# The Effect Of Tax Minimization And Leverage On Transfer Pricing Decisions With Gcg As Moderation

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***Abstract:*** *Profit is the main orientation for every business entity because profit is one of the company's performance indicators in order to maintain its sustainability, therefore various strategies are designed and implemented so that the company continues to exist and is able to compete along with increasingly competitive and massive developments. Transfer pricing is a strategy that is often implemented by companies in order to manage resources while achieving profit optimization and as a strategy is certainly influenced by several determinants including Tax minimization, leverage and Good Corporate Governance. This study intends to examine the effect of tax minimization and leverage through the interaction of Good Corporate Governance which is proxied by the number of audit committees with educational background and accounting experience. The population used is all entities in the industrial sector listed on the Indonesia Stock Exchange, using purposive sampling obtained 17 selected companies with the observation period 2019 – 2021 so that a total sample data of 51 is obtained. Moderationg Regression Analysis (MRA) is used as a technique to examine the relationship between variables. The test results show that partially Tax minimization, leverage and Good Corporate Governance have a significant effect on transfer pricing. The test results also show that GCG is able to moderate both tax minimization and leverage on transfer pricing.*

***Key Words:*** *Tax minimization, leverage, transfer pricing dan Good Corporate Governance*

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## I. Introduction

The increasingly competitive business environment makes business entities have to rack their brains in order to keep exist. Business agility is needed so that companies can adapt to all fast-paced and massive changes. Business agility is marked one of them by speed in responding to changes and agility in anticipating future risks, one of which is by managing business strategies that encourage profit optimization, effective resource allocation and cost efficiency. Transfer pricing is one of the strategic options that companies often implement in order to achieve this goal.

The essence of transfer pricing initially did not have a negative meaning because it was applied in order to evaluate company performance, but in subsequent developments transfer pricing deviated from its intended meaning because it was often used as a means to manipulate prices and avoid taxes especially with the increasing number of multinational companies as a logical consequence of globalization which triggers an increase in transfer pricing practices and has the potential to increase crime in the form of price manipulation both selling prices, purchase prices, allocation of overhead costs, rental payments, commissions, management and technical fees, purchase of company assets by owners or affiliated parties at higher prices lower than the market price as well as sales to foreign parties through third parties who do not have business substance. Evidence of deviations from transfer pricing practices has been widely reviewed in various articles, including the transfer pricing scandal carried out by Toyota (Firmansyah, 2020) and carried out by PT Adaro Energy Tbk (Fujianiti et al., 2021) where both reported a significant decline in profits and it is suspected that there has been a transfer pricing practice that does not meet the business fairness aspect.

Furthermore, to anticipate the recurrence of deviations from transfer pricing practices, the government is making various efforts, one of which is by issuing regulations regarding the procedures for establishing and implementing transfer price agreements (Advance Pricing Agreements/APA) as stipulated in Minister of Finance Regulation No. 22/PMK.03/2020 and was subsequently followed by the passing of Law Number 7 of 2021 concerning Harmonization of Tax Regulations (HPP) with an update article 18 paragraph 3 of the Income Tax Law, one of which regulates the important issue of adding a method of determining a fair price. The additional new transfer pricing method available in the HPP Law is expected to be a step to optimize international tax avoidance prevention, which in practice is mostly carried out through transfer pricing. However, even though regulations have been set, Indonesia's tax ratio is still the lowest when compared to several Asian countries. Tax ratio is an indicator used to assess the government's ability to collect tax revenue. Indonesia's tax ratio has decreased from year to year and in 2020 reached the lowest point of 8.33%, even

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Deputy Minister of Finance (*Wamenkeu*) Suahasil Nazara on October 18 2021 explained that Indonesia's tax ratio only reached 8.4% and this percentage shows unhealthy tax ratio conditions. On a different occasion, the Minister of Finance, Sri Mulyani, at the joint working meeting agenda for Commission XI DPR RI in March 2022 also stated that Indonesia's tax ratio profile tends to decrease from 2017 to 2020. Even though there was an increase after the Covid Pandemic in 2021 to 9.11 % and become 10.38% in 2022, but in fact the increase is due to including customs and excise, whereas if you only calculate pure taxes, Indonesia's tax ratio is still at the single digit level, which is in the range of 7.52%. One of the reasons for the downward trend in the tax ratio is transfer pricing practices. This is in line with the statement put forward by Plesner Rossing et al (2017) that companies implement a transfer pricing strategy to minimize the tax burden by carrying out schemes to reduce subsidiary profits in countries with high tax rates and vice versa to increase subsidiary profits in low-tariff countries.

In addition to the tax minimization motivation, leverage is a financial variable that is also believed to influence transfer pricing decisions, where leverage  itself is a ratio that shows the composition of a company's debt used to finance its operations, for example for the purposes of investing in equipment, expanding a business, increasing production or adding workers. Leverage in relation to transfer pricing indicates that the higher the level of leverage of a company, the higher the potential for the company to carry out transfer pricing.

Tax minimization and leverage are often factors associated with transfer pricing decisions in terms of financial dimensions, on the other hand, non-financial dimensions such as Good Corporate Governance (GCG) are also believed to have implications for transfer pricing decisions. GCG is a set of rules that aim to increase corporate value through a series of processes that are transparent, accountable and responsible. The component that plays an important role in GCG practice is the audit committee whose job is to carry out the oversight function, monitor and ensure the running of the control system based on the principles of Good Corporate Governance.

Based on the phenomenon of evidence of transfer pricing in Indonesia, Indonesia's low tax ratio and the inconsistency of research results which provide different conclusions on several factors that influence transfer pricing, namely tax, leverage and GCG, this encourages the author to re-examine the influence of several financial and non-financial variables on decisions perform transfer pricing. The author tries to place GCG as a moderator because after studying the results of previous research which placed the GCG variable as an independent variable along with other variables such as tax and leverage, it has no effect on transfer pricing decisions (Arifin et al., 2020; Noviastika F et al. , 2016; Rosad et al., 2020; Wijaya & Amalia, 2020). Referring to this, the notion arises that there are other variables that are able to strengthen or weaken the two previous variables on transfer pricing decisions so that the authors present Good Corporate Governance which is expected to be able to moderate the effect of tax minimization and leverage on transfer pricing decisions.

This study aims to examine: (1) the effect of Tax minimization on transfer pricing decisions, (2) the effect of leverage on transfer pricing decisions, (3) the effect of Good Corporate Governance on transfer pricing, (4) the effect of Good Corporate Governance in moderating Tax minimization of transfer pricing decisions and (5) examine the effect of Good Corporate Governance in moderating leverage on transfer pricing decisions.

**Theoretical basis**
**Agency Theory**

Agency theory is used as a theoretical basis to explain this research with the argument that making a decision is often influenced by different interests between the owner and the manager, where the owner, hereinafter referred to as the principal, gives authority to the manager/agent to make the best decisions. In this situation the agent will tend to act opportunistically to maximize the degree of his welfare in various ways so that the performance entrusted to him looks very good for the purpose of getting a bonus from the principal, otherwise the principal as the party entrusting his capital to be managed by the agent is motivated to maximize his welfare through increasing the expected profitability. of agent performance.

Based on the description of agency theory above, the authors believe that the use of agency theory in this study can be used to explain the effect of tax minimization and leverage with GCG as a proxy for the audit committee on transfer pricing decisions because of the relevance of this theory to the research background, especially in terms of monitoring, namely by involving the Good Corporate Governance variable as a variable that is expected to reduce the potential for conflicts of interest between agents and principals. The audit committee as part of the Good Corporate Governance mechanism is believed to have an impact on the quality of monitoring and control, including narrowing the differences in the interests of the principal (owner) and agent (management). This is reinforced by Kristiana Dewi & Jati's research (2014) which concluded that audit committees have an effect on tax avoidance. The higher the existence of an audit committee within the company will improve the quality of Good Corporate Governance within the company, so that it will minimize the possibility of tax avoidance practices being carried out thereby the company will be more responsible and open in presenting financial reports because the audit committee will monitor all activities that take place internally company.

**Transfer pricing**

Transfer pricing is part of a business and taxation activity that aims to ascertain whether the price applied in transactions between companies that have special relationships is based on the arm's length principle (Septriadi, 2008). A special relationship in this case has broader criteria and is not only limited by the percentage of equity participation, because referring to the Regulation of the Minister of Finance of the Republic of Indonesia No.22/PMK.03/2020 Article 4 paragraph 1 it states that a state of dependence or attachment of one party to another This can be caused by three things, namely ownership/participation in capital, control and family relationships by blood or relatives. The condition of dependence and attachment referred to in this law is a condition that causes one or more parties to control another party or causes no freedom in running a business or carrying out activities. This regulation regarding special relations can be used to assess how far two or more members of a company as a group of companies take advantage of certain tax facilities such as withholding tax exemptions on dividends and capital gains, income consolidation or transfer of losses (Nugroho, 2009).

**Tax minimization on transfer pricing decisions**

The Organization for Economic Co-operation and Development (OECD) has a section dealing with fiscal issues, namely the Committee on Fiscal Affairs (CFA). Regarding transfer pricing itself, CFA through its sub group, namely working party No. 6, issued OECD transfer pricing guidelines which serve as a guide to assist tax authorities and companies on how to resolve transfer pricing disputes that are mutually beneficial between each tax authority, and between tax authorities taxes with multinational corporations. The establishment of a special division dealing with fiscal topics shows that transfer pricing practices have the potential to trigger tax problems. From a government perspective, transfer pricing is believed to result in a reduction or loss of a country's tax revenue potential because multinational companies tend to shift their tax obligations from countries that have high tax rates to countries that apply low tax. From a business standpoint, companies tend to seek cost efficiency, including minimizing corporate income tax payments, while from multinational company (MNC) transfer pricing perspective is believed to be an effective strategy to win the competition. in the struggle for limited resources. Companies often think that paying taxes is a burden so various strategies are carried out in order to minimize this burden. Related to this, it is suspected that tax minimization has a positive effect on transfer pricing decisions, this is based on the results of previous research Saraswati & Sujana ( 2017) which concluded that taxes have a significant effect on transfer pricing. Other research that also contributes to this hypothesis is research Mulyani et al., (2020) which provides the conclusion that simultaneously taxes, tunneling and exchange rates have a significant effect on transfer pricing decisions. The same conclusions were obtained from research results(Noviastika F et al.,(2016), research results by Abbas & Eksandy (2020) and also research results Rafiqah Asaff (2022) where the results of the three studies prove that taxes have a positive and significant effect on transfer pricing practices. Based on this description, the first research hypothesis can be built, namely :

**H1**: Tax minimization has a positive effect on transfer pricing indications.

**Leverage affects Transfer pricing decisions**

Leverage is the ratio of the amount of debt owned by a company to finance its operations. It is undeniable that in the business world to run and develop a business, capital is needed, both capital from equity and capital from leverage. The use of leverage tends to be preferred over the use of equity because leverage has many functions and is very profitable, thus equity can be used for other purposes. One of the advantages of using leverage is the smaller the tax burden the greater the debt.

Previous research from Anisa Sheirina Cahyadi and Naniek Noviari (2018) with the title "The Influence of Taxes, Exchange Rates, Profitability, and Leverage on Transfer Pricing Decisions" shows positive research results on the variables of tax, profitability and leverage while the exchange rate variables do not affect decisions carry out transfer pricing, but this result is in contrast to the results of research from Dede Abdul Rosad, Erik Nugraha and Rizki Fajri (2020) entitled "Factors Influencing Company Decisions to Conduct Transfer Pricing" which proves that tax avoidance has a significant positive effect on transfer pricing, interest rates have no significant negative effect while leverage has a significant negative effect on transfer pricing. The different results in the two studies became the motivation to retest by developing a second research hypothesis, namely:

**H2:** Leverage Has a Positive Influence on Indications for Transfer Pricing.

**GCG influences transfer pricing**

Good corporate governance leads to a big goal, which is to create added value for shareholders and protect the interests of other stakeholders. In its implementation, the company will adopt various strategies that are expected to contribute to improving the quality of transparency, performance and accountability of the company. One of the elements of corporate governance is the existence of an audit committee, where if the

roles, duties and responsibilities of the audit committee are low, the quality of governance in carrying out company activities is also low because the audit committee upholds transparency and independence in supervising the presentation of financial reports and decision making so that it is expected can reduce the decision to make transfer pricing (Wijaya & Amalia, 2020). This description encourages the construction of the third research hypothesis, namely:

**H3:** GCG influences transfer pricing decisions

**Good Corporate Governance Moderates the Effect of Tax on Transfer Pricing Decisions**

Good Corporate Governance (GCG) is defined as the rules or rules followed by the company to run and develop the company in a clean, law-abiding manner and care for environmental sustainability based on high socio-cultural values. The implementation of GCG is believed to be a trigger for company management to carry out tighter monitoring. The tighter the supervision is, the predicted level of corporate tax minimization through transfer pricing policies can be carried out effectively in accordance with applicable regulations (Putri et al. ., 2020). Research results from Sari & Puryandani (2019) which state that GCG has a positive effect on transfer pricing, and research Wijaya & Amalia (2020) which provides evidence that GCG has a negative influence on transfer pricing. Based on the description above, the fourth hypothesis in this study is stated as follows:

**H4:** GCG moderates Tax minimization of transfer pricing decisions.

**Good Corporate Governance Moderates the Effect of Leverage on Transfer Pricing Decisions**

High leverage causes greater financial risk because the company has to pay higher interest costs, even though from these interest costs the company actually benefits from a reduction in the tax burden. Companies with high debt ratios tend to choose accounting policies that make profits higher, therefore the company's decision to carry out transfer pricing is also greater because transfer pricing is often done to save taxes or reduce a larger tax burden, while companies will choose accounting policies. which can make company profits optimal when the debt ratio is high, the results will be contradictory (Rosad et al., 2020). Good Corporate Governance, which in this study is proxied by the audit committee, is important as an element of the company that must carry out its function to monitor in order to control the desire to increase asset financing through additional debt which in turn is suspected of having the potential for transfer pricing decisions. Based on this explanation, it encourages the writer to develop the fifth hypothesis :

**H5:** Good Corporate Governance moderates the influence of leverage on transfer pricing decisions

**CONCEPTUAL FRAMEWORK**

Referring to the theoretical basis that has been described and the background that has been explained, a framework of thinking can be drawn that aims to facilitate analysis with a conceptual model. In this study the variables Tax minimization and leverage as independent variables, transfer pricing as the dependent variable while Good Corporate Governance is added as a moderating variable. The conceptual model in this study can be seen in Figure 1 below:
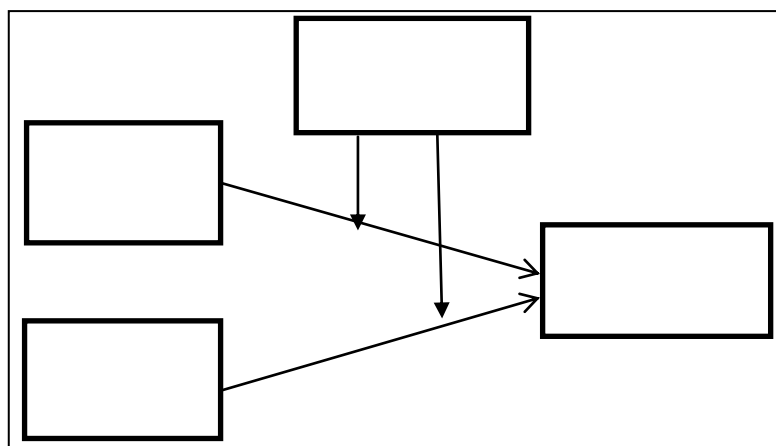


**Figure 1** Research Conceptual Model

Based on the conceptual framework in Figure 1, Tax minimization has a positive effect on transfer pricing decisions on the premise that an increase in taxes that are borne and must be paid by companies will increase the potential for transfer pricing through a mechanism that minimizes or even eliminates their tax obligations. As quoted from the statement (Bernard et al., 2006) that the determination of transfer prices between related parties affects taxes and import tariffs of destination countries. The greater the tax that must be

paid by the company, the company will try to minimize its tax burden, one of which is through the implementation of transfer pricing.

Leverage is often used to represent how much of a company's assets are financed using debt and this allows the company to take advantage of tax deductions in the company's income statement. Companies that have high leverage levels tend to take the opportunity to exercise tax avoidance through a debt management mechanism, namely by acquiring debt from group members who are in low-tax areas (Rego, 2003) in other words, this action reflects the implementation of transfer pricing.

The Audit Committee is one of the components in Good Corporate Governance which acts independently in carrying out its duties and responsibilities to review the company's financial information and this responsibility represents whether or not the quality of the examination carried out by the auditor, on the other hand the independence of this audit committee is expected to reduce opportunistic behavior by company managers (P. P. Lestari & Cahyonowati, 2013) so it is hoped that the Audit committee can weaken the effect of Tax minimization on transfer pricing.

The implementation of good governance within the company is expected to be able to control the management through a monitoring process which in this case is carried out by the audit committee effectively, so as to suppress the opportunistic attitude of management, one of which is related to leverage policy. High leverage causes greater financial risk because the company has to pay higher interest costs, even though from these interest costs the company actually benefits from a reduction in the tax burden. The role of the audit committee is important as an element of the company that must carry out its function to monitor in order to control the desire to increase asset financing through additional debt which in turn is thought to have the potential for transfer pricing decisions.

RESEARCH METHODS

Type of Research, Population and Sample

This study uses a quantitative research approach to test the hypothesis about the effect of tax minimization and leverage on transfer pricing decisions with Good Corporate Governance as moderator. This study uses secondary data obtained by accessing the Indonesian Stock Exchange website or the website of each of the listed company samples. The population in this study are industrial sector companies listed on the Indonesia Stock Exchange during 2019-2021 and the sampling technique uses purposive sampling with criteria for industrial sector companies whose financial reports can be accessed on the IDX or through the company's official website, their financial reports generate profits during the period observations 2019 – 2021 and have a related or special relationship.

Variable Operational Definitions

Transfer pricing in this research refers to the entity's policy in determining the value of transactions between related parties or transactions between related parties and is determined by the formulation of total receivables from related parties compared to total receivables or written in the following formula:

$$Transfer\ pricing = \frac{related\ parties\ receivables}{Total\ receivables}$$

Sumber : (Nuradila& Wibowo, 2018; Refgia, 2017)

Tax minimization in this research is proxied by the Effective Tax Rate which refers to the ratio between tax expense minus deferred tax expense divided by taxable profit or in formulation it can be written as follows:

$$Effective\ Tax\ Rate\ (ETR) = \frac{(Tax\ Expense - Deffered\ Tax\ Expense)}{Pre\ Tax\ Income)} \times 100\%$$

Source :(Bernard et al., 2006)

The next independent variable is Leverage, which is proxied by the Debt to Equity Ratio. (DER). DER reflects the company's ability to fulfill its obligations and is formulated as follows:

$$DER = \frac{total\ liability}{total\ equity}$$

Source : (Lutfia&Sukirman, 2021; Widiyastuti&Asalam, 2021)

Good Corporate Governance which is proxied by the audit committee with an indicator of the number of audit committee members who have a background of knowledge and skills in accounting. The ratio of the composition of the number of audit committees in a company which consists of more or less three people with at least one of them having an accounting/finance background (Komarudin et al., 2022).

The research objects used in this study are industrial sector companies listed on the Indonesia Stock Exchange for the 2019-2021 period. This population uses secondary data in the form of financial reports obtained from the official website of the Indonesia Stock Exchange, namely www.idx.co.id. The population in this study were all industrial sector companies, totaling 56 companies. The sample was taken based on the criteria previously described as many as 17 companies with a 3 year financial reporting period, namely 2019-2021.

The data analysis method used is multiple linear regression analysis with moderation (Moderating Regression Analysis/MRA). The basic equation for multiple linear regression can be stated as follows:

$$Y = \text{.........................................} \alpha + \beta_1 X_1 + \beta_2 X_2 + e(1)$$
$$TP = \text{..........................} -227 + .573TM + 210 \, LV + e$$
$$Y = \text{............................} \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 Z + e(2)$$
$$TP = \text{.......} -227 + .573TM + 210 \, LV + .308GCG + e$$
$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 Z + \beta_4 X_1{*}Z + \beta_5 X_2{*}Z + e \qquad (3)$$
$$TP = 0.009 + .573TM + 210 \, LV + .308GCG + .651TMGCG + .270LVGCG + e$$

Based on this formulation, it can be said that all the variables used in this research show an influence on transfer pricing as the dependent variable, which means that all the hypotheses used in this study are acceptable.

**Descriptive Analysis**

Descriptive analysis provides an overview of the values of all variables, both dependent and independent variables. The dependent variable (Y) in this study is transfer pricing, while the independent variables (X) are tax minimization (X1) and leverage (X2). Table 1 below is the result of testing using descriptive analysis:

**Table 1.**Statistical Test Results Description

|  | Means | std. Deviation | N |
|---|---|---|---|
| *Transfer pricing* | .20386 | .309796 | 51 |
| *Tax minimization* | .25071 | .161190 | 51 |
| *leverage* | .50682 | .391257 | 51 |
| *Good Corporate Governance* | .58818 | .271704 | 51 |

Source: secondary data processed using SPSS 26.0, 2023

Table 1 represents the measurements of variables that have N as many as 51 in the period 2019 – 2021 and the calculation results for the Transfer pricing variable (Y) show a mean of .20386 and a standard deviation of .309796. This means that the average value is smaller than the standard deviation because .20386 <.309796 and indicates that the data is heterogeneous or varied, while for the results of the Tax minimization (X1), Leverage (X2) and GCG (Z) tests, all three show the mean which is greater than the standard deviation, which means that the three independent variables tend to be homogeneous/not varied so that it can be said that the data studied is considered good.

The test results for Tax minimization (X1) show that the average tax burden borne by the sample companies is able to explain the overall tax minimization data from year to year, the test results for Leverage (X2) also show that the average leverage has been able to explain overall leverage data during the observation period 2019 – 2021 and the data studied is considered good, similarly the GCG variable (Z) also has a smaller standard deviation value so for variable Z it also shows that the data studied tends to be homogeneous/does not vary so it can be said that the data studied is considered good.

Industrial sector companies listed on the IDX during the 2019 – 2021 show that all of them have fulfilled the required number of audit committees, namely a minimum of 3 people and 59% or 10 companies have more than one person with an educational background in accounting and finance while the remaining 41% or Of the 7 companies, only 1 out of 3 committee members has an educational background and financial accounting skills.

**Classic assumption test**

The classic assumption test is a stage that is carried out before calculating the regression to determine the effect of the independent variables on the dependent variable. This test will be carried out through the normality test and autocorrelation test.

**Normality test**

The normality test is intended to test whether in the regression model, the dependent variable and independent variable have a normal or close to normal distribution and in this study the normality test uses the Kolmogrov-Smirnov Test. The test results are presented in Table 2 below:

**Table 2.**Normality Test Results

| | | Unstandardized Residuals |
|---|---|---|
| N | | 51 |
| Normal Parameters a,,b | Means | -.0392157 |
| | std. Deviation | .55066177 |
| Most Extreme Differences | Absolute | .102 |
| | Positive | .102 |
| | Negative | -.081 |
| Kolmogorov-Smirnov Z | | .726 |
| asymp. Sig. (2-tailed) | | .668 |

a. Test distribution is Normal.

b. Calculated from data.

Source: secondary data processed using SPSS 26.0, 2023

The results of the normality test show that the data in Table 2 is normal with a significant value of the unstandardized residual variable, which is .668 or 66.8% > 0.05, which means the data is normally distributed.

**Autocorrelation Test**

The autocorrelation test is intended to detect whether or not there is a correlation between interfering errors in period t and interfering errors in period t − 1 (previously), if there is a correlation, then it is called an autocorrelation problem.(Ghozali, 2011, p. 110). In this study the test results showed the results as listed in Table 3 below:

**Table 3**
Autocorrelation Test Results X1, X2 and Z

| Model | R | R Square | Adjusted R Square | Std Error of the Estimate | R Square Change | FChange | Df1 | Df2 | Sig F Change | Durbin Watson |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | .622a | .386 | .347 | .250309 | .386 | 9.863 | 3 | 47 | .000 | 1.843 |

a : Predictors (constant), good corporate governance, leverage, tax minimization
b : dependent variable : Transfer pricing
Source: secondary data processed using SPSS 26.0, 2023
Based on the test results in Table 3, it is known that the Durbin-Watson (DW) value is 1,843. When compared with the DW Table for a sample of 51 with 2 independent variables and 1 moderating variable, it is obtained that the durbin Lower (dL) interval is 1.38611 and the durbin Upper (DU) is 1.54643, which means that the value of dL < DW >dU is because 1.38611 < 1.843 > 1.54643 so that it can be concluded empirical data free from positive autocorrelation symptoms. Table 3 shows the results of the autocorrelation test for variables X1, X2 and Z, while the autocorrelation test results for variables X1Z and X2Z are shown in Table 4 below:

**Table 4.**X1Z and X2Z Autocorrelation Test Results

| Model | R | R Square | Adjusted R Square | Std Error of the Estimate | R Square Change | FChange | Df1 | Df2 | Sig F Change | Durbin Watson |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | .633a | .400 | .375 | .244833 | .400 | 16.027 | 2 | 48 | .000 | 1.814 |

a : Predictors (constant), X2Z, X1Z
b : dependent variable : Transfer pricing
Source: secondary data processed using SPSS 26.0, 2023

Table 4 represents the DW value of 1,814. When compared with the DW Table for a sample of 51with 2 independent variables and 1 moderating variable obtained the interval durbin Lower (dL) 1.38611 and durbin Upper (DU) 1.54643, which means that the value of dL < DW >dU because 1.38611 < 1.814 > 1.54643 so it can be concluded that there are no positive autocorrelation symptoms.

**Test Models and Hypotheses**
*Goodness Of Fit*(Test F) Model Test
The F test is used to detect the accuracy of the sample regression function in estimating the actual value statistically where the test is carried out when in a research model there are two or more independent variables(Ghozali, 2011). The testing criteria use a significance value of 0.05, if the resulting Pvalue is <0.05

then the model is considered capable of explaining the relationship between the independent variable and the dependent variable and vice versa. In this study the results of the F test are shown in Table 5 below:

**Table 5.** F Test Results Variables X1, X2 and Z

Anova a

| Model | | Sum of Square | Df | MeanSquare | F | Sig |
|---|---|---|---|---|---|---|
| 1 | Regression | 1.854 | 3 | .618 | 9.863 | .000b |
| | residual | 2.945 | 47 | 063 | | |
| | Total | 4.799 | 50 | | | |

a : dependent variable : Transfer pricing
b : Predictors (constant), good corporate governance, leverage, tax minimization
Source: secondary data processed using SPSS 26.0, 2023

Table 5 shows the test using the variables XI, X2 and Z, then it is known that df1 = k = 3 and df2 = nk-1 = 47 (51-3-1) and the results obtained are f Table 4.79. Based on the test results using SPSS V.26 software, a significance value of .000 was obtained, which means that this value is smaller than the criterion value of 0.05, so it can be concluded that the regression model in this study has a simultaneous influence between the variables Tax minimization (X1), Leverage (X2). ) and GCG (Z) with the dependent variable namely Transfer pricing (Y), but based on the R square value it shows a result of .386 which means the contribution of the Tax minimization variable (X1),Leverage (X2) and GCG as a moderator (Z) is 38% of the decision to do transfer pricing (Y) while the remaining 62% is influenced by other variables that are not the focus of this study, for example tunneling incentives, bonus mechanisms, exchange rates, institutional Ownership, profitability and so on..Furthermore, when viewed from the GCG variable as a moderating variable, the results of the F test can also be seen in Table 6 as follows:

**Table 6.** F Test Results of Variables X1Z and X2Z

Anova a

| Model | | Sum of Square | df | MeanSquare | F | Sig |
|---|---|---|---|---|---|---|
| 1 | Regression | 1.921 | 2 | .961 | 16.027 | .000b |
| | residual | 2.877 | 48 | .060 | | |
| | Total | 4.799 | 50 | | | |

a : dependent variable : Transfer pricing
b : Predictors : (constant), X2Z, X1Z
Source: secondary data processed using SPSS 26.0, 2023

The results of the F test for variables X1Z and X2Z obtain a significance value of 0.000 and this result is also smaller than the significant criterion of 0.05 so it can be concluded that there is a simultaneous effect between X1Z and X2Z on transfer pricing (Z). The test results in Tables 5 and 6 with sig.000 <0.05 are also an indication to be able to use the coefficient of determination.

**Determination Coefficient Test**
The Coefficient of Determination test is intended to measure the effect of the independent variable on the variation of the dependent variable, where the greater the value of the coefficient of determination (R2), the greater the effect of each variable. The results of testing the variables in this study can be observed in Table 7 below:

**Table 7.** Test Results for the Coefficient of Determination at X1, X2 and Z

Summary modelb

| Model | R | R Square | Adjusted R Square | Std Error of the Estimate | R Square Change | FChange | Df1 | Df2 | Sig F Change | Durbin Watson |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | .622a | .386 | .347 | .250309 | .386 | 9.863 | 3 | 47 | .000 | 1.843 |

a : Predictors (constant), good corporate governance, leverage, tax minimization
b : dependent variable : Transfer pricing
Source: secondary data processed using SPSS 26.0, 2023

The calculation results (R2) in Table 7 shows a value of .386, which means that the contribution of the Tax minimization (X1), Leverage (X2) and GCG variables as moderator (Z) is 38.6% of the decision to make transfer pricing (Y) while it is The remaining 61.4% is influenced by other variables that are not the focus of this study, for example tunneling incentives, bonus mechanisms, exchange rates, institutional ownership, profitability and so on. Furthermore, testing the coefficient of determination is also carried out on the variables X1Z and X2Z which are presented in Table 8 below:

**Table 8.**Test Results for the Coefficient of Determination at X1Z, X2Z

Summary modelb

| Model | R | R Square | Adjusted R Square | Std Error of the Estimate | R Square Change | FChange | Df1 | Df2 | Sig F Change | Durbin Watson |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | .633a | .400 | .375 | .244833 | .400 | 16.027 | 2 | 48 | .000 | 1.814 |

a : Predictors (constant), X2Z, X1Z
b : dependent variable : Transfer pricing
Source: secondary data processed using SPSS 26.0, 2023

The test results for the coefficient of determination for the variables X1Z and X2Z in Table 8 show the valuesR2.375 which can be interpreted that the contribution of variables X1Z and X2Z to transfer pricing as the dependent variable is 37.5% while 62.5% is influenced by determinants outside the object of this study, such as tunneling incentives, bonus mechanisms, exchange rates, institutional ownership, profitability and so forth.

**Hypothesis Test (t test)**

Hypothesis test (t test) is a test that is intended to test the research hypothesis, namely regarding the influence of the independent variable partially in explaining the variation of the dependent variable and is carried out by making a comparison between the statistical value of t and t-table(Ghozali, 2011, p. 98). The significance level used is 0.05. The results of testing the hypothesis in this study were obtained from the t-count in the table below which was then compared with the t-table value on df, where df = (nk-1), where n is the number of observations, k is the number of independent variables. In this study, it is known that the value of df = 51 − 3 − 1 = 47, so it can be seen that the t table value (0.05; 47) is 1.67793. Table 9 below shows the results of t count:

**Table 9.**Hypothesis test results (t test) on variables X1, X2 and Z

Coefficient a

| Model | | Unstandardized Coefficiens | | Standardized Coefficiens Beta | t | Sig | 95% Confidence interval for B | | Zero Order | Partial Correlation | Part | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | B | Std. Error | | | | LowerBound | Upperbound | | | | Tollerace | VIF |
| 1 | (constant) | -.227 | .091 | | -2,502 | .016 | -.410 | -045 | | | | | |
| | Tax Minimization | .573 | .243 | .298 | 2,362 | 022 | 085 | 1,061 | .482 | .326 | .270 | .820 | 1220 |
| | leverage | .210 | .098 | .265 | 2,131 | 038 | 012 | 048 | .449 | .297 | .243 | .844 | 1,184 |
| | Good Corporate Governance | .308 | .143 | .270 | 2.163 | .036 | 022 | .595 | . 457 | .301 | .247 | .836 | 1,197 |

a : dependent variable : Transfer pricing
Source: secondary data processed using SPSS 26.0, 2023

**H1 Effect of Tax minimization on transfer pricing**
In Table 9 Tax minimization (X1) has a t count value of 2.362, this value is greater than the table t value of 1.67793. The calculation result for a significant level is 0.022 while the criterion for a significant level is 0.05 so that for X1 < α or numerically it can be written 0.022 < 0.05 which means that the Tax minimization variable has a positive effect on transfer pricing, then H1 is accepted.

**H2 Effect of Leverage on transfer pricing**
In Table 9 Leverage (X2) has a t count of 2.131 and this value is greater than the t table which is 1.67793. The calculation result for a significant level of 0.038, the criterion for a significant level is 0.05 so that for X2 < α or numerically it can be written 0.038 < 0.05 which means that the Leverage variable has a positive effect on transfer pricing, then H2 is accepted.

**H3 Effect of GCG on transfer pricing**
In Table 9 Good Corporate Governance/GCG (Z) has a t-value of 2.163, this value is greater than the t-table value of 1.67793. The calculation result for a significant level is 0.036 while the criterion for a significant level

is 0.05 so that for X1 < α or numerically it can be written 0.036 < 0.05 which means that the GCG variable has a positive effect on transfer pricing, then H3 is accepted.

The t test was also carried out on X1Z and X2z to test whether H4 and H5 were accepted or rejected. The calculation results are presented in Table 10 below:

**Table 10.** Hypothesis test results (t test) for X1Z and X2Z
Coefficient a

| Model | | Unstandardized Coefficiens | | Standardized Coefficiens Beta | 95% Confidence interval for B | | | | Collinearity Statistics | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | B | Std. Error | | Q | Sig | LowerBound | Upperbound | Zero Order | Partial Correlation | Part | Tollerace | VIF |
| 1 | (constant) | .009 | .049 | | .179 | .859 | 089 | .107 | | | | | |
| | X1Z | .651 | .256 | .368 | 2,545 | 014 | .137 | 1.165 | .579 | .345 | .284 | .597 | 1.675 |
| | X2Z | .270 | .118 | .332 | 2,292 | .026 | .033 | .508 | . 565 | .314 | .256 | .597 | 1.675 |

Source: secondary data processed using SPSS 26.0, 2023

**H4 Effect of GCG in moderating Tax minimization of transfer pricing**
Table 10 represents the number of observations (n) = 51 and the number of variables (k) = 2. The value of df = nk-1 = 48, so it can be seen that the t table value for (0.05, 48) is 1.67722. *Tax minimization* (X1) with GCG (Z) as moderator, has a calculated t value of 2.545, this value is greater than the table t value of 1.67722. The calculation result for a significant level is 0.014 while the criterion for a significant level is 0.05 so that for XZ1 < α or numerically it can be written 0.014 < 0.05 which means that the GCG variable has a positive effect in moderating Tax minimization (X1) on transfer pricing, then H4 is accepted.

**H5 Effect of GCG in moderating Leverage on transfer pricing**
Table 10 represents that Leverage (X2) with GCG (Z) as moderator, has a calculated t value of 2.292, this value is greater than the t table value of 1.67722. The calculation result for a significant level is 0.026 while the criterion for a significant level is 0.05 so that for X2Z < α or numerically it can be written 0.026 < 0.05 which means that the GCG variable has a positive effect in moderating Leverage (X2) on transfer pricing, then H5 is accepted.

## II. DISCUSSION
**The Effect of Tax Minimization on Transfer Pricing Decisions**
Based on the results of hypothesis testing (t test) on variables X1, X2 and Z presented in Table 9 and the results of hypothesis testing (t test) for X1Z and X2Z presented in table 10, it can be concluded that the 1st hypothesis is accepted where Tax minimization has an effect positive attitude towards transfer pricing on the premise that the greater the tax burden that becomes the liability of the company will encourage the company to manage various strategies to minimize its tax burden, including the strategy of carrying out transfer pricing. This is in line with the results of previous research conducted by Hartina (2018); Marfuah et al. (2021); Sulistyawati et al. (2019); Wijaya & Amalia (2020) which concludes that tax minimization has an effect on transfer pricing. This statement is also in line with the conclusions of Rohmani& Amin (2022). This study uses the Effective Tax Rate (ETR) to measure the Tax minimization variable in order to detect the extent to which a company is effective in managing its tax burden by comparing tax expense to pre-tax income where the lower the ETR indicates the better the company manages its tax planning(Ambarukmi et al., 2017, pp. 13–26), and one way to manage tax planning is by implementing transfer pricing (Gloria &Apriwenni, 2020, pp. 19–20), so this reason supports the acceptance of hypothesis 1, namely Tax minimization has an effect on transfer pricing. Of the 17 selected sample companies, the ETR value is in the range of less than 1, even the ETR value at Multifiling Mitra Indonesia Tbk (MFMI) in 2019 and 2021 was recorded as the lowest, almost close to 0, which means that the company has succeeded in carrying out effective tax planning. this is understandable because in the period 2019 – 2021 when the Covid 19 Pandemic paralyzing almost all business sectors, the Government launched a tax incentive policy as part of the national economic recovery program to reduce the adverse effects of the Covid-19 pandemic and this program was welcomed and made the most use of by the industrial, trade and construction sectors.

The next reason is to refer to the relevance of agency theory as a rationale for testing the first hypothesis considering that management and owners each have conflicting interests. The manager, in this case, is trying to cut costs in order to obtain optimal profit in the hope that achieving optimal profit will also indicate good management performance. the owner try to motivate and even pressure management to take actions that lead to tax aggressiveness with the intention of minimizing the tax burden that should be borne by the company,

**The Effect of Leverage on Transfer Pricing Decisions**

The results of hypothesis testing for Leverage (X2) in tables 9 and 10 show results <0.05, which means that hypothesis 2 which states Leverage influences transfer pricing decisions is accepted. The results of this test support the conclusions obtained in previous studies which also state that leverage has an effect on transfer pricing (Cahyadi&Noviari, 2018; Merle et al., 2019; Richardson et al., 2013a; Sulistyowati&Kananto, 2019). Leverage information has an important essence for the company because by knowing the calculation of leverage, the company can have an adequate picture of the company's ability to finance its assets using debt. The ratio resulting from the calculation results (which in this study uses the Debt to Equity ratio) represents the level of debt as well as describes the portion of assets funded using debt, where the higher the DER ratio indicates the higher the company's capital used as collateral for debt so that the inherent risk is also getting bigger because the company must be prepared to bear the fixed burden in the form of interest on the loan, although on the other hand, paying interest on the loan is seen as beneficial because it will reduce the tax burden that must be borne by the company. Therefore the results of significance in this study strengthen the evidence from previous studies that leverage ratios have a positive effect on transfer pricing. This logical consequence arises considering that transfer pricing is believed to be one of the strategies for planning and managing corporate taxation activities through the use of tax loopholes. Leverage is one of the investment strategy option where payment of interest expense arising from the debt activity itself can be used as a deduction from taxable income. Interest expense according to fiscal provisions is included in the deductible expense so that it becomes an attraction for companies to increase debt with the aim of minimizing its tax burden.

**The Effect of Good Corporate Governance/GCG on Transfer Pricing Decisions**

The results of the hypothesis test on the GCG variable presented in Table 9 show a significance of 0.036 or less than the required significance level, which is 0.05, which means that the 3rd hypothesis is accepted. The results of testing the GCG variable with interaction (X1Z and X2Z) in Table 10 also show a significance value of less than 0.05 (0.014 and 0.026 respectively) so that it can be concluded that GCG both directly and through the interaction model influences transfer pricing decisions. These results show support for previous research, including the results of Komarudin et al. (2022) which states that the role of GCG is able to strengthen the effect of transfer pricing, as well as the results of research by Putri et al.

GCG in this study uses audit committee proxies which are measured based on the ratio of the number of audit committees who have an educational background and expertise in accounting as required by the Financial Services Authority and stipulated in Financial Services Authority Regulation No. 55 /POJK.04/2015 concerning the formation and guidelines for the implementation of audit committee work, article 7 point e. The obligation of public companies to form an audit committee as required in the regulation is a form of protection for the interests of stakeholders as well as a mechanism for regulation, management and supervision between the management as the manager and the company's stakeholders.

In table 8 the test results for the coefficient of determination on the GCG variable as a moderator show that the percentage of R2 is 37.5%, which means that there is a positive influence of GCG on transfer pricing decisions of 37.5%. Even though the percentage is relatively small, it contributes enough to the transfer pricing effect because companies with good and consistent governance will potentially reduce agency costs, where agency costs often arise when owners delegate authority to managers with the intention that managers can act in accordance with the interests of shareholders (Daniri , 2005). This behavior can be minimized by implementing good corporate governance because in practice this governance requires the establishment of an audit committee as an organ that carries out the oversight function of the running of the company together with an independent commissioner. The better the oversight function carried out by the audit committee together with the independent commissioners has the potential to minimize unhealthy practices both legal (legal) and illegal (unlawful) practices, for example earnings management practices and transfer pricing practices.

**The influence of Good Corporate Governance in moderating Tax minimization on transfer pricing decisions**

Table 10 is the result of testing the interaction of the Tax minimization variable on transfer pricing with the GCG variable as the moderating factor, and proves that empirically the GCG variable proxied by the audit committee is able to moderate the positive effect of Tax minimization on transfer pricing decisions.

GCG implementation in this study uses the parameter of the number of audit committees that must be owned by an entity, namely three people with at least one of them having an educational background, experience and skills in accounting. Financial Services Authority Regulation No. 55 /POJK.04/2015 articles 2 and 4 stated that every issuer or public company is required to have an audit committee consisting of at least three people and come from independent commissioners and parties outside the public company. Furthermore, in article 7e it is emphasized that at least one of the audit committee personnel must have an educational background and expertise in financial accounting. Based on test results on 17 sample companies, all of them met the requirements of the OJK Regulations, even the companies ArwanaCitramuliaTbk., Astra GraphiaTbk.,

Cahayaputra Asa ceramics Tbk., JasuindoTiga Perkasa Tbk. and Impact PratamaIndustriTbk. has 3 audit committees and all of them have an educational background in accounting, while the other 6 companies namely Astra International Tbk., MNC Asia Holding Tbk., Global Mediacom Tbk., Surya Pertiwi Tbk., MuliaIndustrindoTbk. And Shield On Service Tbk 2 of the 3 audit committees have an accounting background, while the other 6 companies that are sampled each have at least 1 member of the audit committee with an educational educational background in accounting.

The more number of audit committee members who have an accounting background can increase the degree of reliability and validity of financial reporting and other financial information so that it becomes the right control medium to suppress management actions that should not be taken, including company decisions to carry out transfer pricing which is deliberately aimed at minimizing taxes. but carried out outside the corridors of applicable regulations (unlawful). Tax minimization in the context of tax planning is not an act that is against the law but rather a strategy of taking advantage of loopholes in the applicable tax provisions.

**The influence of Good Corporate Governance in moderating Leverage on transfer pricing decisions**

Table 10 represents the results of testing the interaction of the leverage variable on transfer pricing with the GCG variable as the moderating factor, and shows a significance result of 0.026 or less than the required degree of significance, and this proves empirically that the GCG variable proxied by the audit committee is able to moderate the positive effect of leverage on transfer pricing decisions.

GCG implementation through its audit committee is able to improve company performance through its role in managing fraud risk, financial risk, and compliance risk in the company so that it can provide security protection for stakeholders. The GCG mechanism is needed to ensure that the company runs properly and is managed without fraud/abuse(Arniati et al., 2019). Leverage is a strategy that is often used to increase the productivity of business entities, which is certainly not without risk. The attractiveness of leverage in terms of fiscal is the presence of tax incentives on debt interest so that companies often use the option of financing assets using debt rather than using capital in the hope of minimizing the tax burden. When a company seeks to increase its debt, that's when the company's risk increases, including the risk of business bankruptcy. The role of the audit committee in this case is very crucial in the process of reviewing the implementation of risk management activities because with academic provision and experience in accounting, it makes them more careful (prudent reaction), more mature and more detailed in conducting a review of the reports that will be presented periodically by the company. Based on the test results of the 17 sample companies, it is known that all of them have a number of audit committees with an accounting competency background of more than one person, this shows the company's awareness of the importance of controlling company risk, one of which is the risk inherent in implementing leverage because companies with high leverage tend to have agency costs. also high, in this case it tends to have a high going concern risk (Subramaniam et al., 2009). Therefore, good internal control is needed through an effective oversight function which incidentally can be carried out by the audit committee. This shows the company's awareness of the importance of controlling company risk, one of which is the risk inherent in implementing leverage because companies with high leverage tend to have high agency costs as well, in this case tend to have a high going concern risk (Subramaniam et al., 2009). Therefore, good internal control is needed through an effective oversight function which incidentally can be carried out by the audit committee.

### III. CONCLUSION

Based on the research objectives and test results, it can be concluded that Tax minimization, leverage, Good Corporate Governance partially have a significant positive effect on transfer pricing decisions, then placing Good Corporate Governance as a moderator resulted in the finding that Good Corporate Governance is able to moderate the effect of Tax minimization on transfer pricing decisions. This moderating effect is evidenced by the significance value on the t-test which fell from 0.22 or 22% to 0.14 or 14%, which means that the more the number of audit committee members who have an accounting background can reduce, minimizing or even suppressing management actions that should not be taken, including the company's decision to carry out transfer pricing which is deliberately aimed at minimizing taxes but is carried out outside the corridors of applicable regulations (unlawful) so that controlled management actions make management/agents more reputable then it is hoped that they will be able to reducing monitoring agency costs through increasing the degree of reliability and validity of financial reporting and other financial information that is constantly reviewed and guaranteed by the audit committee. The next finding is that placing GCG as a moderator is able to moderate the effect of leverage on transfer pricing. This moderating effect is evidenced by the significance value on the t test which fell from 0.38 or 38% to 0.26 or 26%, which means the higher the company's motivation to increase debt in order to finance assets, especially assets in affiliated companies, the role of the audit committee as controlling in managing inherent risk thereby reducing management's motivation to take illegal transfer pricing decisions, thus the audit committee tries to ensure that the entity continues to operate in accordance with applicable legality.

The results of this study are expected to provide an appropriate theoretical contribution to the principles underlying the principal-agent-stakeholders relationship through the urgency of the role of the audit committee as a supporting organ for the board of commissioners which carries out the function of monitoring the quality of financial reports, controlling internal audit performance and ensuring the quality of the company's internal control.

This study still has limitations where the results of the test for the coefficient of determination ($R^2$) for all the variables studied are still on a scale of > 30 but <50%, which means that the variables Tax minimization, leverage and GCG are used in the study even though they are capable of influencing the dependent variable (transfer pricing). but still at a moderate level (Chin, 1998, pp. 295, 336). In order to obtain results that are in the "strong" category, it is recommended to add other variables such as exchange rates, tax budgets, tunneling incentives, bonus mechanisms, audit quality, Institutional Ownership.

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