

THE PHENOMENON OF TRANSFER PRICING IN MANUFACTURING COMPANIES IN INDONESIA

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Abstract

Transfer pricing has become a strategic issue at the intersection of accounting, international taxation, and development policy because it is directly related to the stability of state revenue and tax fairness. Therefore, this study aims to examine the effect of profitability, exchange rates, and foreign ownership on transfer pricing. The population of this study is all manufacturing companies listed on the Indonesia Stock Exchange in 2021-2023. The sample was determined using purposive sampling. The number of samples obtained in accordance with the criteria was 22 manufacturing companies with 66 annual reports. All data will be processed using multiple linear regression analysis. The results of the study indicate that profitability has a positive effect on transfer pricing, meaning that high profitability enables companies to implement transfer pricing through the process of profit shifting. Exchange rates and foreign ownership do not affect transfer pricing, meaning that exchange rates are not taken into consideration in implementing transfer pricing, and high foreign ownership makes it possible to suppress transfer pricing practices in order to pay attention to future risks and a decline in company value that will affect minority and majority shareholders. The results of this study have implications for strengthening agency theories, namely that owners (especially foreign owners) and managers can utilize transfer pricing to shift profits across entities within a group.

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INTRODUCTION

Transfer pricing can be known as pricing policy in a process of transaction done by companies with special relationships and is neutral in nature (Gurusinga, Latersia Br, Yusnaini, 2024). Transfer pricing can be known typically applied by multinational level of companies to help reducing burdens of tax and also shift profits. By setting favorable transfer prices, companies are able to shift profits to countries with lower rates of tax, thereby minimizing the overall tax burden (Hasyim Al Akmal et al., 2022). This transfer pricing is done on purpose to help evaluating and also assessing the entire services provided within a company. However, in practice, transfer pricing can be usually applied by some multinational companies to help minimizing the amount of tax they must pay through the formulation of transfer prices between company units. Companies with high revenue will automatically avoid high tax payments as well through transfer pricing practices (Dewi & Noviari, 2024).

In an article published on the website of the Ministry of Finance, Directorate General of Taxes <https://www.pajak.go.id> he explained that one indicator for doing assessment for the government's ability to help collecting revenue of tax is the tax ratio. The ratio is the total tax revenue comparison with the value of Gross Domestic Product (GDP) (djp, 2023). So that if the tax revenue of country is high so the tax ratio is also higher. The World Bank demonstrates that tax ratio of Indonesia is low than other countries in middle-income level. One reason for the declining tax ratio in years is the persistence of loopholes in government tax policies and the relatively easy practice of tax avoidance in Indonesia due to its open economy (Kementerian Keuangan, 2023).

Hasyim Al Akmal et al., (2022), explain that the low tax ratio is partly caused by profit shifting for purposes of tax avoidance. Profit shifting, or BEPS, is a strategy of tax planning which tends to exploit gaps and also weaknesses in laws of domestic tax and also regulations to "eliminate" profits or tend to shift them to other countries with low or even tax-free tax rates (Kementerian Keuangan, 2023). One of the corporate tax planning strategies leveraging transfer pricing involves transactions between affiliated parties to minimize tax liabilities and shift profits to entities in other jurisdictions with lower rates of tax (Hasyim Al Akmal et al., 2022). Based on the Organization for Economic Co-operation and also Development (OECD) in its 2013 BEPS Action Plan, transfer pricing is the most dominant scheme in profit shifting.

Transfer pricing manipulation schemes are relatively dominant in tax avoidance practices and have even become an international problem. Transfer pricing is considered an undesirable practice because it is usually applied by companies on purpose to help minimizing their overall tax burden. This has the potential to reduce tax revenue in Indonesia, resulting in a low tax ratio. One of the transfer pricing cases that recently occurred in Indonesia that has attracted public attention is PT. Nippon Indosari Corpindo Tbk (Putri et al., 2024). In Indonesia, in 2019, they engaged in transfer pricing practices against PT. Indofood Sukses Makmur Tbk and also PT. Indofood CBP Sukses Makmur Tbk in purchasing raw materials. They manipulated the selling and purchasing prices of raw materials and finished goods with related entities in other countries. They also reduced net profit to pay less tax between 2018 and 2022. As a result, the tax paid to the government was lower.

In addition, transfer pricing cases were also carried out at Limited Risk Distributor companies, such as PT Smart Corp (Sri et al., 2024), whose business activities produce electronic products in country A. Smart Corp is a multinational company that owns 100 percent of the shares in PT Smart Indonesia, domiciled in Indonesia. There was a transfer pricing practice carried out in 2021 related to the purchase price of electronic products from the parent company (Smart Corp) compared to the purchase price from an independent party. The purchase price from the parent company was USD 110 per Unit. Meanwhile, the purchase price from the independent party was USD 100 per Unit. As a result, the Tax Authority found that the acquisition price should only be USD 104.12 per Unit (Calculated using the Resale Price Method – RPM). Due to the price difference, the Tax Authority made a tax adjustment (correction) of USD 5.88 per Unit on the acquisition price and imposed additional tax.

Transfer pricing applies are also done by international companies, one of which is the Coca-Cola Company in the United States (Vallencia, 2022). Coca-Cola was accused by the Internal Revenue Service (IRS), which acts as a United States federal government agency that collects taxes and establishes domestic revenue laws (True, 2024), Coca-Cola carried out transfer pricing by selling its products to its subsidiaries abroad such as in Ireland and Switzerland at low prices, thereby reducing income and taxes in the United States. This resulted in Coca-Cola having to pay an additional \$3.3 billion in taxes to the IRS (Internal Revenue Service) and Coca-Cola also had to face stricter oversight from the IRS (Internal Revenue Service) and other tax authorities to help ensuring compliance with regulations of transfer pricing (Byrnes, 2024).

The occurrence of agency conflict is one of the triggers for the emergence of fraudulent practices transfer pricing (Novita et al., 2024). In this case, the agent tends to act as an internal party who of course has more complete information than. Principal Regarding the company, which is the agent's responsibility, because the agent's performance influences the future of the corporation. This condition will later be used by the agent to store information to principal who lack access to more adequate information for specific purposes (Zarkasih & Maryati, 2023). Furthermore, the high compensation expected by agents encourages them to engage in various means to obtain it, for example by manipulating company profits.

The correlation of agency theory and also transfer pricing It can be seen the way the parties take participation in the company is going to always act in their interests. Management can become agent that has authority by principal to do manage the assets of company and management gives the responsibility to principal get big profits (Febrianti & Prihantari, 2025). Therefore, Agent act as company management who have an interest in maximizing company profits and minimizing tax liabilities, making them motivated to do so transfer pricing (Choirunnisa et al., 2022). Based on the cases and losses incurred by the state, the phenomenon of transfer pricing is certainly a matter that the government must pay attention to. Therefore, the government must implement measures and policies to curb transfer pricing practices. Currently, numerous studies have examined the factors influencing companies' transfer pricing practices. However, this research will only examine a few factors that help influencing transfer pricing including profitability, exchange rates, and also foreign ownership.

Kasmir, (2021) in (Denny et al., 2024) explain that profitability can be known as ratio used to help assessing the company ability to help generating profits within a given period. Profitability also indicates ability to achieve optimal profits of company from each of its operational, which are generally obtained through investments, sales, and income from assets owned by the company (Akyuni & Oktaryani, 2025). Profitability refers to the degree to which a company's management effectively oversees its operations to achieve its desired goals. Companies with higher revenues are more likely to manipulate profits to lower or increase them in situations of higher or lower taxes (Devi & Noviari, 2022). However, transfer pricing decisions must adhere to the fair market value principle applied in international regulations of tax to help ensuring that the prices set sees actual market conditions (Gurusinga, Latersia Br, Yusnaini, 2024). It is correlated with theory of agency, which states that if a manager (agent) has detailed information about a company's condition, he or she can use this information to plan transfer pricing strategies. This motivation encourages managers to manipulate company activity data reports, potentially creating conflict between management and shareholders (Susilawati et al., 2024).

Denny et al., (2024) explains that one factor that helps influencing transfer pricing of a company to avoid tax obligations is profitability. Increasing profitability indicates increasing profits or gains earned by the company. This means that (Denny et al., 2024) explains that if company's profitability is high, so the likelihood of the company in engaging in transfer pricing practices also higher. Research findings from (Purnamasari & Yuniarwati, 2024) and (Cledy & Amin, 2020) show that companies with high profits or earnings always use strategies to minimize taxable income in order to increase their overall profitability. This is because the increasing tax burden encourages companies to reduce their tax

burden by making transfer pricing decisions, namely transferring tax obligations to companies that have special relationships in other countries with lower tax rates. However, it also contradicts research conducted by (Khaerul, 2020) and (Hanum & Dewi, 2022). These studies explain that profitability has no influence toward transfer pricing of a company. This is because the research proves that profitability is not the primary driver of transfer pricing practices.

Multinational level of companies used different currencies in their operations due to time differences. This will ultimately influence transfer pricing implementation within multinational companies. The exchange rate is the recorded market price of a foreign currency in currency of domestic level, or the domestic currency price in purpose of a foreign currency (Novita et al., 2024). Exchange rates are closely related to international trade, as multinational corporate cash flows are dominated by a number of currencies, each of which tends to fluctuate in value over time. These differences in exchange rates can influence transfer pricing activities by multinational corporations (Novita et al., 2024). Consequently, companies will attempt to mitigate exchange risk of foreign by transferring funds to stronger currencies through transfer pricing on purpose to help optimizing profits (Denny et al., 2024). This aligns with agency theory, which suggests that with motivational factors, individuals choose transfer pricing to help maximizing exchange rate benefits or minimizing overall rate of exchange losses for the company. Therefore, the greater the desire to maximize exchange rate benefits, the greater the likelihood of transfer pricing practices (Robiyanto et al., 2022).

Syafrizal, (2023) explains that the exchange rate is also a factor in current transfer pricing practices. Differences in exchange rates present a significant opportunity for companies seeking to maximize profits. Consequently, multinational companies tend to attempt to mitigate foreign risk of exchange by transferring funds to stronger currencies through practices of transfer pricing to help maximizing profits. However, this contradicts research conducted by (Rusla, 2020), (Ramadhan et al., 2022) and (Linda Santioso, 2021). The exchange rate gives no influence toward companies' transfer pricing decision. It can be demonstrated that rising exchange rates do not motivate management to implement transfer pricing. This is because many companies experience losses from transactions with foreign companies. Therefore, the high value of foreign currencies leads to a further decline in the value of the domestic currency.

Foreign ownership by foreigners refers to share ownership held by foreign parties, both individuals and institutions. As control by controlling shareholders increases, they will attempt to allocate company resources for personal gain in various important decisions, including influencing pricing policies and profit margins (Syafrizal, 2023). Foreign ownership is correlated on purpose to transfer pricing. The size of shares held by foreign owners influences control over transfer pricing policies. In this case, foreign companies can help manipulating transfer prices to reduce taxes or shift profits from countries in high-tax to low-tax countries (Susilawati et al., 2024). Foreign ownership is related to agency theory, which can create conflict of the owner (principal) and also the manager (agent) due to differing goals and interests. In agency theory, the foreign investor (principal) has the authority to conduct special relationship transactions because the investor has rights to foreign ownership in a company, and this is what made them to engage in transfer pricing (Amelia & Gani Asalam, 2022).

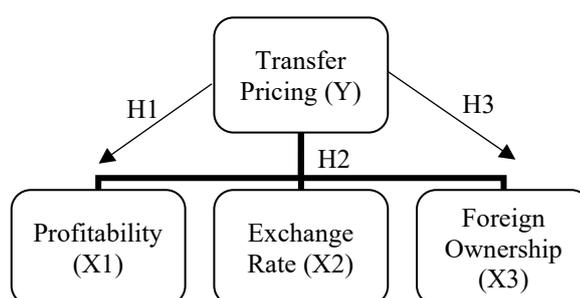
Syafrizal (2023) explains that foreign ownership gives influence a company's decisions of transfer pricing. This means that if the foreign ownership is higher, the greater the influence of foreign ownership in examining the smallest transfer pricing numbers. This explains that the greater the rights of control held by foreign shareholders, so opportunity for abuse of authority by foreign controllers also higher to make transaction policies with related parties that can harm non-controlling shareholders. So this outcomes are different with (Nadiyah Adilah et al., 2022) and (Badri et al., 2021) foreign ownership gives no influence toward transfer pricing of company. It also explains that if foreign ownership in a company is higher so the less influence foreign shareholders have in determining various decisions within the company regarding practices of transfer pricing. It happens because the companies with high foreign

ownership have higher compliance with tax and transfer pricing regulations. These differences have prompted researchers to further examine the factors influencing a transfer pricing of company.

This study replicates (Syafrizal, 2023) with the difference being the addition of an independent variable, namely profitability (Khaerul, 2020). Although this study replicates Syafrizal's (2023) model, the fundamental difference lies in the addition of Profitability as a new independent variable. The integration of this variable aims to close the research gap from previous findings that still show inconsistent results regarding companies' motivation in profit shifting. The main uniqueness of this study lies in the use of the Related Party Transaction Ratio as an instrument for measuring transfer pricing, a model that is considered more representative than qualitative variables. This differs from previous studies that often use dummy ratios, which are only dichotomous (yes or no), such as the studies conducted by (Santioso & Adelia, 2021) and (Mayzura & Apriwenni, 2023). The Related Party Transaction Ratio was chosen because it provides a more accurate picture of the intensity of transactions that are not in accordance with the arm's length principle. This ratio captures the intensity or "severity" of a company's dependence on affiliated transactions. The higher the ratio, the greater the chance of the company manipulating prices (transfer pricing). The dummy variable fails to capture this intensity gradation because it treats all companies that have affiliate transactions equally.

Unlike previous literature that focused solely on taxation aspects, this study examines the phenomenon of transfer pricing through a more in-depth Agency Theory perspective. This study explores how conflicts of interest between agents and principals trigger transfer price manipulation as a means to achieve profitability and compensation targets. The selection of the observation period, namely 2021-2023, is crucial because it covers the dynamics of post-pandemic economic recovery, during which the Indonesian tax authorities began to tighten their supervision of Base Erosion and Profit Shifting (BEPS) schemes in manufacturing companies. The selection of manufacturing companies as the object of research is based on the characteristics of this sector, which has a complex supply chain and a high intensity of related-party transactions. In addition, the manufacturing sector is one of the sectors with a large proportion of foreign ownership on the Indonesia Stock Exchange, making it highly vulnerable to profit shifting practices through transfer pricing to mitigate exchange rate risks and optimize the profitability of corporate groups globally.

These differences are expected to strengthen this study on the influence of profitability, exchange rates, and foreign ownership on transfer pricing in manufacturing companies on the Indonesia Stock Exchange for the period 2021-2023.



Source: Research Data, 2025

Figure 1. Research Concept Framework

MATERIALS AND METHOD

This study applied such a quantitative approach on purpose to help determining the causal relationship between three independent variables and it also utilizes secondary data extracted from annual financial reports from the sample of companies. To ensure the sample aligned with specific research objectives, technique of purposive sampling was employed. This method involves selecting

participants based on predefined criteria, specifically focusing on manufacturing companies that maintained their listing status throughout the 2021–2023 observation period, companies that have complete and transparent financial reports consecutively in 2021-2023, companies that have data on foreign exchange profit or loss, The sample companies are getting controlled by foreign companies that have such an ownership of 20 percent or even more, those who have complete research data as a whole.

The technique of data analysis applies analysis of multiple linear regression done by SPSS Version 26 software tools, where the statistical tests include descriptive statistical analysis, multiple linear regression tests and also test of determination coefficient. The operational definitions of the variables and the measurement of the variables are presented in Table 1.

Table 1.
Operational Definitions and Measurement of The Variables

Variables	Operational Definitions	Variable Measurement
Transfer Pricing	Pricing of various transactions between members or divisions to help minimizing the number of tax to be paid (Nafiati et al., 2023).	$TP = \frac{\text{Receivables from related parties}}{\text{Total company reivables}} \times 100\%$
Profitability	The capability of a company to get making profits in some period from the total assets used by the company (Novalina, 2024).	$ROA = \frac{\text{Net profit}}{\text{Total Assets}} \times 100$
Exchange Rate	Foreign exchange rates are the currency relative price to another currency (course) which depends on the offer strength (supply) and also demand (demand) the currency that affects the company's overall profit (Ramadhan et al., 2022).	$\text{Exchange rate} = \frac{\text{Foreign exchange profit/loss}}{\text{Profit and loss before tax}} \times 100\%$
Foreign ownership	hare ownership held by foreign individuals or institutions (Badri et al., 2021).	$\text{Foreign ownership} = \frac{\text{Amount of foreign ownership}}{\text{Total shares outstanding}} \times 100\%$

Source: Research Data, 2025

RESULT AND DISCUSSION

The objective is to gather empirical evidence regarding the impact of exchange rates, profitability, and also foreign ownership toward transfer pricing within manufacturing firms registered on the IDX. Utilizing secondary data sourced from www.idx.co.id, the study's population encompasses 227 manufacturing companies that were active on the IDX from 2021–2023 period. The process of sample taken was based on the following considerations:

Table 2.
Sample Selection Results

No	Information	Amount
1	Manufacturing companies registered on IDX from 2021-2023.	227
2	Companies that has no complete and transparent financial reports consecutively 2021-2023	-51
3	Companies which do not have foreign exchange profit or loss data.	-25
4	Sample companies that are not controlled by foreign companies that has an percentage ownership of 20% or more.	-95
5	Companies that do not give any complete data	-34
	Final Sample Number of observations	22
	Number of Observations (20 x 3 years)	66

Source: Research Data, 2025

According to the method of purposive sampling, a total sample of 22 companies was gained. Therefore, for the three-year 2021-2023 period, 66 observational data were obtained as samples.

Table 3.
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Profitabilitas	66	-.22	.31	.058	.087
Exchange rate	66	-1.22	5.90	.088	.767
<i>Kepemilikan asing</i>	66	.25	.99	.605	.230
Transfer pricing	66	.00	1.00	.316	.328
Valid N (listwise)	66				

Source: Research data, 2025

Table 3 illustrates the outcomes of descriptive statistical tests for all variables in this study. The menu above explains several descriptive statistical measurements such as maximum, minimum, mean and also standard deviation. The minimum describes the smallest value from the outcomes of processing data. The maximum describes the largest value derived from data analysis. Mean the mean is the average value that describes the total data compared to the total or total number of each variable. Meanwhile, the standard deviation is a measurement result that explains the distribution and variability of the data. Descriptive statistical tests aim to assess the quality of data, as known by the values of mean and also standard deviation. If it is higher than standard deviation, the quality of data is known to be better.

Variables transfer pricing (Y) shows value of an average of 0.316 with a distribution level of 0.328. It can be said that approximately 31.55 percent of the total research data indicates that the company is giving out transfer pricing. The highest value of 1.00 occurred in one of the companies, namely PT Voksel Elektrik Tbk (VOKS) in 2023. The company was indicated to have carried out transfer pricing. Then, the lowest value of 0.00 occurred in the company Delta Jakarta Tbk (DLTA) in 2023. This indicates that the company did not bring any transactions of transfer pricing.

The profitability variable (X_1) shows value of an average 0.0581 and a standard deviation of 0.088. It can be meant that the average profitability value of all 60 research samples was recorded at 5.81 percent. Because this average value is positive, in general, the companies included in the research sample experienced profits during the 2021-2023 period. The value of 0.088 is greater than the value of average 0.058, indicating that the company's profitability data is quite spread out. A large standard deviation indicates high profitability diversity among companies. The highest value of 0.31 occurred in the company Industri Jamu dan Pharmaceutical Sido Tbk in 2021. It is able to be said that the company had the best profitability performance during the 2021-2023 research period. The lowest value of -0.22 occurred in the company Pania Indonesia Resources Tbk in 2022.

On the variable exchange rate (X_2) shows an average value of 0.088 with a value of standard deviation 0.767. A value of standard deviation that is greater than the value of average shows that the companies that are the sample data for this study tend not to utilize exchange rates to conduct transactions. Transfer pricing the highest value, 5.90, occurred for Cemindo Gemilang Tbk in 2022, representing the highest exchange rate fluctuation experienced by all sample data in this study. Meanwhile, the lowest value, -1.22, occurred for Fajar Surya Wisesa Tbk in 2022, representing the lowest exchange rate fluctuation experienced by any of the sample companies.

The foreign ownership (X_3) shows an average value of 0.605 or 60.5 percent with a standard deviation of 0.230. It can be meant that the manufacturing companies used as samples have an average portion of foreign ownership that is quite high and dominant. This indicates that companies that have foreign ownership of more than 20 percent of the total outstanding shares will use the rights of controlling shareholders to carry out transfer pricing in their companies. The highest value, 0.99, occurred in PT Organon Pharma Indonesia Tbk between 2021 and 2023, indicating that the company's shares were almost entirely owned by foreign investors. Meanwhile, the lowest value, 0.25, occurred in

Kalbe Farma Tbk (2021) and Sido Herbal Medicine and Pharmaceutical Industry Tbk (2023), indicating that these companies had the smallest foreign investor share among the other companies.

Table 4.
Classical Assumption Test
Normality Test Results
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual	
N		66	
Normal Parameters ^{a,b}	Mean	.0000000	
	Standard Deviation	.31745671	
Most Extreme Differences	Absolute	.161	
	Positive	.161	
	Negative	-.082	
Test Statistics		.161	
Asymp. Sig. (2-tailed)		.000 ^c	
Monte Carlo Sig. (2-tailed)	Sig.	.054 ^d	
	99% Confidence Interval	Lower Bound	.049
		Upper Bound	.060

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. Based on 10000 sampled tables with starting seed 1585587178.

Source: Research data, 2025

Based on Table 4, the researcher used the Monte Carlo test to test for normality. According to Purwanto et al., (2022) the decision-making process for the Monte Carlo normality test is as follows If the probability with significance is greater than 0.05 then the data is normally distributed, If the probability with significance is less than 0.05 then the data is not normally distributed.

The Monte Carlo test results show that the significance value in Monte Carlo Sig. (2-tailed) is 0.054. This value is greater than 0.05. Meanwhile, the requirement for a normality test is a significance value above 0.05. This means that the significance value in the Monte Carlo test meets the requirements for a normality test.

Table 5.
Heteroscedasticity Test
Glejser Test Results

Model		Coefficients			t	Sig.
		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta		
1	(Constant)	.039	.032		1,225	.235
	Profitability	.324	.290	.263	1,119	.277
	Exchange Rate	.079	.134	.131	.588	.563
	Foreign Ownership	.071	.041	.404	1,739	.098

Source: Research data, 2025

Based on the Glejser test output it can be seen that the sig value is > 0.05 for the variables Profitability (X_1), Exchange rate (X_2), and Foreign Ownership (X_3). Therefore, it can be concluded that the Glejser test does not indicate heteroscedasticity. The regression coefficient estimates obtained can be considered efficient and valid.

Table 6.
Multicollinearity Test Results
Coefficients^a

	Model	Collinearity Statistics	
		Tolerance	VIF
1	Profitability	.980	1.020
	Exchange rate	.954	1.048
	Foreign ownership	.948	1.054

a. Dependent Variable: Transfer pricing

Source: Research data, 2025

The multicollinearity test aims to determine whether there is a high or perfect correlation between the independent variables (profitability, exchange rate and foreign ownership) in the regression model. Based on table 6, it can be seen that the tolerance value for the profitability, exchange rate, and foreign ownership variables is greater than 0.10 and the VIF value for each variable is less than 10. This indicates that there is no strong or excessive correlation between the independent variables, so that the regression model is suitable for use and the resulting regression coefficients can be interpreted reliably and efficiently and can be continued to the next test.

Table 7.
Autocorrelation Test
Durbin Watson Autocorrelation Test Results
Model Summary

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate	Durbin-Watson
1	.608a	.369	.339	.063	1.532

a. Predictors: (Constant), Foreign ownership, Profitability, Exchange rate

b. Dependent Variable: Transfer Pricing

Source: Research data, 2025

The autocorrelation test aims to determine whether there is a correlation between variables in the prediction model and changes in time. A good regression model is one that does not exhibit autocorrelation problems. The results of the autocorrelation test using the Durbin Watson test showed a value of 1.532. This value when compared with the Durbin-Watson table with a sample of 66 and the number of independent variables as many as 3 with a significance level of 0.05 obtained a dL value of 1.5079 and a dU value of 1.6974. In accordance with the provisions that the test results show the position of $dU < d < 4 - dU$, namely $1.6974 > 1.532 < 2.3026$ means that autocorrelation occurs.

Therefore, to prove that this study does not experience autocorrelation, further analysis is needed using the Cochrane-Orcutt transformation method, which is considered an alternative solution to problems in regression models that experience autocorrelation. According to Ghazali (2011:121), the Cochrane-Orcutt method is a method used to overcome the problem of autocorrelation, where research data is converted into Lag form. The steps to carry out the Cochrane-Orcutt transformation are by determining the Rho value (the estimated coefficient or estimate of the data used to transform variables in the regression model to overcome the problem of autocorrelation). Next, carry out the Lag transformation on the newly obtained residual variable. The result will be a beta value in the SPSS output results. That beta value is what is meant by the Rho coefficient. Next, the Cochrane-Orcutt transformation by forming a new variable resulting from the transformation.

The results of the autocorrelation test using the Cochrane-Orcutt method are as follows:

Table 8.
Results of the Cochrane-Orcutt Autocorrelation Test

Model	R	R Square	Adjusted R Square	Model Summary	
				Standard Error of the Estimate	Durbin-Watson
1	.563a	.317	.284	.061	2.030

a. Predictors: (Constant), Lag_X3, Lag_X1, Lag_X2
b. Dependent Variable: Lag_Y

Source: Research data, 2025

From the output results in table 8, the new Durbin-Watson number is 2.030. This value, when compared with the Durbin-Watson table value using a confidence level of 0.05 with a sample size of 66, obtained a dL value of 1.5079 and a dU value of 1.6974 so that the value of $4 - dU$ is 2.3026. This results in a position of $dU < d < 4 - dU$, namely $1.6974 < 2.030 < 2.3026$ which means there is no autocorrelation.

Table 9.
Results of Multiple Linear Regression Analysis Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.417	.024		17.696	.000
	Profitability	.193	.091	.216	2.118	.038
	Exchange rate	.014	.010	.142	1.378	.173
	Foreign ownership	-.189	.035	-.558	-5.391	.000

a. Dependent Variable: Transfer Pricing

Source: Research data, 2025

The outcomes of the test in multiple linear regression shown in the table 4 can be used to formulate the following equation:

$$TP = 0.417 + 0.193 \text{ Profitability} + 0.014 \text{ ER} - 189 \text{ KA} + \epsilon \dots \dots \dots (1)$$

According to the formulation above, it is able to get analyzed: The value of constant 0.417 states that if profitability, exchange rate and also foreign ownership are zero, then the average value of transfer pricing is 0.417. The value of coefficient for profitability (X_1) of 0.193, states that every one unit increase in profitability, claiming that other variables are claimed to be constant, so it is going to get increasing transfer pricing by 0.193. The coefficient value of 0.193 with a value of significance $0.038 < 0.05$, meaning that the first hypothesis stating that profitability gives such a positive and also significant effect toward transfer pricing is accepted. A positive sign indicates a unidirectional (positive) relationship.

The outcomes explain that high levels of company profitability tend to help increase the companies shifting profits likelihood through practices of transfer pricing. This is done to minimize taxable income arising from high profits. This is because high profits also result in high tax liabilities (Susilawati et al., 2024). With good profitability, investors are likely to maintain their investments in the company. The large number of investors who maintain their investments encourages companies to optimize their financial statements by increasing transfer prices in entities with lower tax rates. However, transfer pricing decisions must adhere to the fair market value principle applied in international tax regulations to help ensuring that the prices set reflect actual conditions of market (Gurusinga, Latersia Br, Yusnaini, 2024). It is supported by (Denny et al., 2024), (Gurusinga, Latersia Br, Yusnaini, 2024) and (Cledy & Amin, 2020) profitability gives such a positive and also significant influence toward transfer pricing. These outcomes also reject research from (Linda Santioso, 2021) which shows that profitability does not influence the decision to carry out transfer pricing.

The exchange rate (X_2) yielded a coefficient of 0.014, showing that a one-unit increase in the exchange rate outcomes in a 0.014 rise in transfer pricing, holding all other variables are staying constant. However, since the significance value of 0.173 exceeds the alpha threshold of 0.05, the result

is statistically insignificant. Consequently, the second hypothesis (H_2), which proposed that the exchange rate gives such a significant and also positive influence toward transfer pricing, is rejected

The outcomes indicate that the exchange rate is not a factor considered by multinational corporations in their transfer pricing activities. This is because multinational corporations' business activities are influenced by the dollar, and the rising value of foreign currencies leads to a decline in the value of the domestic currency (Novita et al., 2024). This influences companies' ability to conduct transactions with foreign companies and impacts their profits because the more frequently a company conducts transactions abroad while the domestic currency is depreciating, the more likely the company is to experience losses. Because multinational companies experience different exchange rates, they experience uncertain payments. Fluctuating rates of exchange make the number of cash required for payments uncertain. Therefore, increases or decreases in exchange rates will not give any influence the company's transfer pricing practices (Hanum & Dewi, 2022). This research does not support research from (Denny et al., 2024) which shows that the exchange rate gives such a positive and also significant influence toward transfer pricing, but supports research from (Mayzura & Apriwenni, 2023), (Novita et al., 2024) and (Rusla, 2020) exchange rate does not have a significant influence toward transfer pricing.

The coefficient for foreign ownership (X_3) is -0.189 , stating that for every one-unit increase in foreign ownership, transfer pricing decreases by 0.189 , while other ones remain constant. Although the value of significance 0.000 is well below the 0.05 threshold, the third hypothesis (H_3) which predicted a positive and also significant influence—is rejected. This rejection is due to the negative sign of the coefficient, which reveals an inverse relationship rather than the positive one initially hypothesized.

The outcomes demonstrated that foreign ownership gives a negative and also significant influence toward transfer pricing. A negative value shows an inverse relationship. The stake held by foreign parties in a company is higher, the higher the value of company. The management of foreign ownership and also company will minimize transfer pricing to maintain the company's already strong value. The significant outcomes also indicate that this inverse relationship is not a coincidence but has a strong statistical basis. High levels of foreign ownership can give foreign shareholders greater influence in corporate decision-making, including pricing policies (Susilawati et al., 2024). This policy can benefit foreign shareholders, who can conduct sales or purchase transactions at unfair prices to the company, gaining profits for themselves, but at the expense of minority shareholders. This reveals that higher foreign share ownership did not always provide shareholders with a strong position to control their company, including in transfer pricing. Because companies with large foreign ownership must always face the future risks, as like decline in company value that will give influences both minority and also majority shareholders (Amelia & Gani Asalam, 2022).

According to (Syafrizal, 2023) and (Meiriasari & Nurkholis, 2023) which states that foreign ownership gives such a significant and also positive influence toward transfer pricing. However, this is supported by (Susilawati et al., 2024) foreign ownership gives a negative and significant influence toward transfer pricing.

Table 10.
Determination Test Results
Model Summary

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	.563a	.317	.284	.061

Source: Research data, 2025

The limited capacity of the independent variables—namely profitability, exchange rate, and foreign ownership—to explain variations in transfer pricing is reflected in the coefficient of determination R^2 value of 0.317 . This signifies that the independent variables in this model account for only 31.7 percent of the transfer pricing phenomenon, while the remaining 68.3 percent is explained by other factors beyond the scope of this research model.

CONCLUSION AND RECOMENDATION

According to the analysis outcomes, the research has many conclusions that profitability exerts a significant positive and effect toward transfer pricing. This means that the higher the profit a company generates, the more likely it is to engage in transfer pricing to shift profits and minimize tax liabilities. The exchange rate does not have a significant influence on transfer pricing. This indicates that fluctuations in foreign currency values are not a primary consideration for manufacturing companies in Indonesia when deciding to implement transfer pricing. Foreign ownership gives such a negative and also significant influence toward transfer pricing. Although significant, the effect was negative, contrary to the positive influence originally hypothesized. Higher foreign ownership actually reduces transfer pricing practices, as foreign owners aim to maintain company value and avoid future risks that could harm both minority and majority shareholders. This study strengthens the Agency Theory, showing that while managers (agents) may use transfer pricing to optimize profitability, the presence of dominant foreign ownership can act as a control mechanism to protect the firm's overall value. For the government, these findings suggest a need for stricter regulations and monitoring of highly profitable companies, as they are more prone to tax avoidance through profit shifting. The research only focused on manufacturing companies listed on the Indonesia Stock Exchange (IDX), meaning the results cannot be generalized to other industrial sectors. The researcher selected the manufacturing sector because manufacturing companies have complex supply chains and a high intensity of related-party transactions. Additionally, the manufacturing sector is one of the sectors with a large proportion of foreign ownership on the Indonesia Stock Exchange. Due to these characteristics, manufacturing companies are highly vulnerable to profit-shifting practices through transfer pricing to mitigate exchange rate risks and optimize the profitability of corporate groups globally. The value is only 31.7 percent, indicating that the independent variables (profitability, exchange rate, and foreign ownership) only explain a small portion of the transfer pricing phenomenon. The remaining 68.3 percent is influenced by factors outside this model.

The sample used focused on manufacturing companies registered on IDX, so it is not able to be generalized to other types of industries. It is hoped that Future researchers should include other sectors beyond manufacturing to provide a more comprehensive view of transfer pricing in Indonesia. Since the explanatory power was low, adding variables such as tax burden, bonus mechanisms, or firm size might yield a more accurate model. Future studies could also examine the effectiveness of specific government tax policies in curbing profit-shifting practices.

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