

The Effect Of Corporate Tax, Leverage, And Tunneling Incentive On Transfer Pricing

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ABSTRACT: Transfer pricing has become an important issue in corporate transactions because related-party transactions may create opportunities for companies to determine prices that differ from market-based conditions, potentially affecting the fairness of tax obligations and financial reporting. This issue is particularly relevant for manufacturing companies listed on the Indonesia Sharia Stock Index (ISSI), where corporate tax, leverage, and foreign ownership may influence transfer pricing practices. Therefore, this study aims to examine the relationship between corporate tax, leverage, foreign ownership, and transfer pricing among manufacturing companies listed on ISSI during 2020–2024. This study employs a quantitative explanatory research design using panel data regression. Secondary data were obtained from the annual financial statements of companies that met the sampling criteria. The population consisted of 72 manufacturing companies listed on ISSI during 2020–2024, from which 9 companies were selected through purposive sampling, resulting in 45 firm-year observations. The results indicate that corporate tax is not statistically significant in explaining transfer pricing, with a coefficient of 0.009858 and a probability value of 0.3349. Leverage has a positive and statistically significant relationship with transfer pricing, with a coefficient of 0.259339 and $p < 0.001$. Foreign ownership also has a positive and statistically significant relationship with transfer pricing, with a coefficient of 0.364803 and a probability value of 0.0002. Jointly, corporate tax, leverage, and foreign ownership are statistically significant in explaining transfer pricing, with an F-statistic of 22.09181 and $p < 0.001$. The adjusted R-squared of 0.589841 indicates that the model explains 58.98% of the variation in the transfer pricing proxy.

Keywords: Transfer Pricing; Corporate Tax; Leverage; Foreign Ownership; Manufacturing Companies

Code JEL : H25; G32; F23; M41

INTRODUCTION

Taxes constitute an important source of state revenue and contribute to financing national development. One issue related to corporate taxation is the existence of transactions between companies and related parties. Transfer pricing refers to the determination of prices in transactions influenced by special relationships. Therefore, transfer pricing itself is not necessarily an indication of tax avoidance or manipulation. Nevertheless, related-party transactions require appropriate attention because differences in transaction prices may affect the allocation of income and expenses among related entities.

The Indonesian government has strengthened the regulatory framework concerning transfer pricing through Minister of Finance Regulation No. 172 of 2023 concerning the implementation of the arm's length principle in transactions influenced by special relationships. The regulation requires taxpayers to apply the arm's length principle in determining transfer prices and provides provisions concerning transfer pricing documentation and the determination of reasonable transfer prices [1]. This regulatory development demonstrates the importance of examining related-party transactions and their determinants within Indonesian companies.

This issue is relevant to manufacturing companies because the sector has business activities that may involve transactions with related parties. It is also relevant in the context of companies listed on the Indonesia Sharia Stock Index (ISSI). Companies included in the sharia capital market operate within an investment environment that emphasizes compliance with applicable principles and governance. Consequently, examining related-party transactions in ISSI manufacturing companies provides a specific context for understanding the relationship between corporate characteristics and transfer pricing.



Figure 1. Corporate Income Tax Revenue in Indonesia, 2020–2024

Source: <https://www.kemenkeu.go.id/apbnkita>

Figure 1 illustrates the development of corporate income tax revenue in Indonesia during 2020–2024. The movement in corporate income tax revenue reflects changes in the contribution of companies to state revenue and highlights the importance of corporate taxation within Indonesia's fiscal system. This phenomenon is relevant to transfer pricing because transactions between related parties can affect the allocation of income and expenses among entities within the same corporate group, which may consequently influence the amount of taxable income reported by each entity. Therefore, differences in corporate tax burdens may be associated with companies' decisions concerning related-party transactions and transfer pricing practices.

The phenomenon becomes particularly relevant in the context of companies listed on the Indonesia Sharia Stock Index (ISSI). Although ISSI-listed companies operate within the framework of the sharia capital market, their business activities remain subject to Indonesian taxation and transfer pricing regulations. Thus, the existence of sharia-based investment principles does not eliminate the relevance of tax considerations in corporate transactions. Instead, it provides a specific institutional context for examining whether corporate tax, together with other corporate characteristics, is associated with transfer pricing practices.

Accordingly, the trend presented in Figure 1 provides a broader fiscal context for this study. It does not directly demonstrate the occurrence of transfer pricing, but it highlights the

importance of examining how corporate tax considerations may be related to transfer pricing among manufacturing companies listed on ISSI during 2020–2024.

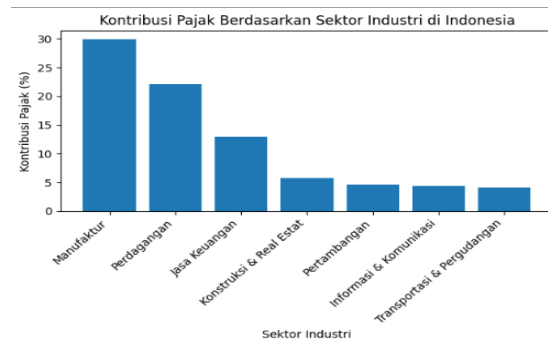


Figure 2. Tax Contribution by Industrial Sector in Indonesia
Source: <https://www.kemenkeu.go.id/apbnkita>

Figure 2 shows the contribution of different industrial sectors to tax revenue in Indonesia and provides a basis for identifying the position of the manufacturing sector within the national tax system. The contribution of manufacturing is relevant to this study because manufacturing companies commonly operate through complex production, distribution, and corporate structures that may involve transactions with related parties. Such transactions create a relevant setting for examining transfer pricing, particularly when differences in tax burdens, financing structures, and ownership arrangements exist across companies.

In the context of ISSI, the manufacturing sector provides a specific setting for examining transfer pricing within companies that are included in the sharia capital market. The sharia status of these companies represents an additional institutional context, while taxation and transfer pricing remain governed by Indonesian laws and regulations. Therefore, the sectoral tax contribution shown in Figure 2 strengthens the rationale for investigating whether corporate tax, leverage, and foreign ownership are associated with transfer pricing among manufacturing companies listed on ISSI.

1.THE LITERATURE REVIEW

Agency Theory

Agency theory is used in this study because it provides a relevant theoretical framework for explaining the relationship between ownership, managerial decision-making, and transfer pricing. The theory explains the potential conflict of interest between principals and agents resulting from differences in interests and information asymmetry. Jensen and Meckling explain that differences between owners and managers may create agency costs and provide opportunities for opportunistic behavior [2].

In the context of transfer pricing, agency theory is relevant because information asymmetry and differences in interests may influence how managers make decisions concerning related-party transactions. Managers generally have greater access to internal information and greater authority over operational and financial decisions than shareholders. This condition may create differences in objectives between management and shareholders, particularly when corporate decisions affect tax burdens, financing arrangements, and ownership interests. Transfer pricing is one form of related-party transaction whose economic consequences depend on the characteristics and terms

of the transaction. However, transfer pricing should not automatically be interpreted as abusive behavior because related-party transactions are permitted provided that they comply with the applicable arm's length principle [1].

The use of agency theory in this study is therefore related to the three independent variables examined. Corporate tax represents the company's tax burden and may be relevant to managerial decisions concerning the allocation of income and expenses. Leverage reflects the company's financing structure and the relationship between managers, shareholders, and creditors in corporate decision-making. Foreign ownership represents an ownership characteristic that may influence monitoring mechanisms, managerial control, and the decision-making environment of the company. These characteristics provide a theoretical basis for examining their relationship with transfer pricing within manufacturing companies listed on the Indonesia Sharia Stock Index (ISSI).

Thus, agency theory serves as the theoretical foundation for understanding why differences in corporate tax, leverage, and foreign ownership may be associated with transfer pricing practices. The theory does not assume that transfer pricing is inherently abusive; rather, it provides a framework for examining how differences in interests, information asymmetry, ownership structure, and managerial decision-making may be related to the use of related-party transactions within the applicable regulatory framework [1][2].

Corporate Tax and Transfer Pricing

Corporate tax represents the tax burden associated with corporate income. Tax considerations may become part of corporate financial planning because taxes affect the amount of income available to the company. Related-party transactions may affect the allocation of income and expenses between entities.

However, the existence of a tax burden does not automatically indicate that a company engages in abusive transfer pricing. Under PMK No. 172 of 2023, taxpayers conducting transactions influenced by special relationships are required to apply the arm's length principle [1]. Therefore, the relationship between corporate tax and transfer pricing should be examined empirically.

Previous studies have produced different findings concerning tax and transfer pricing. Anggah and Yulianti examined tax and other factors in relation to transfer pricing [3], while Tarmidi and Novitasari examined the relationship between tax burden, tunneling incentive, profitability, and transfer pricing [4]. The differences in findings provide a basis for further examination in the ISSI manufacturing context.

H1: Corporate tax has a significant relationship with transfer pricing.

Leverage and Transfer Pricing

Leverage reflects the extent to which a company uses debt in its financing structure. The Debt to Equity Ratio (DER) compares total debt with total equity and indicates the relative level of debt financing [5].

Debt financing may provide financial benefits through the use of external funds, but it also creates obligations that must be fulfilled by the company. From an agency perspective, debt may influence managerial decision-making because creditors have interests in the company's financial condition.

Previous research has reported a positive relationship between leverage and transfer pricing [6], [7]. Based on these theoretical and empirical considerations, the following hypothesis is formulated:

H2: Leverage has a positive and significant relationship with transfer pricing.

Foreign Ownership and Transfer Pricing

Foreign ownership represents the proportion of shares owned by foreign shareholders. Foreign ownership should be distinguished from tunneling incentive. Foreign ownership does not automatically demonstrate the existence of a controlling shareholder or tunneling behavior. Foreign shareholders may have different international business relationships and ownership characteristics that may be associated with related-party transactions. Therefore, foreign ownership is examined in this study as an ownership variable rather than being interpreted directly as evidence of tunneling.

Fidiantoro et al. examined foreign ownership and transfer pricing and provided empirical evidence concerning the relationship between ownership characteristics and transfer pricing [8]. Based on this consideration, the following hypothesis is proposed:

H3: Foreign ownership has a positive and significant relationship with transfer pricing.

Corporate Tax, Leverage, Foreign Ownership, and Transfer Pricing

Transfer pricing may be associated with several corporate characteristics simultaneously. Corporate tax represents the company's tax burden, leverage represents its financing structure, and foreign ownership represents its ownership structure.

The combination of these characteristics provides a basis for examining whether the three variables jointly explain differences in transfer pricing among the sampled companies.

H4: Corporate tax, leverage, and foreign ownership jointly have a significant relationship with transfer pricing.

Research Framework

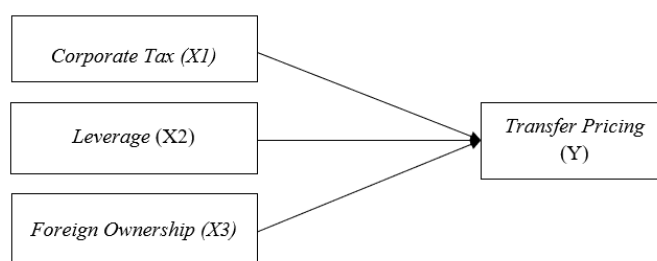


Figure 3. Research Framework

2.METHODS

Research Design

This study employs a quantitative explanatory research design using panel data regression. The explanatory design is appropriate because the study aims to examine the statistical relationship between corporate tax, leverage, foreign ownership, and transfer pricing. Panel data are used because the study observes multiple manufacturing companies across several years, allowing the analysis to consider both differences between companies and changes over the 2020–2024 period.

Population and Sample

The population consists of 72 manufacturing companies listed on the Indonesia Sharia Stock Index (ISSI) during the 2020–2024 period. The manufacturing sector was selected because manufacturing companies have substantial business activities and may engage in transactions with related parties, making the sector relevant for examining transfer pricing. Furthermore, focusing on companies listed on ISSI provides a specific context for examining transfer pricing within companies operating in the sharia capital market while remaining subject to Indonesian tax and transfer pricing regulations.

The 2020–2024 period was selected because it provides five consecutive years of observations and captures a period in which the regulatory framework for transfer pricing in Indonesia developed, including the issuance of PMK No. 172 of 2023. This period therefore provides relevant observations for examining the relationship between corporate tax, leverage, foreign ownership, and transfer pricing.

The sample was determined using purposive sampling based on predetermined criteria [9], [10]. This technique was selected because not all companies in the population provide the complete and consistent financial and ownership information required to measure all research variables throughout the observation period. The sample-selection criteria were applied to ensure that the selected companies had relevant annual financial reports, consistent data for corporate tax, leverage, foreign ownership, and transfer pricing, and continuous listing during the observation period. Based on these criteria, 9 companies met the sample-selection requirements, resulting in 45 firm-year observations. The selected sample therefore represents companies that provide the data necessary to conduct a consistent panel data analysis in accordance with the objectives of the study

Table 1. Purposive Sampling Process

Sampling Stage	Number
Manufacturing companies listed on ISSI	72
Final companies meeting the available sampling criteria	9
Observation period	5 years
Total firm-year observations	45

Data Source and Data Collection Technique

The study uses secondary data obtained from the annual reports and financial statements of the sampled manufacturing companies listed on the Indonesia Sharia Stock Index (ISSI). The data cover the 2020–2024 observation period. Data collection was conducted through documentation by collecting, reviewing, and recording relevant financial and ownership information from the annual reports and financial statements of the sampled companies. The collected data were used to measure corporate tax, leverage, foreign ownership, and transfer pricing in accordance with the operational definitions of the research variables.

The data collection process involved identifying the companies included in the research population, selecting the companies that met the predetermined sample-selection requirements, and extracting the required data from their annual reports and financial statements for each observation year. The resulting data were organized into a panel dataset consisting of 45 firm-year observations. The data were subsequently processed and analyzed using EViews version 13.

The manuscript data provided an initial population of 72 companies and a final sample of 9 companies. Therefore, no additional exclusion numbers or unsupported screening conditions were introduced beyond the available research data.

Operational Definition of Variables

Table 2. Operational Definition and Measurement of Variables

Variable	Conceptual Definition	Operational Definition	Formula/Measurement	Scale
Corporate Tax (X1)	Corporate tax represents the company's tax burden associated with corporate income.	The variable is represented by the corporate tax measure used in the original dataset.	The reported X1 values range from 18.02854 to 27.93677.	Ratio
Leverage (X2)	Leverage represents the use of debt in the company's financing structure.	Leverage is measured using DER.	$DER = \text{Total Debt} / \text{Total Equity}$	Ratio
Foreign Ownership (X3)	Foreign ownership represents the proportion of shares owned by foreign shareholders.	Foreign ownership is measured by comparing foreign-owned shares with total outstanding shares.	$\text{Foreign Ownership} = \text{Total Foreign Ownership} / \text{Total Outstanding Shares}$	Ratio
Transfer Pricing (Y)	Transfer pricing refers to price determination in transactions influenced by related-party relationships.	The study uses related-party receivables as a proxy for related-party transaction intensity.	$\text{Related-Party Receivables} / \text{Total Receivables} \times 100\%$	Ratio

The corporate tax measure requires consistency between the formula and the underlying dataset. The original manuscript described X1 as corporate income tax payable, but the reported values of X1 are presented on a rate-like scale. Therefore, the nominal tax-payable formula is not repeated here without verification of the original raw data.

Likewise, the X3 measurement is foreign ownership. Because foreign ownership is not identical to controlling shareholder ownership, this study does not claim that the X3 measurement directly establishes tunneling behavior.

The transfer pricing variable is also interpreted carefully. Related-party receivables measure the intensity of receivables involving related parties and should therefore be interpreted as a proxy for related-party transaction intensity, rather than direct proof of abusive transfer pricing or profit shifting.

Panel Data Regression Model

Panel data combine the cross-sectional and time-series dimensions, allowing the same companies to be observed across several periods [11], [12].

The regression model is:

$$Y_{it} = \alpha + \beta_1 X1_{it} + \beta_2 X2_{it} + \beta_3 X3_{it} + \varepsilon_{it}$$

where:

Y_{it} = transfer pricing proxy;

α = constant;

$\beta_1, \beta_2, \beta_3$ = regression coefficients;

$X1$ = corporate tax;

$X2$ = leverage;

$X3$ = foreign ownership;

i = company;

t = year; and

ε = error term.

Three panel-data models were considered: Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). Model selection was conducted through the Chow, Hausman, and Lagrange Multiplier tests.

The analysis was conducted using EViews version 13.

3.RESULT AND DISCUSSION

Table 3. Descriptive Statistical Analysis

	Y	X1	X2	X3
Mean	0.191468	24.57253	0.692356	0.434658
Median	0.031505	25.25001	0.540499	0.343718
Maximum	1.696990	27.93677	3.127471	0.933684
Minimum	0.000366	18.02854	0.071989	0.021676
Std. Dev.	0.292638	2.410536	0.526243	0.262213
Observations	45	45	45	45

Source: EViews 13, processed in 2026.

Table 3 presents the descriptive statistics for 45 firm-year observations covering the transfer pricing proxy (Y), corporate tax (X1), leverage (X2), and foreign ownership (X3). The descriptive statistics provide an overview of the central tendency and variability of each research variable based on the mean, median, maximum, minimum, and standard deviation values.

The transfer pricing proxy has a mean of 0.191468, with a minimum value of 0.000366 and a maximum value of 1.696990. The standard deviation is 0.292638, which is higher than the mean, indicating that the transfer pricing values show relatively substantial variation across the observed firm-year data. This suggests that the level of the transfer pricing proxy differs considerably among the sampled companies and observation years.

Corporate tax has a mean of 24.57253, with values ranging from 18.02854 to 27.93677. The standard deviation of 2.410536 indicates that corporate tax values vary around the mean by approximately 2.41 units. Compared with the mean, the standard deviation is relatively smaller, indicating that corporate tax values are comparatively more concentrated around the average value than the transfer pricing proxy.

Leverage has a mean of 0.692356, with a minimum value of 0.071989 and a maximum value of 3.127471. Its standard deviation of 0.526243 indicates a moderate degree of variation

in leverage among the sampled companies. The difference between the minimum and maximum values also indicates that companies in the sample have different levels of reliance on debt financing.

Foreign ownership has a mean of 0.434658, with a minimum value of 0.021676 and a maximum value of 0.933684. The standard deviation of 0.262213 indicates that foreign ownership varies substantially across the observations. The range between the minimum and maximum values shows that the proportion of foreign ownership differs considerably among the sampled manufacturing companies.

Overall, the standard deviation values indicate different levels of data dispersion across the four variables. A larger standard deviation relative to the mean indicates greater variation among observations, whereas a smaller standard deviation relative to the mean indicates that observations are more concentrated around the average. These descriptive statistics provide an initial overview of the characteristics and variability of the data before conducting further panel regression analysis.

Model Selection

Table 4. Chow Test

<i>b. Effects</i>	Statistic	d.f	Prob.
<i>Cross-section F</i>	2.612819	(8,33)	0.0247
<i>Cross-section Chi-square</i>	22.080161	8	0.0048

Source: EViews 13, processed in 2026.

The Chow test is used to determine whether the Common Effect Model (CEM) or Fixed Effect Model (FEM) is more appropriate. As shown in Table 4, the Cross-section F statistic is 2.612819 with 8 degrees of freedom in the numerator and 33 degrees of freedom in the denominator. The corresponding probability value is 0.0247, which is below the 5% significance level (0.05). This result indicates that the null hypothesis of no cross-sectional effects is rejected. Therefore, FEM is preferred to CEM at this stage, suggesting that differences among individual companies are relevant to the model and should initially be considered in the estimation.

The Cross-section Chi-square statistic is 22.080161 with 8 degrees of freedom and a probability value of 0.0048. This probability value is also below 0.05 and provides additional evidence that cross-sectional effects exist. Thus, the Chow test indicates that the individual characteristics of the sampled companies should not be ignored when comparing CEM and FEM.

Table 5. Hausman Test

<i>d. Test Summary</i>	Chi-sq. Statistic	d.f	Prob.
<i>Cross-section Random</i>	4.348127	3	0.2262

Source: EViews 13, processed in 2026.

The Hausman test is used to determine whether FEM or the Random Effect Model (REM) is more appropriate. The test produces a Chi-square statistic of 4.348127 with 3 degrees of freedom and a probability value of 0.2262. Since 0.2262 is greater than 0.05, the null hypothesis is not rejected. This result indicates that there is insufficient statistical evidence of a systematic difference between the FEM and REM coefficient estimates. Therefore, REM is preferred to FEM.

This result changes the initial conclusion from the Chow test. Although the Chow test indicates that FEM is preferable to CEM, the Hausman test indicates that REM is more appropriate than FEM. Therefore, the selection process must be continued by comparing REM with CEM using the LM test.

Table 6. Lagrange Multiplier (LM) Test

	Cross-section	Test Hypothesis Time	Both
Breusch-Pagan	1.597168 (0.2063)	0.327549 (0.5671)	1.924717 (0.1653)

Source: EVIEWS 13, processed in 2026.

The LM test is used to determine whether REM provides a better specification than CEM. The Breusch-Pagan cross-section statistic is 1.597168 with a probability value of 0.2063. Because 0.2063 is greater than 0.05, the null hypothesis is not rejected, indicating that there is insufficient evidence of significant cross-sectional random effects. The time probability is 0.5671, while the probability for both cross-section and time effects is 0.1653; both values are also above 0.05.

These results indicate that the random effects specification does not provide sufficient evidence of improvement over the common effect specification. Therefore, CEM is selected as the final estimation model. Overall, the sequence of model-selection tests leads to CEM as the final model. Although the Chow test initially favors FEM over CEM, the Hausman test favors REM over FEM, while the LM test does not provide sufficient evidence to favor REM over CEM. Consequently, the regression analysis of the relationship between corporate tax, leverage, foreign ownership, and transfer pricing is conducted using the CEM specification. This model-selection process ensures that the subsequent coefficient estimates and significance tests are based on the panel-data specification supported by the statistical testing results.

Table 7. Results of Model Equation Estimation Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.398646	0.280762	-1.419871	0.1632
X1	0.009858	0.010104	0.975720	0.3349
X2	0.259339	0.045743	5.669508	0.0000
X3	0.364803	0.087553	4.166656	0.0002
Weighted Statistics				
R-squared	0.617806	Mean dependent var		0.298109
Adjusted R-squared	0.589841	S.D. dependent var		0.324292
S.E. of regression	0.249356	Sum squared resid		2.549310
F-statistic	22.09181	Durbin-Watson stat		0.625340
Prob(F-statistic)	0.000000			

Source: EVIEWS 13, processed in 2026.

The estimated regression equation is:

$$Y = -0.398646 + 0.009858X_1 + 0.259339X_2 + 0.364803X_3$$

The corporate tax coefficient is 0.009858, the leverage coefficient is 0.259339, and the foreign ownership coefficient is 0.364803.

Classical Assumption Test

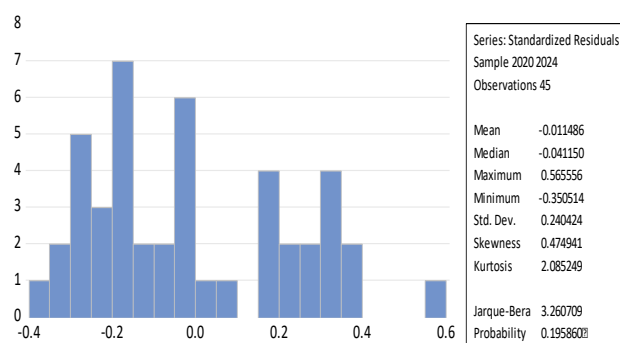


Figure 3. Normality Test
Source: EViews 13, processed in 2026

Based on the normality test output, the Jarque-Bera probability value is above 0.05. Thus, the residual distribution does not provide evidence against the normality assumption. Normality is not treated as the sole basis for determining the validity of the regression model.

Table 8. Multicollinearity Test

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
X1	0.000530	205.3270	1.914019
X2	0.007261	3.460159	1.249022
X3	0.050647	8.241728	2.163039

Source: EViews 13, processed in 2026

The centered VIF values for X1, X2, and X3 are 1.914019, 1.249022, and 2.163039, respectively. All values are below 10. Therefore, the model does not indicate problematic multicollinearity.

Table 9. Heteroscedasticity Test Using the Glejser Test

F-statistic	1.128870	Prob. F(3,41)	0.3486
Obs*R-squared	3.433409	Prob. Chi-Square(3)	0.3295
Scaled explained SS	5.497594	Prob. Chi-Square(3)	0.1388

Source: EViews 13, processed in 2026.

The probability value of Obs*R-squared is 0.3295, which is greater than 0.05. Therefore, the test does not provide evidence of heteroscedasticity based on the procedure applied.

Table 10. Autocorrelation Test

F-statistic	0.046501	Prob. F(2,38)	0.9546
Obs*R-squared	0.107054	Prob. Chi-Square(2)	0.9479

Source: EViews 13, processed in 2026.

The Breusch-Godfrey test produces probability values of 0.9546 and 0.9479, both greater than 0.05. Therefore, the test does not provide evidence of autocorrelation. However, the Durbin-Watson statistic in the regression output is 0.625340. Because this value is relatively low, it is not appropriate to use the Durbin-Watson statistic alone to conclude that autocorrelation is absent. The conclusion in this study is therefore based on the Breusch-Godfrey test.

Hypothesis Testing

Table 11. Partial Significance Test (t-Test)

Variabel	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.398646	0.280762	-1.419871	0.1632
X1	0.009858	0.010104	0.975720	0.3349
X2	0.259339	0.045743	5.669508	0.0000
X3	0.364803	0.087553	4.166656	0.0002

Source: EViews 13, processed in 2026.

Corporate tax has a coefficient of 0.009858 and a probability value of 0.3349. Because the probability value is greater than 0.05, corporate tax is not statistically significant in explaining the transfer pricing proxy. Therefore, H1 is not supported.

Leverage has a coefficient of 0.259339 and a probability value below 0.001. The positive coefficient indicates a positive relationship between leverage and the transfer pricing proxy. Therefore, H2 is supported.

Foreign ownership has a coefficient of 0.364803 and a probability value of 0.0002. The positive coefficient indicates a positive relationship between foreign ownership and the transfer pricing proxy. Therefore, H3 is supported.

Table 12. F-Test

F-statistik	22,09181
Prob.(F.statistik)	0,000000

Source: EViews 13, processed in 2026.

The F-statistic is 22.09181 with a probability value below 0.001. Because the probability value is below 0.05, the regression model is statistically significant as a whole. Therefore, H4 is supported.

The F-test indicates that corporate tax, leverage, and foreign ownership jointly provide statistically significant explanatory information concerning variation in the transfer pricing proxy. The F-test does not indicate that every independent variable is individually significant or that the combined effect has a particular direction.

Table 13. Coefficient of Determination Test

R-squared	0,617806
Adjusted R-squared	0,589841

Source: EViews 13, processed in 2026.

The adjusted R-squared is 0.589841. This indicates that 58.98% of the variation in the transfer pricing proxy is explained by corporate tax, leverage, and foreign ownership in the model. The remaining 41.02% is associated with factors outside the model.

The adjusted R-squared should be interpreted as the explanatory power of the model rather than as evidence that the independent variables causally produce 58.98% of the dependent variable.

4. DISCUSSION

Corporate Tax and Transfer Pricing

The results show that corporate tax has a coefficient of 0.009858 with a probability value of 0.3349. Since the probability value is greater than 0.05, corporate tax is not statistically significant

in explaining the transfer pricing proxy.

This finding indicates that differences in the corporate tax measure used in this study were not statistically associated with differences in the transfer pricing proxy among the sampled manufacturing companies during 2020–2024. The finding should not be generalized to all companies or interpreted as evidence that tax considerations are irrelevant to transfer pricing.

From the perspective of Agency Theory, the insignificant result suggests that differences in corporate tax burden alone may not be sufficient to explain managerial decisions concerning related-party transactions. Agency Theory emphasizes potential conflicts of interest and information asymmetry between principals and agents [2]. However, in the observed companies, managerial decisions concerning transfer pricing may involve considerations beyond corporate tax, including financing arrangements, ownership structures, operational relationships, and regulatory compliance. Thus, the finding provides a more nuanced view of the observed transfer pricing phenomenon by indicating that tax burden is not necessarily the dominant factor within the specific sample and period examined.

The result is consistent with previous findings that reported an insignificant relationship between tax and transfer pricing [3], [4]. One possible explanation is that related-party transactions are influenced by various corporate considerations rather than tax burden alone. Furthermore, Indonesian transfer pricing regulation requires transactions influenced by special relationships to comply with the arm's length principle [1]. This regulatory context may also limit the extent to which tax differences are reflected in transfer pricing decisions.

Therefore, the result of this study suggests that corporate tax was not a statistically significant determinant within the specific sample, measurement, and period examined. The finding contributes to the understanding of transfer pricing among ISSI-listed manufacturing companies by showing that the relationship cannot be explained solely from the perspective of corporate tax considerations.

Leverage and Transfer Pricing

Leverage has a coefficient of 0.259339, a t-statistic of 5.669508, and a probability value below 0.001. The positive and statistically significant coefficient indicates that higher leverage is associated with a higher transfer pricing proxy.

Leverage reflects the use of debt in the company's financing structure. Higher leverage indicates a greater proportion of debt relative to equity. Debt financing creates financial obligations and may affect management's financial decisions.

The finding can be explained through Agency Theory, which recognizes potential conflicts among managers, shareholders, and other stakeholders resulting from differences in interests and information asymmetry [2]. As debt financing increases, the financial relationship between the company and creditors becomes more important because creditors have an interest in the company's ability to meet its financial obligations. In this context, managerial decisions concerning related-party transactions may become relevant to companies with different financing structures.

The positive relationship observed in this study indicates that companies with higher leverage tend to have higher values of the transfer pricing proxy. However, this result should be interpreted as a statistical association rather than evidence that debt directly causes transfer pricing practices. The relationship may reflect the broader financial and organizational conditions associated with highly leveraged companies.

The finding is consistent with studies reporting a positive relationship between leverage and transfer pricing [6], [7]. In relation to the observed phenomenon, the result suggests that financing

structure is an important corporate characteristic to consider when examining transfer pricing among manufacturing companies listed on ISSI. This finding expands the discussion beyond taxation by showing that financial structure may also be associated with variations in related-party transaction intensity.

Foreign Ownership and Transfer Pricing

Foreign ownership has a coefficient of 0.364803, a t-statistic of 4.166656, and a probability value of 0.0002. The result indicates a positive and statistically significant relationship between foreign ownership and the transfer pricing proxy.

A higher proportion of foreign ownership is associated with higher related-party transaction intensity as measured by the study. One possible explanation is that foreign ownership may be associated with international business relationships and corporate structures that involve transactions between related entities. Such organizational structures may create greater opportunities for cross-border or intra-group transactions, which are relevant to the transfer pricing framework.

From the perspective of Agency Theory, ownership structure is relevant because differences in ownership and access to corporate information may influence monitoring and managerial decision-making [2]. Foreign shareholders may have different information, control mechanisms, and business relationships compared with other shareholders. Therefore, the significant relationship observed in this study suggests that ownership characteristics are relevant to understanding variations in the transfer pricing proxy within the sampled companies.

However, the variable used in this study is foreign ownership. It should not be interpreted as direct evidence of tunneling incentive or controlling shareholder behavior. Tunneling incentive generally requires evidence concerning controlling ownership and the potential transfer of company resources for the benefit of controlling parties. Therefore, the finding is limited to the relationship between foreign ownership and the transfer pricing proxy.

This distinction is important because using foreign ownership as a measurement does not provide sufficient evidence to conclude that tunneling occurs. Nevertheless, the significant relationship provides empirical information that ownership structure is an important characteristic to consider when examining transfer pricing among manufacturing companies listed on ISSI.

These findings provide practical and theoretical relevance for understanding transfer pricing in manufacturing companies listed on ISSI. The results suggest that analysis of related-party transactions should consider the company's financing and ownership characteristics in addition to tax considerations. At the same time, the findings reinforce the importance of Agency Theory as a framework for examining how information asymmetry, ownership structure, and managerial decision-making are related to corporate transaction behavior. The study therefore contributes empirical evidence from the specific context of ISSI-listed manufacturing companies during 2020–2024 while maintaining that the observed statistical relationships should not be interpreted as definitive evidence of abusive transfer pricing practices.

5.CONCLUSION

This study examined the relationship between corporate tax, leverage, and foreign ownership and the transfer pricing proxy among manufacturing companies listed on the Indonesia Sharia Stock Index during 2020–2024.

The results show that corporate tax is not statistically significant in explaining the transfer pricing proxy. Leverage has a positive and statistically significant relationship with the transfer pricing proxy. Foreign ownership also has a positive and statistically significant relationship with

the transfer pricing proxy. Jointly, corporate tax, leverage, and foreign ownership significantly explain variation in the transfer pricing proxy.

The findings imply that companies should strengthen the governance, documentation, and compliance of related-party transactions with the applicable arm's length principle. Investors may consider financing and ownership characteristics when assessing corporate risk. Regulators may use information concerning leverage and ownership structure as additional considerations in monitoring related-party transactions.

This study has several limitations. First, the sample consists of only 9 companies and 45 firm-year observations, so the findings should not be generalized to all manufacturing companies in Indonesia. Second, the transfer pricing variable is measured using related-party receivables as a proxy for related-party transaction intensity and does not directly establish abusive transfer pricing or profit shifting. Third, the X3 variable is measured using foreign ownership and therefore does not directly measure controlling shareholder ownership or tunneling incentive. Fourth, the model includes three independent variables, while other factors may also be associated with transfer pricing.

Future research may use a larger sample and longer observation period and consider stronger measures of controlling ownership and transfer pricing intensity. Future studies may also consider corporate governance, profitability, firm size, multinationality, and tax-haven exposure as additional variables.

Author contribution

The author is responsible for conceptualization, methodology, data collection, data analysis, interpretation of results, manuscript preparation, and final approval of the article.

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The author declares no conflict of interest related to the publication of this article.

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