND DISCUSSION

### *Results*

**Table 2.** Descriptive statistical analysis

| | N | TP | TM | IA | DC | BM |
|---|---|---|---|---|---|---|
| Mean | 122 | 0.12758 | 0.30810 | 0.01632 | 1.17235 | 1.15433 |
| Std. Deviation | 122 | 0.13517 | 0.13504 | 0.02349 | 0.95409 | 0.29801 |
| Minimum | 122 | 0.00011 | 0.03597 | 0.00011 | 0.14371 | 0.51013 |
| Maximum | 122 | 0.67043 | 0.97193 | 0.14185 | 4.18971 | 2.40505 |

Descriptive statistical analysis shows that mean of the tax management variable is greater than its standard deviation. Means the spread of data on the variable is heterogeneous. This condition is different from the data's distribution on transfer pricing, intangible assets, debt covenants, and bonus mechanism which has mean point smaller than its standard deviation value, so the data is heterogeneous.

The results of model suitability test through IBM SPSS Amos 24 use index goodness of fit model as shown in Figure 2.

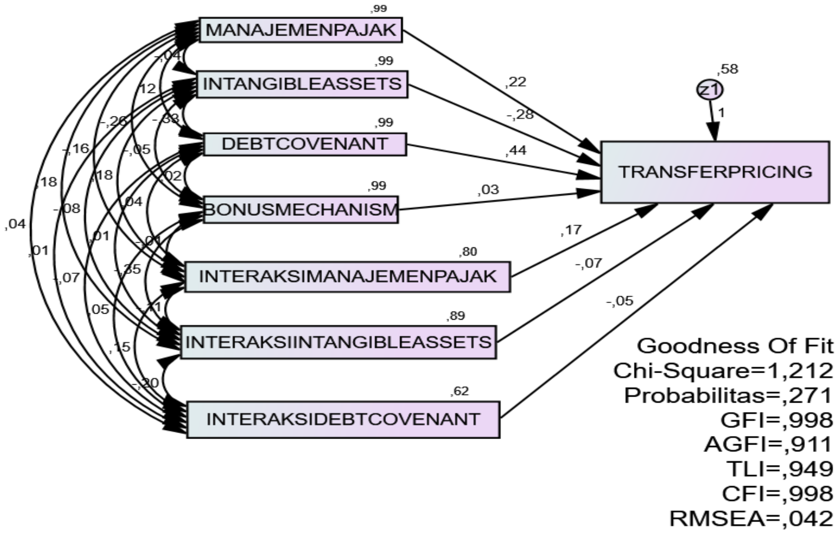


**Figure 2.** Fit model

The theoretical model developed in this study is supported by empirical data. The results of hypothesis testing can be seen in Table 3.

**Table 3.** Hypothesis testing results

| Hypothesis | Estimation | p | Consclusion |
|---|---|---|---|
| Tax Management has a negative effect on transfer pricing | 0.217 | 0.003 | Rejected |
| Intangible assets have an effect negative impact on the decision to transfer pricing. | -0.280 | *** | Accepted |
| Debt covenant has a positive effect on transfer pricing | 0.435 | *** | Accepted |

| Hypothesis | Estimation | p | Consclusion |
|---|---|---|---|
| Bonus mechanism significantly moderates the effect of tax management on transfer pricing | 0.152 | 0.042 | Accepted |
| Bonus mechanism significantly moderates the effect intangible assets on transfer pricing | -0.067 | 0.363 | Rejected |
| Bonus mechanism significantly moderates the effect of debt covenants on transfer pricing | -0.039 | 0.606 | Rejected |

***Discussion***

***The effect of tax management on transfer pricing***

The results of hypothesis testing show that tax management has a positive effect on transfer pricing, so the first hypothesis (H1) which states that tax management has a negative effect on transfer pricing is rejected. This indicates that the higher tax paid in cash by the company, the higher the effort to carry out tax management. One of the efforts is to increase the decision to carry out transfer pricing’s practices.

The results of this study are in line with and support agency theory. The management has made efforts to hide any information that could harm the interests of shareholders. However, management has a thought to provide welfare to shareholders. One of these efforts is to take advantage of loopholes in tax regulations to practice transfer pricing (Jafri & Mustikasari, 2018). The results of this study support the research conducted by Fuadah & Nazihah (2019). This research proves that taxes have a positive effect on transfer pricing. Fuadah & Nazihah (2019) stated that the positive influence was obtained due to tax motivation, multinational companies do transfer pricing’s practice by transferring income to subsidiaries that were still within the scope of the group or company division located in the country with the lowest tax burden. Tax management has a significant positive effect on transfer pricing’s practices. This makes the agent or management try to carry out tax management appropriately, so the company can reduce the tax burden, so the taxes paid by the company are more efficient.

***The effect of intangible assets on transfer pricing***

The results of hypothesis testing indicate that intangible assets have a negative effect on transfer pricing. So the second hypothesis (H2) which states that intangible assets have a negative effect on transfer pricing is accepted. The results of this study indicate that the intangible assets owned by the company have an influence on the practice of transfer pricing. This indicates that the higher intangible assets owned by the company, the lower effort to carry out transfer pricing’s practices. On the other hand, if the company has low intangible assets, it can increase the decision to carry out transfer pricing’s practices.

The results of this study are in line with and support agency theory, because the presentation of intangible asset’s information can reduce agency conflicts between minority shareholders and majority shareholders. Minority shareholders will get more complete information in the statement of financial position by presenting these intangible assets. The results of this study are in line with the results of research conducted by previous researchers, Kusuma & Wijaya (2017). The study found that intangible assets have a negative effect on transfer pricing. This research is not in line with the research conducted by Jafri & Mustikasari (2018). The study found that intangible assets have no effect on transfer pricing’s practices.

***The effect of debt covenant on transfer pricing***

The results of hypothesis testing show that debt covenants have a positive effect on transfer pricing, so the third hypothesis (H3) which states that debt covenants has a positive effect on transfer pricing is accepted. The results of this study indicate that the debt covenants owned by the company have an effect on increasing behavior to conduct transfer pricing. This indicates that the higher debt covenant owned by the company, the higher effort to carry out transfer pricing's practices. On the other hand, if the company has low debt covenant, the decision to carry out transfer pricing's practices will be lower.

The results of this study are in line with and support the positive accounting theory in the debt covenant hypothesis. This hypothesis states that companies with high debt ratios will make companies choose to carry out accounting policies that increase company profits. This makes the company choose to practice transfer pricing's scheme. The results of this study are in line with research conducted by Nuradila & Wibowo (2018). The study found that debt covenants have a positive effect on transfer pricing. This research is not in line with the research conducted by Sundari & Susanti (2019). The study found that debt covenants have no influence on the company's decision to transfer pricing. Companies with high debt covenants tend to use it to finance company plans, property, supplies and equipment. So the higher level of company's debt covenants, the higher company's decision to practices transfer pricing.

## CONCLUSION

**Fundamental Finding:** This study provides empirical evidence that tax management and debt covenants significantly increase transfer pricing practices, while intangible assets significantly reduce transfer pricing decisions. Furthermore, the bonus mechanism strengthens the relationship between tax management and transfer pricing but does not moderate the relationship between intangible assets and debt covenants with transfer pricing. These findings confirm that managerial incentives and financial characteristics influence corporate decisions regarding related-party transactions. **Implication:** The findings imply that companies need to strengthen corporate governance mechanisms, especially in managing tax strategies and executive compensation systems. Regulators should enhance monitoring mechanisms related to transfer pricing practices to ensure compliance with tax regulations and promote transparent financial reporting. These efforts contribute to SDG 16 by supporting accountable institutions, responsible governance, and transparent corporate practices. **Limitation:** This study has several limitations. First, the research sample only includes companies listed on the Indonesia Stock Exchange during the 2016–2019 period, limiting the generalizability of the findings. Second, transfer pricing measurement and bonus mechanism proxies may not fully capture the complexity of managerial decision-making. Third, this study does not consider other governance factors, such as audit committee effectiveness, ownership structure, and institutional monitoring. **Future Research:** Future research may extend the observation period and include companies from different industries to obtain broader evidence. Further studies may also incorporate additional corporate governance variables, such as managerial ownership, institutional ownership, audit quality, and board characteristics. Moreover, alternative measurements of transfer pricing and managerial incentives may provide deeper insights into corporate tax behavior and accountability.

## AUTHOR CONTRIBUTIONS

**Kiswanto:** Conceptualization, Methodology, Data Collection, Formal Analysis, Investigation, Writing – Original Draft Preparation, and Project Administration. **Rahmawati Rahmawati:** Supervision, Validation, Methodology Review, and Writing – Review and Editing. **Aidy Yudha Prastyanto:** Data Analysis, Validation, Visualization, and Writing – Review and Editing. All authors contributed to the development of the manuscript, reviewed the final version, and approved the submitted manuscript.

## CONFLICT OF INTEREST STATEMENT

The authors declare that there is no conflict of interest regarding the publication of this research. The research was conducted independently, and there were no financial, institutional, or personal relationships that could influence the findings and interpretation presented in this article.

## ETHICAL COMPLIANCE STATEMENT

This research complied with ethical principles in qualitative research. The identities of participants and organizations were anonymized to maintain confidentiality. Data collection was conducted through voluntary participation, and participants provided informed consent before interviews and observations were conducted.

## STATEMENT ON THE USE OF AI OR DIGITAL TOOLS IN WRITING

The authors declare that artificial intelligence (AI)-based tools were not used to generate research data, conduct analysis, or replace academic judgment in the research process. AI tools, if utilized, were only applied as supporting instruments for language improvement, proofreading, and enhancing manuscript readability. The authors remain fully responsible for the accuracy, originality, and integrity of the research content.

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