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Transfer Pricing Decision Based on Bonus, Tunneling Incentives and Mediating of Tax Minimisation

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ABSTRACT: Transfer pricing is a crucial aspect of international business, especially for natural resource companies in Indonesia. It involves monitoring compliance with tax regulations, managing long-term risks, given the complexity and high value of the commodities they handle. The purpose of this study is to examine and analyse the direct effect of bonus mechanism and tunneling incentive on transfer pricing decision. While the indirect effect of this study, by placing tax minimisation as a mediating variable to explain the effect of bonus mechanism and tunneling incentive on transfer pricing decision. The data used in this study comes from the Annual Report of natural resource sector companies listed on IDX during the 2020-2022 period. Total of 185 companies using purposive sampling method, resulting in a sample of 132 data analysed using WarpPLS 8.0. The results showed that bonus mechanism and tax minimsation has no significant relationship with transfer pricing, while Tunneling incentive has significant affect transfer pricing. There is a significant relationship between bonus mechanism and tunneling incentive with tax minimisation practices. However, the mediating variable of tax minimisation can not explain the relationship between bonus mechanism and tunneling incentive with transfer pricing. The practical implication of this study is that aggressive transfer pricing practices must be balanced with compliance with tax regulations to avoid long-term risks such as fines and sanctions. This encourages companies to evaluate and adjust the design of incentives and internal controls, and implement strict regulations with independent internal audit and external auditor oversight to prevent harmful tunnelling practices.

KEYWORDS: transfer pricing, bonus mechanism, tunneling incentive, tax minimisation.

I. INTRODUCTION

The economic growth that is accelerating massively nowadays encourages businesses to take strategic steps in expanding their business throughout the world. At this moment, many multinational companies are utilised to take tax advantage by transfer pricing. This practice is commonly used in international transactions, to optimise the tax structure. Transfer pricing is the pricing of goods or services in the company's internal transactions (including transactions with related parties), this step is an important strategy in optimising the tax structure and increasing the company's profitability (Niu, 2023; Saputra, 2023). Globalisation has led to the development of increasingly complex transfer pricing methods, opening the door to potential manipulation (Rogers & Oats, 2022). Therefore, companies operating in various tax jurisdictions, especially natural resource sector companies in Indonesia, need to understand and implement transfer pricing efficiently. Companies operating in the natural resources sector are particularly vulnerable to unfair transfer pricing practices due to the complexity and value of their resources, leading to profit shifting and negatively impacting corporate transparency (Luhende, 2020).

Transfer Pricing is in the spotlight in the business world today, as it is a potential step in minimising the tax budget by companies. Multinational companies, especially those in the natural resources sector, use this loophole to minimise their tax burden in high-tariff countries, such as Indonesia, and shift their profits to low-tariff countries, such as Singapore (Alam, 2020). This practice results in reduced state revenue and gives multinational companies an advantage in terms of tax efficiency. The significant difference in corporate tax rates between Singapore (17%) and Indonesia (22%) is an attraction for multinational companies to move their profits to Singapore (Handayani & Rachmawati, 2022). While Indonesia offers a lower tax rate (3%) for listed companies under certain conditions, Singapore remains an attractive option due to its more stable and transparent tax system.

The irregularities in transfer pricing practices in Indonesia in recent years occurred in the case of PT Adaro Energy Tbk. which carried out transfer pricing practices with its subsidiaries in Singapore to obtain tax benefits. This case resulted in a tax loss payable in Indonesia of USD 125 million as reported in Global Witness, 2019. Around the same year, British American Tobacco's subsidiary in Indonesia also engaged in transfer pricing practices. Based on a report from the Tax Justice Network, 2019, this company recorded USD 164 million in debt interest payments, but the fund transfer scheme used resulted in a net loss of 27%. The Indonesian government has imposed a 20 per cent tax on these payments. However, the complex fund transfer scheme allowed the company to avoid this tax liability. This was due to a tax treaty between Indonesia and the UK that reduced the tax rate to 15%. As a result, Indonesia potentially lost tax revenue worth USD 2.7 million per year. These two cases serve as examples of how complex fund transfer schemes can be manipulated to avoid tax obligations and result in losses to the state, hindering national development.

An influential factor in transfer pricing practices is the bonus mechanism. The bonus mechanism can influence a company's decision in setting transfer prices, especially when the bonus is linked to profitability. This is done by increasing net income with bonuses given to directors and employees. Transfer pricing set low in countries with high tax rates will reduce profits reported there by lowering employee bonuses despite their actual good performance (Wu et al., 2023). Contrarily, high transfer prices can increase profits in countries with low tax rates. Non-transparent bonus mechanisms may raise questions from tax authorities regarding employees' tax liabilities. Therefore, companies should be careful in setting up transfer pricing and bonus mechanisms to ensure the balance of interests of various parties and compliance with tax regulations. On reasearch of Ramdhany & Andriana, 2022; Sujana et al., 2022 explains that the bonus mechanism has a significant relationship to transfer pricing. On the contrary, bonus mechanism does not have significant relationship to transfer pricing as in research Farkhah Elfa et al., 2022; Putra & Rizkillah, 2022.

Illegal transfer pricing practices are also connected with tunnelling incentive because it is used as a step in obtaining tax benefits. Tunneling Incentive encourages multinational companies, especially companies in the natural resources sector that have a high value of goods or assets to conduct transfer pricing more aggressively (Kristina & Muhyarsyah, 2023). This is achieved by manipulating transfer prices to be lower for goods and services exported to countries with lower tax rates, and higher transfer prices for goods and services imported to countries with high tax rates. As a result, reported profits in high tax rate countries are reduced, and profits in low tax rate countries are increased. This is in line with research from Marheni et al., (2022); Murtanto & Bonita, 2021; Rahmadhani & Ananda, 2022 which explains that tunneling incentive has a significant effect on transfer pricing. However, research by Fazwa & Islahuddin, 2022; Herlina & Murniati, 2023; Rahman & Ernawati, 2022; Lestari, 2021 revealed that tunnelling incentive has no significant effect on transfer pricing.

The novelty in this research is by applying tax minimisation variable as a mediating variable in the indirect effect of bonus mechanism and tunneling incentive on transfer pricing. By placing the tax minimisation variable as the mediation of the effect of bonus mechanism and tunneling incentive on transfer pricing, it provides a more comprehensive framework to understand the factors that drive transfer pricing manipulation. This is based on the phenomenon of illegal transfer pricing practices in Indonesia and the results of previous studies Devi & Suryarini, 2020; Marfuah et al., 2021; Megadiana & Kurnia, 2023; Sulistyawati et al., 2020 which show the inconsistent influence of the bonus mechanism and tunneling incentive on transfer pricing. Therefore, the author tries to place tax minimisation that can explain how the relationship between bonus mechanism and tunneling incentive affects transfer pricing practices.

This research aims to examine and analyse the direct impact of bonus mechanism and tunneling incentive on transfer pricing decisions. Given the difference between research results and transfer pricing practices in Indonesia, this study integrates tax minimisation as a mediating variable. The previous research places tax minimisation as an independent variable along with bonus mechanism and tunneling incentive. Therefore, this research focuses on testing and analysing the direct impact of bonus mechanism and tunneling incentive on transfer pricing decision. Meanwhile, the indirect impact of this study is identified by using tax minimisation variable as a factor to mediate the relationship between the effect of bonus mechanism and tunneling incentive on transfer pricing.

II. LITERATURE REVIEW

A. *Agency Theory*

The Agency Theory is the theoretical basis in explaining this research, suggesting that decisions are often influenced by differences in interests between owners as principals and managers as agents. Transactions between business entities that have special relationships can lead to potential conflicts of interest (Krug, 2022). In companies with complex lines of work, managers are opportunistic to maximise their performance in order to obtain bonuses (Cheng et al., 2020), while investors seek to increase the expected profitability of managers' performance as a form of trust in the capital they have invested. Each division in a company that has many divisions in one group can have complex interests and activities (Sugosha, 2020).

B. Transfer Pricing

Transfer pricing is setting transaction prices between subsidiaries or divisions within one company, with the aim of allocating profits and taxes and optimising the tax burden through transactions between companies that have a special relationship by directing profits to tax jurisdictions that have lower rates. Special relationship has a broader definition than just the percentage of capital ownership, as stipulated in the Regulation of the Minister of Finance of the Republic of Indonesia No.22/PMK.03/2020 Article 4 paragraph 1. It is explained that special relationship includes dependence or attachment arising from three factors, namely ownership or equity participation, control, and blood family or sibling relationship (Pramana, 2022; Prataviera et al., 2022). Transfer pricing plays an important role in tax advantage-taking schemes with related party receivables. Lower transfer pricing allows natural resource sector companies to shift profits to low-tax rate countries more easily. Related party receivables are then used to hide this profit movement and minimise tax liabilities in high tax rate countries (Capatina-Verdes, 2022).

C. Hypothesis Development

C.1 Bonus Mechanism on Transfer Pricing

The bonus mechanism is a motivation for management to shift the profitability of the company by manipulating transfer pricing (Holderness et al., 2023). This depicts the relationship between the company's internal incentive system (bonus mechanism) and business practices that have an impact on the company's financial structure (transfer pricing). In the agent-priple dynamic described by agency theory, management has conflicting interests with the owners of the company. The bonus mechanism can exacerbate this conflict by incentivising management to violate applicable regulations. Transfer pricing manipulation can have negative impacts such as harming the state due to loss of tax revenue, creating unfair competition between companies, and damaging the company's image and reducing investor confidence (Martin et al., 2023). Reasearc of Agustiningsih et al., 2022; Christina & Irawati, 2023 indicated that the bonus mechanism has a significant relationship to transfer pricing.

H1 = Bonus Mechanism Significantly Affects Transfer Pricing.

C.2 Tunneling Incentive on Transfer Pricing

Tunnelling Incentive is an impulse for majority shareholders to transfer the company's wealth to companies that apply low tax rates (with transfer pricing schemes) and transfer the profits to themselves. By using transfer pricing as a tool to manipulate profits, majority shareholders harm the company and other stakeholders (Larasati & Arieftiara, 2023). The negative impacts of transfer pricing manipulation include tax losses for the country, creating unfair competition in the industry, and damaging the company's image and investor confidence. Agency conflicts are reflected in this, where majority shareholders have a tendency to maximise their own profits while management has a responsibility to maximise the value of the company. This is in line with research (Budiaji et al., 2022; Rahma & Wahjudi, 2021) which explains that tunnelling incentive affects transfer pricing.

H2 = Tunneling Incentive Significantly Affects Transfer Pricing.

C.3 Bonus Mechanism on Tax Minimisation

Bonus mechanism based on the company's net income, motivates management to minimise tax liabilities, ethically and detrimental to the company in the long run. This happens because the increase in corporate profits, which is an important aspect in performance assessment, is achieved by minimising the tax burden borne by the company (Karuppiah & K.R. Shanmugam, 2022; Pandapotan, 2023; Tarmidi et al., 2022). Agency theory in this case explains the conflict of interest that occurs. Principals have a desire to increase company value through profit without long-term risk (Adenuga et al., 2023). Meanwhile, management (Agent) is motivated to increase company value by misappropriation to obtain short-term personal gain

H3 = Bonus Mechanism Significantly Affects Tax Minimisation.

C.4 Tunneling Incentive to Tax Minimisation

The relationship between tunnelling incentives and tax minimisation illustrates the complexity of financial strategies used by majority shareholders in an effort to enrich themselves. Majority shareholders shift corporate profits by allocating revenues and costs to subsidiaries operating in countries with lower tax rates (Hansen et al., 2023; Shropshire et al., 2023). This leads to injustice for minority shareholders, who have no control over corporate decisions and do not get their fair share of corporate profits. In this dynamic, agency theory explains that conflicts do not only occur between shareholders. Conflicts also occur with management who are motivated to minimise their tax burden by allocating profits to their bonus scheme (Maulani et al., 2021).

H4 = Tunneling Incentive Significantly Affects Tax Minimisation.

C.5 Tax Minimisation on Transfer Pricing

Transfer pricing practices are carried out by selling goods or services to subsidiaries in low tax rate countries at low prices or purchasing goods or services from subsidiaries in low tax rate countries at high prices (Genisa & Imbolon, 2023; Tambunan & Sinaga, 2020; Wu et al., 2023). In this way, natural resource companies in Indonesia reduce domestic taxable profits and increase profits in countries with low tax rates, which in turn can minimise the tax payments borne by the company. Agency theory explains that conflicts of interest occur between principals and agents. Principals aim to maximise the company's net profit after tax, while agents seek to minimise their own tax liabilities, even by reducing the company's net profit (Clemente & Da Silva, 2021). Research from Fatmi & Amin, 2023; Riyadi & Kresnawati, 2021; Anisa et al., 2024; Riska & Anwar, 2021 reveals that tax minimisation has a significant influence on transfer pricing.

H5 = Tax Minimisation Significantly Affects Transfer Pricing.

C.6 Tax Minimisation Mediates Bonus Mechanism Against Transfer Pricing

Pressure to reduce taxes encourages management to use transfer pricing aggressively to move profits to countries with lower tax rates. This aggressive use of transfer pricing is considered legitimate to reduce taxes, even though these actions are unethical and can harm the company in the long run (Bakhram et al., 2021; Wijaya & Rahayu, 2021). Agency theory explains that there is a conflict of interest between the principal (company owner) and the agent (company management). A bonus mechanism based on the company's net profit, combined with pressure to reduce taxes, exacerbates this agency conflict (Alkausar et al., 2023; Azevedo et al., 2020). This happens because the incentives given to management encourage them to behave unethically in order to increase bonuses and reduce tax liabilities.

H6 = Tax Minimisation Mediates Bonus Mechanism on Transfer pricing.

C.7 Tax Minimisation Mediates Tunneling Incentive on Transfer Pricing

In conducting tunnelling incentive, the party that is motivated to conduct transfer pricing to minimise corporate tax is the majority shareholder (Saraswati, 2021; Tarmidi et al., 2023). Majority shareholders with full control conduct aggressive transfer pricing by moving profits to countries with low tax rates and taking advantage of this practice for personal gain. Judging from agency theory, majority shareholders will exacerbate this conflict by overriding the interests of management and also minority shareholders who do not have full control over company operations and policies. The use of aggressive transfer pricing can be justified on the grounds of minimising taxes, even though it is unethical or detrimental to the company in the long run (Lanis et al., 2019).

H7 = Tax Minimisation Mediates Tunneling Incentive on Transfer pricing.

III. METHODOLOGY

A. RESEARCH Method

This study uses a quantitative approach to test and analyse hypotheses, with the aim of identifying how the bonus mechanism and tunneling incentive affect transfer pricing decisions, with tax minimisation acting as mediation. This research uses secondary data obtained by accessing the Indonesia Stock Exchange website or the website of each sample company. The population in this study are natural resource sector companies listed on the Indonesia Stock Exchange during 2020-2022. The measurement of each variable is presented in table 1:

Table 1. Variable definitions and measurements

Variabel Dependen (Y)	Measure		Source
Transfer Pricing	(Related Party Receivable) (Total Receivable)		(Suhartono et al., 2022)
Variabel Independen (X)			
Bonus Mechanism	(Net income in year t) (Net income in year t-1)	X 100 %	(Ginting et al., 2021)
Tunnelling Incentive	(Amount of largest shareholding) (Total shares outstanding)	X 100 %	(Ubaidillah, 2023)
Tax Minimisation	(Tax expense- Deferred tax expense) (Income Before Tax)	X 100 %	(Illahi et al., 2023)

Source: data processed by the author, 2024

B. Population and Sample

Based on the purposive sampling method applied to the sampling of companies in the period 2020-2022. The results show that 132 different observation data were collected as samples, according to the sample conditions, as outlined in the following table.2 :

Table 2. Purposive Sampling

No	Criteria	Total
1.	Natural resource sector companies listed on the IDX	185
2.	Companies that have not published annual reports in 2020-2022	(9)
3.	Companies that have suffered losses in 2020-2022	(99)
4.	Companies that have no balances of related receivable transactions	(18)
Total Sampling		59
Observation 2020-2022		3
Total observations (59*3)		177
Outlier		(45)
Total		**132**

Source: data obtained from IDX, 2024

C. Data Analysis Method

This research uses the Structural Equation Modeling (SEM) analysis method using WarPLS 8.0 software assistance. This measurement aims to examine the complex causal relationship between dependent, independent and mediating variables. Through the path analysis approach, it represents how direct and indirect effects between variables. This modelling technique simplifies the explanation of how tax minimisation plays its role in mediating the effect of bonus mechanism and tunneling incentive on transfer pricing.

IV. RESULT AND DISCUSSION

Table 3. Results of the descriptive statistics

	N	Min	Max	Mean	Std. Deviation
Transfer Pricing (Y)	132	0.11	6.77	1.6606	1.34336
Bonus Mechanism (X1)	132	0.18	0.82	0.5127	0.16232
Tunneling Incetive (X2)	132	0.01	1.00	0.2792	0.29969
Tax Minimization (Z)	132	0.3	0.79	0.2605	0.13206
Valid N (listwise)	**132**				

Source: data processed by the author, 2024

The results of descriptive statistics presented in Table 3 for the transfer pricing variable with an average value of 1.6606 and extreme values of 0.11 and 6.77 with a standard deviation of 1.34336 indicate that the natural resource sector companies in Indonesia relatively pay attention to transfer pricing practices. The average company applies a bonus mechanism of 0.5127 and the extreme values are 0.18 and 0.82 with a standard deviation of 0.16232. The average value of tunnelling incentive is 0.2792, the extreme values are 0.01 and 1.00 with a standard deviation of 0.29969. The average value of tax minimisation is 0.2605, extreme values are 0.3 and 0.79 with a standard deviation of 0.13206.

Table 4. Fit Model Test Results

Model Fit and Quality Index	Index	Criteria	Result
Average path coefficient (APC)	0.180	P>0.008	Model fit
Average R-squared (ARS)	0.103	P>0.057	Model fit
Average adjusted R-squared (AARS)	0.085	P<0.080	Non-fit model
Average block VIF (AVIF)	1.008	if <= 5, ideally <= 3.3	Model fit
Average full collinearity VIF (AFVIF)	1.056	if <= 5, ideally <= 3.4	Model fit
Tenenhaus GoF (GoF)	0.320	Small >= 0.1,	Medium

		Medium >= 0.25, Large >= 0.36	
Simpson's paradox ratio (SPR)	1.000	Accepted if >= 0.7, ideally = 1	Model fit
R-squared contribution ratio (RSCR)	1.000	Accepted if >= 0.9, ideally = 1	Model fit
Statistical suppression ratio (SSR)	1.000	Accepted if >= 0.7, ideally = 1	Model fit
Nonlinear bivariate causality direction ratio (NLBCDR)	0.800	Accepted if >= 0.7, ideally = 1	Model fit

Source: data processed by the author, 2024

Evaluating model fit is an important element in data analysis using WarpPLS, as it determines the extent to which the model fits the data and provides an overall picture of the quality of the model. The model fit test results from secondary data processing using WarpPLS 8.0 are shown in Table 4, indicating that data collection and analysis successfully established correlations between the variables under study. The fit and accuracy of the model is evidenced by the evaluation of the fit and quality indices in the table. The statistical significance P-value of the Average Path Coefficient (APC) indicates the existence of a causal relationship between exogenous and endogenous factors, both directly and indirectly, meeting the requirement of P>0.006. This indicates that the variables in the research model are not affected by multicollinearity issues, and the model is reliable for predicting how exogenous factors will affect endogenous variables.

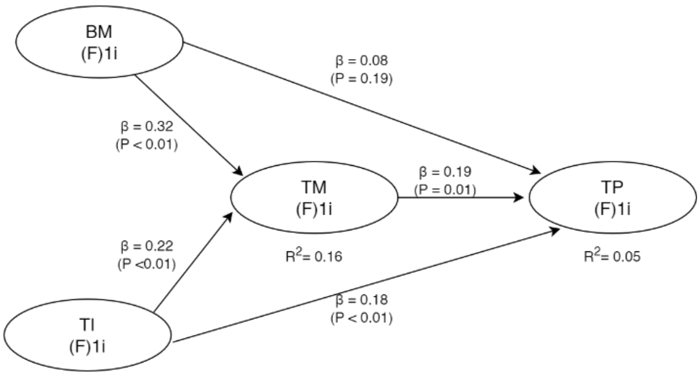

Figure 1. SEM Analysis Model Results
Source: data processed by the author, 2024

Table 5. Summary of Hypotheses

Hypothesis		Criteria	Sign	Summary
H1 :	Bonus Mechanism Significantly effects Transfer Pricing	<0.05	0.189	Rejected
H2 :	Tunneling Incentive Significantly effects Transfer Pricing	<0.05	0.014	Accepted
H3 :	Bonus Mechanism Significantly effects Tax Minimisation	<0.05	<0.001	Accepted
H4 :	Tunneling Incentive Significantly effects Tax Minimisation	<0.05	0.004	Accepted
H5 :	Tax Minimisation Significantly effects Transfer Pricing	<0.05	0.132	Rejected
H6 :	Tax Minimisation Mediates Bonus Mechanism on Transfer pricing	<0.05	0.307	Rejected
H7 :	Tax Minimisation Mediates Tunneling Incentive on Transfer pricing	<0.05	0.364	Rejected

Source: data processed by the author, 2024

A. The Effect of Bonus Mechanism on Transfer Pricing

The figure of analysis result and hypothesis summary presented in Table 5 states that, this study shows no significant effect of bonus mechanism on transfer pricing in line with (Andayani & Sulistyawati, 2020; Harahap & Delfina, 2021; Jannah et al., 2022) research. This is because the compensation obtained by the management as agents is not comparable to the risk that will be obtained in the long run, so it does not encourage them to aggressively perform transfer pricing using this bonus mechanism.

In this situation, managers as agents feel that the legal and reputational risks associated with transfer pricing manipulation are too high compared to the potential benefits obtained through bonuses. Agency theory emphasises the importance of balance between incentives and control to achieve alignment between the interests of agents and principals in all aspects of company operations.

Considering the agency theory, while the bonus mechanism has no significant effect on transfer pricing, it shows that the evaluation and adjustment of incentive design and internal control are carried out in this case (Hafifah & Chaidir, 2023). Principals ensure that the incentives provided to agents are designed by considering all desirable aspects, including the risks and complexities associated with transfer pricing. In addition, an effective control system should be maintained to reduce moral hazard and ensure agents act in accordance with the interests of the principal.

B. The Effect of Tunneling Incentive on Transfer Pricing

Based on the figure analysis results and the hypothesis summary presented in Table 5, it reveals that there is a significant relationship of tunneling incentive to transfer pricing which is also explained in (Adha & Widajantie, 2023; Albani & Gunawan, 2023; Khoirunisa & Wahyudin, 2022). Majority shareholders are motivated to engage in aggressive transfer pricing by moving wealth to countries with lower taxes or less regulation. From an agency theory perspective, there is a potential agent conflict here. Controlling shareholders, as principals, delegate authority to managers, as agents, to manage the company and exclude minority shareholders.

In addressing the tunnelling problem, agency theory emphasises the importance of strong oversight mechanisms. These include independent audits, strict regulations on transfer pricing, and greater transparency in financial reporting (Dahlan, 2022). These mechanisms can suppress the aggressiveness of agents who attempt tunnelling. Transfer pricing practices influenced by tunnelling incentives can be addressed by a combination of strict regulatory policies, strong internal controls, transparency, and shareholder involvement.

C. The Effect of Bonus Mechanism on Tax Minimisation

According to the figure analysed and the hypotheses summarised in Table 5, it is explained that the bonus mechanism has a significant effect on tax minimisation. In this case, management has a strong motivation to minimise taxes because the pressure to maximise firm value is very high and has an impact on the bonuses they get. Management will be more aggressive in finding loopholes to optimise the tax burden borne by the company by utilising tax incentives, tax deductions, and shifting income to jurisdictions with lower taxes (Drake et al., 2020; Hepfer et al., 2019). In terms of agency theory, this has the potential to create risk and prolonged and divergent interests of the principal and agent.

Bonus schemes based on the company's net profit after tax expense are designed to minimise taxes and make management more aggressive in committing offences. Too aggressive tax planning creates legal risks (tax disputes) and affects the company's reputation (Danylkiv et al., 2022). This bonus scheme needs supervision so that the optimisation of the tax burden remains in line with the rules and does not pose a long-term risk to the company. So the relationship between the bonus mechanism and tax minimisation shows how well-designed incentives can align the interests of managers with the interests of owners.

D. The Effect of Tunnelling Incentive on Tax Minimisation

From the figure of analysis results and hypothesis summary listed in Table 5, it is conveyed that tunnelling incentive has a significant influence on minimisation. Tunnelling incentive becomes a tool to motivate majority shareholders to extract corporate profits for their personal interests (Chen & Li, 2023; Tarmidi et al., 2023). Judging from agency theory, this results in agency conflicts where minority shareholders get asymmetric information about this matter that should be transparent. Controlling shareholders, as principals, delegate authority to managers, as agents, to manage the company.

Management, together with the majority shareholders, has more information and control over tax strategies and intercompany transactions. Minority shareholders here do not have access to detailed information on how these strategies affect the overall value of the firm (Cumming et al., 2021). Agency theory emphasises the importance of reducing conflicts of interest and information asymmetry through effective oversight, transparency and balanced incentive design. Thus, strict regulations, strong oversight mechanisms, and active involvement of minority shareholders are essential to ensure that tax minimisation strategies are carried out in a manner that is compliant with applicable regulations and does not harm the company in the long run.

E. The Effect of Tax Minimisation on Transfer Pricing

Based on the figure of analysis result and the summary of hypothesis listed in table 5, this research states that tax minimisation has a significant effect on transfer pricing, in line with findings from his research of (Riyadi & Kresnawati, 2021). Complex and highly regulated, transfer pricing is not necessarily the primary strategy for tax minimisation. Non-compliance with transfer pricing rules can result in significant sanctions, such as fines, additional taxes, and even criminal charges. Considering the long-term risk that the company will get in committing this transfer pricing violation (Desalegn et al., 2022). Unfair transfer pricing can be categorised as tax avoidance and may be sanctioned by the tax authorities. Profit shifting is a strategy used by natural resource companies in Indonesia to optimise their tax burden (Setiawan, 2024; Wigiana et al., 2024). This is done by utilising subsidiaries or affiliated companies in countries with lower tax rates than Indonesia. However, aggressive transfer pricing practices will result in long-term risks for the company. Companies in the natural resources sector in Indonesia are particularly vulnerable to this because the value of their products is very high.

In this transfer pricing practice, according to agency theory, it will lead to agency conflict where the management will focus on increasing the value of the company with tax minimisation for the benefits they get. While the priciple focuses on the utilisation of tax minimisation startegies for the interests of the company's sustainability. Although transfer pricing benefits the company as a whole, management is encouraged to take risks by using strategies that are too aggressive and even violate tax regulations, which can lead to fines and sanctions for the company (Lange, 2020). This creates moral hazard where agents act in their self-interest to the detriment of the firm in the long run.

F. The Effect of Tax Minimization mediates the Bonus Mechanism with Transfer Pricing

Analysis results listed in SEM Model and hypothesis summary presented in table 5, it is found that tax minimisation cannot mediate the effect of bonus mechanism on transfer pricing. Although bonus mechanism may encourage managers to manipulate transfer pricing, this effect cannot be fully explained by their desire to minimise corporate tax. Basically, the bonus mechanism focuses on direct performance indicators such as net profit or achievement of sales targets, without specifically linking the incentive to the reduction of tax burden through transfer pricing. Transfer pricing regulations in accordance with the arm's length principle limit the ability of managers to use transfer pricing aggressively for tax minimisation (Dayaningrum et al., 2021; Mpofu & Wealth, 2022; Natalin & Apollo, 2023).

Agency theory emphasises the importance of proper incentive design to align the interests of agents (managers) with those of principals (owners/shareholders). Bonus schemes that are not designed to consider transfer pricing strategies will not mediate tax minimisation. Incentives that focus on long-term performance and corporate sustainability are more effective in aligning the interests of managers with owners, compared to short-term incentives that may encourage opportunistic behaviour (Ivascu et al., 2022).

G. The Effect of Tax Minimization mediates the Tunneling Incentive with Transfer Pricing

In the analysis results in the SEM Model figure and hypothesis summary table 5, it is explained that tax minimisation cannot mediate the effect of tunneling incentive on transfer pricing. Although tunneling incentive may encourage controlling shareholders to manipulate transfer pricing, this effect cannot be fully explained by their desire to minimise corporate tax (Putri & Evana, 2024). This happens because the incentive derived from tunnelling is more dominant than the objective to reduce tax burden (Ariyani & Yasa, 2023; Nausika et al., 2023). The act of tunnelling can be done even though it does not significantly reduce the tax burden. Majority shareholders are more motivated by the personal benefits gained through tunnelling than the tax benefits to the company.

Agency theory responds to this by considering how incentives, monitoring and information asymmetry affect the behaviour of managers and majority shareholders. The risk associated with tax disputes drives regulation and oversight to ensure that tax minimisation strategies are ethical and legitimate, which is contrary to the purpose of tunnelling (Adam, 2021). In this regard, independent internal and external audits help detect and prevent tunnelling practices by checking compliance with transfer pricing rules and tax policies.

V. CONCLUSIONS

Based on the result of this study, it is concluded that bonus mechanism has no significant influence on transfer pricing. This is because the bonus incentive received by the management is not worth the legal and reputational risks obtained by transfer pricing manipulation. Managers tend to avoid this high risk despite the potential benefits of bonus incentives. There is a significant relationship between tunnelling incentive and transfer pricing. Majority shareholders are motivated to engage in aggressive transfer pricing to move wealth to lower tax countries. Bonus mechanism has a significant influence on tax minimisation. Management is motivated to optimise the corporate tax burden to maximise the bonus they earn. Tunneling incentive has a significant influence on tax minimisation. Majority shareholders are motivated to extract corporate profits for their personal interests through tax minimisation strategies. Tax Minimisation Has No Significant Affect Transfer Pricing. Transfer pricing, which is intricate and heavily regulated, is not always the main approach for reducing taxes. Tax minimisation cannot mediate the relationship between bonus mechanism and transfer pricing. Bonus mechanism does not specifically encourage managers to use transfer pricing as a tool for tax minimisation. Tax minimisation cannot mediate the relationship between tunnelling incentive and transfer pricing. The incentive to do tunnelling is more dominant than the objective to reduce tax burden.

The practical implication of this study is that aggressive transfer pricing practices must be balanced with compliance with tax regulations to avoid long-term risks such as fines and sanctions. This encourages companies to evaluate and adjust the design of incentives and internal controls. Incentives should be designed by considering all risks associated with transfer pricing and ensuring a balance between incentives and controls. Strict regulations with internal audit oversight as well as independent external auditors are necessary to detect and prevent harmful tunnelling practices.

The shortcomings of this study relate to the inability to extrapolate the findings to companies outside the natural resources sector on the IDX. In addition, the statistical analysis yielded small values of 4% and 19% for Adjusted R Square, indicating that this study only considered four factors. Future research is expected to consider including more factors and indicators related to transfer pricing and increase the sample size and criteria. This will allow for a wider range of findings that can more accurately describe the effect of transfer pricing.

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