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THE EFFECT OF TAXES AND BONUS MECHANISMS IN MODERATING PROFITABILITY ON TRANSFER PRICING

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Abstract: One factor that encourages companies to do transfer pricing is the bonus mechanism. Bonusecanism is used as a moderating, reinforcing, or motivation-weakening variable of tranfer pricing. The purpose of this study is to analyze the causality between tax and transfer pricing in companies related to the manufacturing and non-financial services sectors in Indonesia and to analyze the role of bonus mechanism moderators in strengthening the effect of profitability on *transfer pricing* in companies related to the manufacturing and non-financial services sectors in Indonesia. This type of research is *explanatory* research, which explains one variable's causality relationship to another. This study used the analysis of the Granger causality test and hypothesis testing using the coefficient of determination test, F test and t-test. The sample in this study is companies members of the KOMPAS 100 index in 2010-2020, totaling 100 companies. Based on the study's results, it can be concluded that: 1) There is a causality relationship between tax and transfer pricing. The amount of tax has a positive effect on transfer *pricing*. On the other hand, *transfer pricing* also positively affects the amount of tax. This suggests a causality link between tax and transfer *pricing* and as a form of tax avoidance by multinational companies; 2) The role of the bonus mechanism does not moderate the amount of profitability to *transfer pricing*. The decision of managers to pursue bonuses does not affect the amount of profitability to *transfer pricing.*
Keywords: Bonus Mechanism, Taxes, Transfer Pricing, Profitability.

INTRODUCTION

Xu & Wang (2018) provide a logical input that the competitive advantages of multinational companies can affect the relationship between business strategy and financial behavior. One of the impacts of financial behavior referred to in international trade is that companies carry out *transfer pricing* due to uncertainty of externalities. Companies often use transactions with related parties for transfer pricing activities (T. Richardson et al., 2013). The transaction is then carried out in various areas of taxation jurisdiction to create a wide enough wiggle room for tax planning (Chan et al., 2019).

Companies operating in more than one country can use regulatory tax loopholes to design tax management actions by conducting transfer pricing (Bartelsman & Beetsma, 2003). This is done by shifting companies' profits from domestic to companies that are still in one group in another country, which results in multinational companies not bearing high total taxes (Barker & Maguire, 2017; Sikka & Willmott, 2010). Transfer pricing determinations of companies in high-tax jurisdictions can transfer income to low-

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tax jurisdictions to avoid or reduce the tax burden (Barker & Maguire, 2017).

Transfer pricing can be a means of tax planning using companies shifting tax obligations (Klassen *et al*., 2017). The main objective of *the transfer pricing* practice is to reduce global taxes and maximize entity profits. This goal aligns with (Susanti & Firmansyah (2018) thinking that transfer pricing is an effort by multinational companies to reduce income tax by allocating company profits to subsidiaries with a lower tax burden. Then Amidu et al. (2019) & Byberg (2018) give another view that the function of *transfer pricing* is to manipulate and reduce taxes.

Regulations on *transfer pricing* are generally regulated in Law Number 36 of 2008 concerning Income Tax (Income Tax Law). Article 18 paragraph (3) states that the Directorate General of Taxes (DGT) has the authority to determine the amount of taxable income for taxpayers who have a special relationship with other taxpayers by the reasonableness and normality of business that is not affected by the *arm's length principle*. *Arm's length principle* is strengthened through the regulation of the Director General of Taxes Number 32 of 2011. Statistical data shows that as much as 30% of international transactions come from *intragroup* trade. Next, Bernard (2006) argue that *intragroup* transactions are contrary to the *arm's length principles* because they are deliberately made so that the profits earned can be shifted and reported in tax *haven* countries while costs are allocated in countries with high tax rates.

Company management will use *transfer pricing* to shift profits between companies to increase management bonuses (Chan et al., 2019). Research by Nazihah et al. (2019) has found a substantial positive correlation with *transfer pricing* incentive systems to optimize bonuses. Bonus managers depend on the net profit of the company, an increase in bonuses through reporting the highest possible net profit in a given period.

Agency theory states that incentives can influence an individual's choice in decision-making. Managers tend to choose accounting procedures to maximize profits to pursue bonuses set by company owners. The bonus motivates the manager to choose an accounting procedure that transfers the profit from the upcoming period to the current one. Researchers Yang et al. (2020) bonus plans influence the increase in reported company revenue by increasing current period profits, one of which is the practice of *transfer pricing*. Bonus packages influence transfer prices because bonus plans are management's motivation for *transfer pricing*. When management gets a bonus, they tend to try to achieve the target to get a bonus (Susanti & Firmansyah, 2018). The incentive compensation scheme is operationalized by paying a fixed salary, a fixed salary plus a bonus based on the division's net profit, or a fixed salary plus a bonus based on the company's overall net profit.

One factor that encourages companies to do *transfer pricing* is the bonus mechanism. Based on the results of research by Solikhah & Maulina (2021) it is known that the bonus mechanism has a positive and significant effect as a moderation of the effect of taxes on *transfer pricing*. Meanwhile, the results of research by Kananto (2019) are known that the bonus mechanism has a negative and significant effect as a moderation of the effect of taxes on *transfer pricing*. Variable *transfer pricing* cannot describe or explain its role fully regarding the degree of its influence on the business environment and company performance because it requires other variables to anticipate market changes. This study proposes a moderation variable that is considered a

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reinforcement between motivation and *transfer pricing* variables, namely the bonus mechanism.

Referring to several things that underlie the background of the above problems, including gap research and business phenomena previously described, researchers found that there is still empirical inconclusion or difference in results between motivation and *transfer pricing* that has not been resolved. Given the inconclusiveness regarding motivation in carrying out *transfer pricing* in previous studies, the authors propose a new moderation variable, namely a bonus mechanism that is thought to provide a solution to the occurrence of inconclusiveness. In developing the research model, the bonus mechanism variable is used as a *moderating* variable or a motivational reinforcing or motivation-weakening variable of *transfer pricing*.

Baroroh et al. (2021) found that *transfer pricing* affects not only taxes but also as a strategy and means to achieve corporate goals. The company performs profit management to reduce reported profits in reducing taxable income. Due to the smaller the tax burden, the more aggressive a company is in carrying out profit management, which can be said that the sign of corporate tax aggressiveness is high (Bazile et al., 2016). One of the reasons why companies do profit management is tax motivation (Scott, 2011).

According to Taylor & Richardson (2012), *Transfer Pricing* is used to increase the complexity of transactions made through tax *havens* to maximize the potential for international tax avoidance. Davies et al. (2014) show that tax avoidance through transfer prices amounts to about 1% of the total corporate tax collected by tax authorities in France. The lion's share of these losses was driven by the export of 450 companies to ten tax *havens*. *Transfer Pricing* is one of the strategies business actors use to reduce their tax obligations because, generally, entrepreneurs view tax payments as a difficulty. They will always want to minimize the burden to maximize profits. Companies do *transfer pricing* in the hope of minimizing costs.

Various studies on taxes affect transfer pricing, and transfer pricing affects taxes, so it can be concluded that there is a causality relationship between *transfer pricing* and taxes.

Hypothesis 1: There is a causality between tax and *transfer pricing* on companies related to the manufacturing and non-financial services sectors in Indonesia.

Setyadi & Prabowo (2021) states that managers with information about the company's net profit will act opportunistically to manage profit by maximizing the company's profit for the current period. Research conducted by Chan et al. (2019) found a tendency for management to take advantage of *transfer pricing* transactions to maximize the bonuses they receive if bonuses are based on profits. This is supported by Nugroho & Kunartinah (2012) opinion, which states that directors' compensation (bonus) is seen from the performance of various divisions or teams in one organization. The greater the company's overall profit generated, the better the image of the directors in the eyes of the company owner.

Ginting et al. (2020) suggest that the bonus mechanism moderates the effect of taxes on *transfer pricing* decisions. Based on the above explanation, the hypothesis in this study is as follows:

Hypothesis 2: The bonus mechanism strengthens the effect of profitability on

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transfer pricing in **companies related to the manufacturing and non-financial services sectors in Indonesia.**

Based on the description and results of the empirical research above, this study explains that two hypotheses are proposed. The empirical research models submitted for further analysis are as follows:

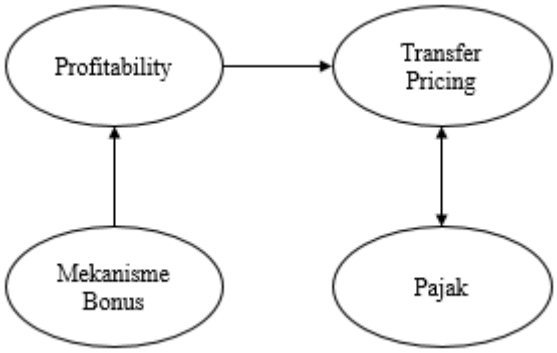

Figure 1. Empirical Research Model
Source : Data Processed, (2022)

METHODS

This type of research is *explanatory* research, which explains the causality relationship of one variable to another. This study aims to test hypotheses through the validity of theories or testing applications to certain theories. This study tested tax and profitability as independent variables and bonus mechanisms as moderation variables. This research uses data from 2010-2020 because, in that year, there were changes in tax rates and the enactment of changes in tax laws such as the Law on General Provisions and Tax Procedures, the Income Tax Law and the Value Added Tax Law so that tax motivation is more relevant.

A research variable is an attribute, trait, or value of a person or activity with certain variants set by the researcher to be studied and concluded (Sugiyono, 2017). The variables in this study can be explained as follows:

1. Tax

The tax variable in this study was measured using *the effective tax rate* (ETR). *Effective* tax rate (ETR) is a percentage of the company's tax rate. The amount of tax rate borne by the company is calculated by the author using indicators:

$$Cash\ ETR = \frac{Tax\ Paid}{Pretax\ Income}$$ .....

2. Profitability

There are various measures of *profitability*, but those directly related to the interest of analyzing the company's financial performance, one of which is ROA (*Return On Assets*). *The following calculations can measure return on asset*s:

$$Return\ on\ Assets\ (\mathrm{ROA}) = \frac{\text{Laba Bersih}}{\text{Total Aset}}$$ ..... (Taylor et al., 2013).

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3. Bonus Mechanism

Amidu et al. (2019) found that in America, there is a tendency for management to utilize *transfer pricing* transactions to maximize the bonuses they receive if the bonuses are based on profit. Rego & Wilson (2012) argue that opportunistic managers can use various tax avoidance tools to advance managerial interests at the expense of shareholders' interests. However, incentives for managers to engage in tax avoidance are often influenced by the nature of compensation arrangements (Watts and Zimmerman, 1990). Several studies have examined the effect of executive compensation on tax avoidance (Rego & Wilson, 2012). Calculating the net profit trend index is a measure of this variable. The bonus mechanism based on the net profit trend index is calculated by:

$$MB = = \frac{\text{laba Bersih tahun t}}{\text{Laba Bersih tahun t}-1} x100\% \text{..... (Taylor et al., 2013)}$$

The type of data used in this study is secondary data in the form of financial statements of manufacturing companies published by the Indonesia Stock Exchange obtained from the IDX Fact Book and OJS. The secondary data in this study is in the form of financial statements and reports of independent auditors of each public company for the 2010-2020 period, as well as company data obtained from www.idx.co.id.

The population in this study, namely all multinational *companies in the* manufacturing and service sector listed on the KOMPAS 100 index on the Indonesia Stock Exchange (IDX), amounted to 100 companies. Kompas 100 is an index measuring the price performance of 100 stocks with good liquidity and large market capitalization. Then, the sample in this study is companies that are members of the KOMPAS 100 index in 2010-2020, totaling 100 companies.

The reason for this study using the KOMPAS 100 sample is because there are several fundamental considerations, including the following: 1) The selection of the manufacturing sector looks at the background of the occurrence of transfer pricing cases that are widely carried out by the manufacturing sector and the selection of the service sector is as a comparison sector; 2) The company has never *delisted* on the Indonesia Stock Exchange during 2010-2020; 3) The sample company was controlled by a foreign company in 2010-2020, this is by PSAK Number 15; 4) Transaction activity in the regular market; 5) Market capitalization in a certain period

The sampling method is based on the *purposive sampling* method, which is a sample based on the suitability of the sample characteristics with the predetermined sample selection criteria (Sugiyono, 2017). The criteria that the sample should have are as follows:

Table 1. Sample Selection Process

No	Sample Criteria	Sum
1	Non-financial Manufacturing and Services Companies *Listed* on the Kompas 100 Index	100
2	The company was listed on the Indonesia Stock Exchange (IDX) for the period 2010 – 2020	100
3	Manufacturing companies that report complete financial statements in 2010-2020, at least once time and financial	52

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	services are listed on the Kompas 100 index in the observation period	
4	Manufacturing companies that report complete financial statements in 2010-2020, at least two times listed in the Kompas 100 index in the observation period	48
	Number of Research Samples	48

Source : Data Processed, (2022)

Based on the sample criteria described in table 1. then the number of selected samples was 48 companies.

The data collection technique in this study is documentation, which is a data collection technique by viewing, recording, and analyzing secondary data in the form of the KOMPAS 100 index published by the Indonesia Stock Exchange (IDX) with the www.idx.co.id website. Data collection is carried out by taking annual financial statement data as a balance sheet and profit and loss statement, namely assets, liabilities, income, net profit, amount of taxes and income. Then *the annual report* data to retrieve data on shareholding, foreign transactions and independent audit reports. This study used the analysis of the Granger causality test and hypothesis testing using the e n determination to confirm the F and t-test. The data panel is a combination of *time series* data and *cross-section* data. Researchers want to empirically test the relationship between variables and the causality relationship between tax and transfer pricing using Granger's causality.

1. Hypothesis Test

a. Coefficient of determination (R square)

The coefficient of determination determines how much the independent variable contributes to the dependent variable. This coefficient of determination indicates the ability of the regression line to describe the variation of bound variables that free variables can explain. R-squared values range from 0 to 1. A value close to 1 means that independent variables provide almost all the information needed to predict the variation of dependent variables. Getting closer to 1 means a better

b. Test F

The F test is carried out to determine the presence or absence of the influence of all independent variables (simultaneously) on the dependent variables. If Fhitung > Ftabel, Ho is rejected, and Ha is accepted, the independent variable significantly influences the dependent variable by using a significance level of 5%. If the value of F is calculated > Ftabel, all independent variables affect the dependent variables. In addition, it can also be done by looking at the significance value. If the significance value is less than 0.05 (for a significance level of 5%), then the independent variables jointly affect the dependent variables. Meanwhile, if the significance value is greater than 0.05, the independent variable simultaneously does not affect the dependent variable.

The hypotheses used are as follows:

Ho: There is no simultaneous influence of independent variables on dependent variables.

Ha: There is an influence between the independent variables on the dependent variable simultaneously.

c. t-test

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The t-test is carried out to determine the presence or absence of the influence of the independent variable partially on the dependent variable. If the t-count > t-table, Ho is rejected, and Ha is accepted, which means that the independent variable significantly influences the dependent variable by using a significance level of 5%. In addition, it can also be done by looking at the significance value. If the significance value is less than 0.05 (for a significance level of 5%), then the independent variable partially affects the dependent variable. Meanwhile, if the significance value exceeds 0.05, the independent variable partially does not affect the dependent variable.
The hypotheses used are as follows:
Ho: There is no partial influence of independent variables on dependent variables.
Ha: There is a partial influence of independent variables on dependent variables.

d. Granger Causality Test

In economic analysis data using econometric methods, there are often conditions of dependence between variables used in research. This condition can be said that there is a possibility of causality between variables in the model, making it necessary to do a causality test between variables or what is commonly called the Granger Causality test. The granger causality test is one of the methods for testing causal relationships or interdependencies. According to Gujarati (2004), four results can be concluded in the Granger Causality Test, namely: Unidirectional causality from variable A to variable B (*unidirectional causality*); unidirectional causality from variable B to variable A (*unidirectional causality*); bidirectional causality between variable A and variable B (*bidirectional causality*); and there is no causality between variable A and variable B (*independence*).

This test was conducted to see the causality relationship between *transfer pricing* (TP) and *tax avoidance* (TAX) in Indonesia so that it can be known that the two variables statistically influence each other (two-way relationship), have a unidirectional relationship or do not affect each other at all. Here is the *Granger Causality Test* method as follows:

$$TP_t = \sum_{i=1}^{n} \alpha_i TP_{t-1} + \sum_{j=1}^{n} \beta_j TA_{t-j} + \mu 1$$

$$TA_t = \sum_{i=1}^{n} \theta_i TA_{t-1} + \sum_{j=1}^{n} \gamma_j TP_{t-j} + \mu 1$$

Where:
TP = *Transfer Pricing*
TAX = *Tax Avoidance*
μ = *Error Terms*

Based on the regression results from the two forms of linear regression models above, four possible relationship states will be produced, namely:
a. If ∑ I ≠0 and ∑ j = 0, then there is a unidirectional causality between TP to TAX

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b. If ∑ j ≠0 and ∑ i = 0, there is a unidirectional causality between TAX and TP.
c. If∑ I ≠0 and ∑ j ≠ 0, there is bilateral (bidirectional) causality between TAX and TP.
d. If ∑ i =0 and ∑ j = 0, then neither TA nor TP are interconnected (independent).
e. To strengthen the indication of the existence of various forms of causality above, an F-Test can be carried out for each regression.

2. Statistical Hypothesis

Hypothesis 1: "There is a causality relationship between taxes and *transfer pricing* in companies related to the manufacturing and non-financial services sectors in Indonesia"

H_0: *transfer pricing does not cause* taxes
transfer pricing does not cause taxes

H_1: *transfer pricing* à tax
transfer pricing ß, taxes

Hypothesis 2: "The bonus mechanism strengthens the relationship between profitability and *transfer pricing* in companies related to the manufacturing and non-financial services sectors in Indonesia"
H 0: $\beta_2 = 0$
H 2: $\beta_2 > 0$

RESULTS AND DISCUSSION

1. Descriptive Statistics

The sample in this study was 48 issuers included in the KOMPAS100 group from the 2010-2020 period, with issuers at least two times listed in the KOMPAS 100 index consisting of the manufacturing and non-financial services sectors so that the total observations amounted to 528 observations. Descriptive statistics of the research variables can be seen in Table 2 below.

Table 2. Descriptive Statistics of Research Variables

Code	Variable	Mean	Median	Maximum	Minimum	Std. Dev.
TAX	Tax	0.01	0.01	2.83	-0.63	0.15
ROA	Profitability	9.42	6.93	71.51	-17.14	10.16
BONU	Bonus	1.18	0.13	46.82	-4.81	3.96
TPR	*Transfer pricing*	0.11	0.02	0.80	0.00	0.19

Source: Data processed, (2023)

Tax data ranges from -0.63 to 2.83, with an average of 0.01 and a standard deviation of 0.15. Profitability data ranges from -17.14 to 71.51, with an average of 9.42 and a standard deviation of 10.16. Bonus data ranged from -4.81 to 46.82, with an average of 1.18 and a standard deviation of 3.96. Transfer *pricing* data range from 0 to 0.8, with an average of 0.11 and a standard deviation of 0.19.

2. Granger Causality Test Results

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The Granger causality test is used to see the direction of the relationship between the research variables, whether one-way or two-way. Variables that are suspected of influencing each other are taxes with *transfer pricing*. The results of the Granger causality test of the two variables can be seen in Table 4.2 below.

Table 3. Granger Causality Test Results

Hypothesis	F-stat	Prob.	Conclusion
TPRàTAX	15.2990	4.E-07	e relationship between TPR and TAX is two-way
TPRßTAX	40.4028	9.E-17	

Source: Data processed, (2023)

Testing the TPR hypothesis against TAX obtained a probability value of 4.10-7 < 0.05, so it can be concluded that TPR affects TAX. Testing the TAX hypothesis against TPR obtained a probability value of 9.10-7 < 0.05, so it can be concluded that TAX affects TPR. From the test results, it can be concluded that the relationship between tax (TAX) and *transfer pricing* (TPR) is two-way; in other words, there is a causality relationship between TPR and TAX.

However, research on tax *avoidance* is mostly done with variables such as *thin capitalization, tax havens*, intangible goods, income shifts and affiliate financing structures (Brock & Pogge, 2014). What is more, most of these studies reveal that transfer price manipulation is the main avoidance mechanism used by these companies to achieve the goal of maximizing global profits and the goal of tax minimization. The results of the F test show a p-value of 0.000 < 0.05, so it can be concluded that the independent variables in equation 2 together affect the amount of *transfer pricing*.

Table 4. Hypothesis Testing Results

Hypothesis	Relationship	Result
1	Tax ßà *Transfer Pricing*	Accepted
2	Profitability*bonus mechanismà *Transfer Pricing*	Rejected

Source : Data processed, (2023)

A. Discussion of Research Results

The discussion of the results of this study is an analysis of each hypothesis in the study. The analysis of each research hypothesis is described as follows:

1. There is a causality relationship between tax and *transfer pricing* in companies related to the manufacturing and non-financial services sectors in Indonesia

Hypothesis 1 of this study is answered by the results of the Granger causality test in Table 3. Granger's causality test results show that the amount of tax affects transfer *pricing*. On the contrary, *transfer pricing* also affects the amount of tax. So the relationship between the amount of tax and transfer pricing is two-way, or it can be said that there is a causality relationship between *transfer pricing* and taxes.

The strong causality relationship between tax and *transfer pricing* has been explained earlier by S. Richardson et al. (2020), that a relationship is a form of tax

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avoidance that multinational corporations carry out that can be achieved by transferring goods to countries with low-income tax rates at the lowest possible transfer prices and by transferring goods from these countries at the highest possible transfer prices and then strengthened by Susanti & Firmansyah (2018) who explained that in *transfer pricing* multinational companies have been used to reduce global taxes. These findings reinforce the aggregation that multinational companies are conducting *transfer pricing* to minimize the amount of tax paid.

In the causality relationship, the fundamental question is which one first effects, whether the Tax to TP first or the TP to the Tax first. The first opinion was expressed in a test conducted by Cravens (1997) that transfer pricing is a strategy rather than a procedure. This perspective shows the importance of transfer pricing in corporate strategy and the performance of multinational companies. The company uses the transfer pricing method to execute the transfer pricing strategy. If the company uses transfer pricing to achieve various goals, then the effectiveness of transfer pricing becomes more important for the overall success of the company.

Furthermore, Guan et al. (2020) explain that to achieve maximum after-tax profit. Multinational companies often implement internal transfer price adjustments between parent and subsidiary companies or subsidiaries to reduce their outstanding income tax. Transfer pricing is a manipulation regulated at a higher level. It is a price strategy for transfers to subsidiaries in countries with high-income taxes to reduce the surplus of local subsidiaries and taxes owed. On the contrary, when exporting products to countries with low-income tax, the transfer price is set at a lower level to transfer profits to local subsidiaries, thereby increasing the overall profit after tax. Lin (2006) points out that the main objectives and functions of implementing transfer pricing strategies by multinational companies are (1) Increasing market competitiveness, (2) Flexible internal fund transfers, and (3) Reducing tax burdens.

According to a report by Garry Stone, Ph.D., the Global Transfer Pricing Leader of PwC (US) in 2013/14 explained, in its opening, that Transfer pricing is not only about taxation. Multinationals can consider implications beyond taxation. For example, the effect on corporate restructuring, supply chain, resource allocation, management compensation plan and management of exposure to third-party legal obligations should also be considered.

Then the findings of Baroroh et al. (2021) emphasize that *Transfer* pricing (TP) refers to the practice of transaction pricing between and within multinational companies. TP is justified for various reasons, such as economic, functional, organizational, and strategic needs. Nevertheless, TP can be subjected to unethical and unlawful exploitation, for example, to reduce global taxes, in which income and costs are manipulated to show maximum and minimum profits in individual countries with low and high taxes. Indeed, studies have revealed that TP has allowed many organizations to shift their profits from high-to-low-tax countries.

From the various opinions above, it can be concluded that the relationship between tax causality and TP, then the initial influence is the tax on TP. This is based on the practice of transfer prices by multinational companies.

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2. Bonus Mechanism Weakens the Effect of Profitability on *Transfer Pricing* in **companies related to the manufacturing and non-financial services sectors in Indonesia**

Hypothesis 2 of this study was answered by the results of the profitability variable t-test moderated bonus against *transfer pricing*. The resulting p-value is 0.5169 > 0.05, and the coefficient sign is negative. So it can be concluded that bonuses weaken the profitability to *transfer pricing*. The company's management utilizes *transfer pricing* transactions to maximize the bonuses they receive based on their profits earned. However, in this study, the bonuses received did not moderate the profitability of transfer pricing. The results of this study cannot be reconfirmed from the research conducted by Kananto (2019).

The decision of managers to pursue bonuses does not affect the increase in the company's revenue, but *the company still carries out transfer pricing*. That is certainly the opposite of Wang et al. (2018) but is supported by the opinion of Ross L. Watts & Jerold L. Zimmerman (1990) that managers tend to maximize their profits. This is by the results of this study that managers have made their motivation to get bonuses so that managers will get higher compensation. Agency theory states that incentives can influence individual choices in decision-making.

Baroroh et al. (2021) found that profitability could not moderate the effect of bonus mechanisms on *transfer pricing* decisions. This means that companies with a high level of profitability will not make transfer pricing decisions to get bonuses from company owners. Ross L. Watts & Jerold L. Zimmerman (1990) explain that managers of companies with bonus mechanisms are likely to choose accounting procedures with changes in reported profits in the period coming to the present period. The company's management wants its performance results to be considered good by the company owner so that the bonuses obtained by management will be more. Management prefers a much lower *transfer pricing* rate to avoid changes in reported net profit increases. The company's management is less effective in increasing the company's profit if bonuses are given to managers based on the increase in overall net profit. Then, companies with high profitability tend not to make transfer pricing decisions to get maximum bonuses from company owners.

CONCLUSION

Based on the results of the study, it can be concluded that there is a causality relationship between tax and transfer pricing. The amount of tax has a positive effect on transfer *pricing*. On the other hand, *transfer pricing* also positively affects the amount of tax. This suggests a causality link between taxes and transfer pricing and as a form of tax avoidance by multinational companies. The role of the bonus mechanism does not moderate the amount of profitability to *transfer pricing*. The decision of managers to pursue bonuses does not affect the amount of profitability to *transfer pricing.*

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