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The Effect of Tunneling Incentives and Tax Burden on Transfer Pricing in Companies Listed in the Jakarta Islamic Index 70 for the Period 2020–2023

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Abstract: This study highlights the effect of tunneling incentives and tax burden on transfer pricing. A quantitative method was employed, using secondary data obtained from the official website of the Indonesia Stock Exchange (IDX) (**www.idx.co.id**), with a sample of 61 companies. The results indicate that tunneling incentives have a positive effect on transfer pricing in companies listed on the Jakarta Islamic Index 70 during the 2020–2023 period; therefore, H1 is accepted. The tax burden has a negative effect on transfer pricing in companies listed on the Jakarta Islamic Index 70 during the 2020–2023 period; therefore, H2 is rejected. Tunneling incentives and tax burden simultaneously and significantly affect transfer pricing in companies listed on the Jakarta Islamic Index 70 during the 2020–2023 period; therefore, H3 is accepted.

Abstrak: Kajian ini menyoroti pengaruh tunneling incentive dan beban pajak terhadap transfer pricing. Metode yang dipakai kuantitatif, dengan data sekunder yang diakses melalui situs resmi Bursa Efek Indonesia (BEI) (www.idx.co.id) dengan jumlah sampel sebanyak 61 perusahaan. Hasil penelitian menunjukkan bahwa Tunneling Incentive berpengaruh positif terhadap Transfer Pricing pada perusahaan yang terdaftar di Jakarta Islamic Indeks 70 tahun 2020-2023, maka dapat disimpulkan H1 Diterima. Beban Pajak berpengaruh negatif terhadap Transfer Pricing pada perusahaan yang terdaftar di Jakarta Islamic Indeks 70 tahun 2020-2023, maka dapat disimpulkan H2 Ditolak. Tunneling Incentive dan Beban Pajak berpengaruh secara simultan dan signifikan terhadap Transfer Pricing pada perusahaan yang terdaftar di Jakarta Islamic Indeks 70 tahun 2020-2023, maka dapat

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	disimpulkan H3 Diterima.
Keywords: Transfer Pricing; Tunneling Incentive; Tax Burden.	***Kata Kunci****:* Transfer Pricing; Tunneling Incentive; Beban Pajak.

A. Introduction

Transfer pricing practices, in addition to reducing state revenue from taxes for public services and development, also raise a number of issues. This can be detrimental to the state and minority shareholders. Among these issues is transfer price manipulation, which results in unreflected market prices. (*The arm's length principle*). *Arm's length* is a fair market price, namely the price or profit from transactions carried out by parties without a specific relationship and determined by market forces. (Agustina, 2019)

While it can be profitable for companies, *transfer pricing practices* pose risks, such as reduced state tax revenue and losses for minority shareholders. Factors driving *transfer pricing* include tax burdens and *tunneling incentives* . High tax burdens encourage companies to seek ways to minimize their fiscal obligations, while *tunneling incentives* allow majority shareholders to divert company assets or profits for personal gain, harming minority shareholders (Miranty et al., 2022; Karlina & Rizsti, 2024).

In the context of the Islamic capital market, the Jakarta Islamic Index 70 (JII70) is of particular interest because it contains the most liquid and relatively new Islamic stocks. Companies in this index are prone to potential *transfer pricing practices* , making it important to examine the extent to which *tunneling incentives* and tax burdens influence corporate transfer pricing policies. This research is expected to contribute to the development of Islamic finance literature and provide input for regulators in improving oversight of *transfer pricing practices* (Fajar Segarawasesa & Rifandi, 2024).

Transfer pricing is the practice of determining prices in transactions between companies with special relationships. While it can essentially serve as a neutral

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managerial strategy for managing financial performance, this practice is often used as a tool for tax avoidance by shifting profits to countries with lower tax rates. This poses a problem because it can deviate from *the arm's length principle* , harming the state and minority shareholders (Riyadi & Kresnawati, 2021).

One factor driving *transfer pricing* is *the tunneling incentive* , which is the tendency of majority shareholders to divert company assets or profits for personal gain. *Tunneling practices* can be implemented through dividend policies or transactions with related parties, which, from an agency theory perspective, arise from differing interests between majority and minority shareholders. High majority shareholding is an indicator of potential *tunneling practices* , which ultimately encourage companies to engage in *transfer pricing* (Restu, 2016).

Furthermore, the tax burden is also a significant factor influencing corporate decisions. High taxes encourage companies to seek fiscal efficiency strategies, one of which is through *transfer pricing mechanisms* . In research, the tax burden is generally measured by the *Effective Tax Rate (ETR) , which is the ratio between income tax expense and profit before tax. Companies with a high ETR are more susceptible to transfer pricing* practices as an effort to reduce tax liabilities (Purnamasari & Yuniarwati, 2024).

Based on agency theory and positive accounting, corporate behavior in determining *transfer pricing* is inseparable from economic incentives and conflicts of interest among shareholders. Therefore, this study formulates three hypotheses: *tunneling incentives* have a positive effect on *transfer pricing* , tax burdens have a negative effect on *transfer pricing* , and both simultaneously have a significant effect on *transfer pricing* (Watts & Zimmerman, 1986; Jensen & Meckling, 1976).

The research gap in this thesis is based on the inconsistent results (research gap) from previous studies regarding factors influencing transfer pricing, such as tax variables, which were found to have no significant effect by Heru Ravensky & Taufik (2021) but had a significant effect in Helti Cledy & Muhammad (2020). Furthermore,

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there is a gap in the phenomenon of misalignment between fluctuations in tax burdens and transfer pricing figures in certain companies, such as PT Wijaya Karya (WIKA), as well as indications of tunneling practices by majority shareholders for minority shareholders.

B. Research Method

This study uses a quantitative approach with secondary data obtained from the annual reports of companies listed in the Jakarta Islamic Index 70 for the 2020–2023 period via the official IDX website (*www.idx.co.id*). The sample was selected using a *purposive sampling method* , resulting in 161 companies with 244 observations over four years. Data analysis was performed using multiple linear regression with the assistance of IBM SPSS version 24 software.

C. Results and Discussion

1. Descriptive Statistics

Tabel 2

Hasil Analisis Statistik Deskriptif

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
LNX1	166	-2.27	.00	-.6708	.44191
LNX2	166	-2.81	-.24	-1.5221	.43970
LNY	166	-4.61	.00	-1.9831	1.43183
Valid N (listwise)	166				

Sumber: analisis data memanfaatkan IBM SPSS versi 26

Tunneling incentives, variable X1 in Table 2, has a mean value of -0.6708 and a standard deviation of 0.44191, with a minimum value of -2.27 and a maximum value of 0.00. With a mean value of -1.5221 and a standard deviation of 0.43970, variable X2

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(tax burden) ranges from a minimum of -2.81 to a maximum of -0.24. In addition, variable Y (transfer pricing) has a mean of -1.9831, a standard deviation of 1.43183, and a minimum value of -4.61 to a maximum value of 0.00.

2. Classical Assumption Test

a. Normality Test

Tabel 3

Hasil Uji Normalitas

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		166
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	1.30540535
Most Extreme Differences	Absolute	.119
	Positive	.051
	Negative	-.119
Test Statistic		.119
Asymp. Sig. (2-tailed)		.108[c]
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

Sumber: data diolah menggunakan IBM SPSS versi 26

The findings of Table 3 show that the Asymp. Sig. (2-tailed) level for tunneling incentives and tax burdens on transfer pricing is 0.05 or higher, or 0.108. This indicates that the test results are regularly distributed, making them suitable for additional examination.

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b. Multicollinearity Test

Tabel 4

Hasil Uji Multikolinearitas

Coefficients[a]			
Model		Collinearity Statistics	
		Tolerance	VIF
1	LNX1	.998	1.002
	LNX2	.998	1.002
a. Dependent Variable: LNY			

Sumber: data diolah menggunakan IBM SPSS versi 26

Based on Table 4, the tolerance value and VIF value of variable X1 (tunneling incentive) and variable X2 (tax burden) are 0.998 and 1.002, respectively. Based on these results, the tolerance value of the tax burden factor and the tunneling incentive factor n VIF value is greater than 10.00 and greater than 0.10. Therefore, it can be concluded that there is no indication of multicollinearity in the data.

c. Autocorrelation Test

Tabel 5

Hasil Uji Autokorelasi

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.411[a]	.169	.159	1.31339	.832
a. Predictors: (Constant), LNX2, LNX1					
b. Dependent Variable: LNY					

Sumber: data diolah menggunakan IBM SPSS versi 26

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The finding of autocorrelation with a DW value of 0.832 is found in Table 5. The data in this study contain autocorrelation, as indicated by the comparison of dW (0.832) < dL (1.734), where the dL value in the Durbin k-2 table and n = 166 is 1.734 and the dU value is 1.758. By changing the independent and dependent variables and adding a lag factor from the previous residual, this iterative process attempts to improve the regression model. In order for the regression model to meet traditional assumptions and produce more precise and reliable results, this modification attempts to eliminate autocorrelation (Ghozali 2011).

Tabel 6

Hasil Uji Autokorelasi Metode *Cocharane Orcutt*

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.239[a]	.057	.046	.21069	1.878
a. Predictors: (Constant), LAG_X2, LAG_X1					
b. Dependent Variable: LAG_Y					

Sumber: data diolah menggunakan IBM SPSS versi 26

Diketahui:
n = 166
d = 1,878
dL = 1,734
dU = 1,758
4 − dL = 4 − 1,734 = 2,266
4 − dU = 4 − 1,758 = 2,242

The Durbin-Watson value in Table 7 is 1.878. Since there are two independent variables and 166 samples in this study, it can be said that there is no autocorrelation in the Durbin-Watson (DW) Test in the decision-making process

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because the dU value (1.758) < d (1.878) < 4-dU (2.242), which indicates that this model is suitable for additional analysis.

d. Heteroscedasticity Test

Tabel 7

Hasil Uji Heteroskedastisitas

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.538	.221		6.956	.000
	LNX1	.057	.126	.035	.453	.651
	LNX2	.273	.127	.166	2.153	.033
a. Dependent Variable: ABRESID						

Sumber: data diolah menggunakan IBM SPSS versi 26

The tunneling incentive variable X1 has a Glejser heteroscedasticity test result showing a significance level of 0.651. Considering that the tunneling incentive variable X1 has a significance value of 0.651 > 0.05, this research test does not find a heteroscedasticity problem. Conversely, variable X2 (tax burden) has a value of 0.033. This research test indicates a heteroscedasticity problem because the variable X2 (tax burden) has a significance value of 0.033 < 0.05.

3. Multiple Linear Analysis

Tabel 8

Hasil Analisis Regresi Linier Berganda

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Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.917	.406		-4.725	.000
	LNX1	1.217	.232	.376	5.257	.000
	LNX2	-.493	.233	-.151	-2.118	.036

a. Dependent Variable: LNY

Sumber : data diolah menggunakan IBM SPSS versi 26

Table 8 shows a constant value of -1.917, X1 (tunneling incentive) of 1.217, and X2 (tax burden) of -0.493 . The following is a possible structure of the multiple linear regression equation:

Y = -1.917 + 1.217 + (-0.493) + e

It means :

1. -1.917 is the negative value of the constant value (α). The transfer price value is -1.917 because a negative result indicates that the independent variables tunneling incentives and corporate tax burden are constant or have a value of 0.
2. The tunneling incentive variable has a positive impact on transfer prices, as indicated by its regression coefficient of 1.217. This means that, assuming all other factors remain constant, a one-unit increase in the tunneling incentive will result in a 1.217 increase in the transfer price value.

The negative impact on transfer prices is indicated by the regression coefficient of the tax burden variable, which is -0.493. This indicates that the

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transfer price value will decrease by -0.493 if all other variables remain constant for each unit increase in the tax burden.

4. Hypothesis

a. T-test

Tabel 9

Uji Parsial (Uji T)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.917	.406		-4.725	.000
	LNX1	1.217	.232	.376	5.257	.000
	LNX2	-.493	.233	-.151	-2.118	.036

a. Dependent Variable: LNY

Sumber : data diolah menggunakan IBM SPSS versi 26

H_1 and H_2 are accepted if their significance values are less than 0.05, indicating that the independent variable has a minimal impact on the dependent variable. After that, the multiple linear regression equation can be structured as follows:

$$Y = -1.917 + 1.217 + (-0.493) + e$$

The t-test findings for each independent variable are as follows, based on the regression equation:

1) The Impact of Tunneling Incentives on Transfer Pricing

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The results of the first hypothesis test (H1) yielded a significance level of 0.000 and a beta value of 1.217. This means that for every one-unit increase in tunneling incentives, transfer prices will increase by 1.217. This finding indicates that tunneling incentives positively influence transfer prices. Hypothesis (H1) is accepted.

2. The Effect of Tax Burden on *Transfer Pricing*

The second hypothesis test (H2) yielded a significance value of 0.036 and a beta value of -0.493. This means that for every increase in transfer prices, the tax burden will decrease by -0.493. This finding indicates that transfer prices are negatively affected by the tax burden. Therefore, the hypothesis (H2) is refuted.

b. F test

Tabel 10
Uji Simultan (Uji F)

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	57.100	2	28.550	16.551	.000[b]
	Residual	281.174	163	1.725		
	Total	338.274	165			
a. Dependent Variable: LNY						
b. Predictors: (Constant), LNX2, LNX1						

Sumber : data diolah menggunakan IBM SPSS versi 26

Table 4.11 shows that the value has a significance value of 0.000 and is less than 0.05. Therefore, it can be said that the tax burden and tunneling incentives jointly influence transfer pricing factors.

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c. Adjusted R^2

Tabel 4.11

Uji Koefesien Determinasi

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.411[a]	.169	.159	1.31339
a. Predictors: (Constant), LNX2, LNX1				
b. Dependent Variable: LNY				

Sumber : data diolah menggunakan IBM SPSS versi 26

The calculated R2 value, as shown in Table 11, is 0.159, or 15.9%. This indicates that 15.9% of the independent components in this study—tax burden and tunneling incentives—impact the dependent variable, transfer pricing. However, other factors not included in this study impact the remaining 84.1%.

5. Discussion

The Effect of Tunneling Incentives on Transfer Pricing Partial test results show a beta value of 1.217 with a significance level of 0.000 <0.05, indicating that *tunneling incentives* have a positive effect on *transfer pricing* in JII70 companies for the 2020–2023 period. This indicates that the higher the majority ownership, the greater the tendency for companies to conduct *transfer pricing* in favor of the dominant shareholder. This finding is in line with agency theory, which explains the existence of majority–minority conflicts of interest, and is supported by research by Restu (2016) and Rizasti & Karlina (2024), although it differs from the results of research by Sheren (2023) and Liza (2020) which found an insignificant effect.

The Effect of Tax Burden on Transfer Pricing. The partial test results yielded a regression coefficient of -0.493 with a significance level of 0.036 <0.05, indicating a negative effect of tax burden on *transfer pricing* . This means that the greater the tax

burden, the more companies tend to reduce *transfer pricing practices* . This condition can occur because the tax authorities strictly monitor affiliated transactions. This finding aligns with research by Amarta et al. (2020) which showed a significant negative relationship, although it contradicts the study by Satria & Alamsyahbana (2021) which found a positive effect of tax on *transfer pricing decisions.*

The Effect of Tunneling Incentives and Tax Burden on Transfer Pricing The simultaneous test (F-test) yielded a significance value of 0.000 < 0.05, meaning that *tunneling incentives* and tax burdens simultaneously have a significant effect on *transfer pricing* . This indicates that *transfer pricing practices* are not only influenced by the control incentives of majority shareholders, but also by fiscal factors as a tax efficiency effort. This finding is in line with research by Restu (2016), Sakina (2024), and Yuliana Restu & Ambarita (2024) which states that the combination of tunneling incentive factors, taxation, and other governance variables can significantly influence *transfer pricing policies* .

D. Conclusion

The research findings and panel data regression analysis on the impact of tax burden and tunneling incentives on transfer prices for businesses included in the Jakarta Islamic Index 70 (JII 70) in 2020–2023 allow the following deductions: Transfer prices are somewhat affected by tunneling incentives. This result explains why businesses included in the 2020–2023 Jakarta Islamic Index 70 engage in more transfer pricing activities when tunneling incentives are higher. By producing a statistical test with a significance value of 0.000 and a beta value of 1.217, the t-test table makes it clear that for every unit increase in tunneling incentives, transfer prices will increase by 1.217. This finding supports hypothesis (H1) by indicating that tunneling incentives have a beneficial impact on transfer prices. Transfer prices are slightly affected by tax burdens. The statistical test produces a beta value of -0.493 and a significance value of 0.036. This indicates that for every unit increase in tax burdens,

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transfer prices will decrease by -0.493. Since this study shows that the tax burden has a negative effect on transfer pricing, hypothesis (H2) is rejected. Transfer pricing can be simultaneously influenced by both the tax burden and tunneling incentives. The f-test table shows a significant result of 0.000 in cases where the value is below 0.05. Therefore, it can be said that transfer pricing considerations are simultaneously influenced by the tax burden and tunneling incentives. Thus, it can be said that there is a simultaneous effect and (H3) is identified.

Several suggestions can be put forward based on the conclusions mentioned above, namely: First, it is recommended that the scope of the study be expanded to include all Sharia-compliant companies listed on the Indonesia Stock Exchange (IDX) or the Indonesian Sharia Stock Index (ISSI). This is because the number of research samples is still small because it only observes companies listed on the Jakarta Islamic Index 70 (JII 70). Second, to obtain good research results, it is recommended to include other elements related to transfer pricing, such as foreign ownership, leverage, bonus mechanisms, and effective corporate governance. Third, to ensure the research results can be applied more widely, it is also recommended that additional models and indicators from this work can be used in future research.

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