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DOI: 10.22219/jaa.v9i1.43723

Citation:
Lestari, D., Solikhah, B. Bonus Incentives And Transfer Pricing: Evidence From Indonesian Non-Financial Firms. Jurnal Akademi Akuntansi, 9(1), 87-103

Article Process
Submitted:
January 15, 2026

Reviewed:
Januari 28, 2026

Revised:
February 12, 2026

Accepted:
February 16, 2026

Published:
February 16, 2026

Office Address:
Accounting Department
University of Muhammadiyah Malang Joint Lecture Building
3rd Floor. Tlogomas Street 246, Malang, East Java, Indonesia

P-ISSN: 2715-1964
E-ISSN: 2654-8321

Article Type: Research Paper

Bonus incentives and transfer pricing: evidence from Indonesian non-financial firms

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ABSTRACT

Purpose: This study examines the effects of intangible assets, debt covenants, and tax minimization on transfer pricing behavior and investigates the moderating role of bonus mechanisms in Indonesian non-financial firms.

Methodology/approach: This research employs a quantitative longitudinal panel design using secondary data from the Refinitiv LSEG database. The sample consists of publicly listed non-financial companies in Indonesia, generating 4,202 firm-year observations after screening. Data are analyzed using a Fixed Effect Model and Moderated Regression Analysis (MRA) with EViews 12.

Findings: The results show that intangible assets significantly influence transfer pricing, emphasizing the strategic role of intellectual resources. Debt covenants and tax minimization have no direct effect. However, bonus mechanisms strengthen the relationships between debt covenants and transfer pricing, as well as tax minimization and transfer pricing, while no moderating effect is found for intangible assets.

Practical and Theoretical Contribution/Originality: This study extends agency and positive accounting theories by highlighting managerial incentives in transfer pricing decisions and provides practical implications for regulators and firms in designing effective incentive schemes.

Research Limitation: The study is limited to a single proxy for transfer pricing and does not consider variations in bonus scheme design or corporate governance characteristics.

Keywords: Bonus Mechanism; Debt Covenant; Intangible Assets; Tax Minimization; Transfer Pricing.

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INTRODUCTION

For several decades, the determination of transfer prices for transactions among affiliated entities within multinational enterprises (MNEs) operating across multiple jurisdictions has represented a fundamental challenge for international tax systems and corporate governance (Steens et al., 2022). Transfer pricing has become a critical issue in international taxation due to its capacity to facilitate profit shifting across borders, particularly as multinational corporations increasingly adopt complex organizational structures. Intra-group exchanges covering products, operational support, and intellectual property provide managers with considerable discretion to influence transfer prices in ways that affect reported profits and tax liabilities. Although the independent market standard advocated by the OECD, serves as the global benchmark for regulating transfer pricing practices, its practical application remains problematic due to information asymmetry, valuation difficulties, particularly for intangible assets, and heterogeneous enforcement across countries. Consequently, transfer pricing is frequently exploited by multinational firms as a mechanism for tax minimization through the strategic allocation of profits to lower-tax jurisdictions (Capatina-Verdes, 2022; Kalra & Afzal, 2023).

In the Indonesian context, concerns over aggressive transfer pricing practices have intensified in recent years, prompting the government to strengthen its regulatory framework. The issuance of Minister of Finance Regulation No. 172/PMK.03/2023 (PMK-172) reflects the tax authority's effort to enhance documentation requirements and improve oversight of related-party transactions. The case of PT Adaro Energy Tbk in 2018 provides an illustrative example. Adaro was alleged to have sold coal to its Singapore-based affiliate, Coaltrade Services International, at prices below market value, which were then resold at market prices, enabling profit shifting to a low-tax jurisdiction (Larasati & Arieftiara, 2023; Puspita Sari & Irawati, 2024). Such practices are facilitated by asymmetric information between tax authorities and companies, where firms possess greater access and control over internal transfer pricing policies than regulators. This condition creates opportunities for firms to manipulate transfer prices by setting artificially low or high prices in related-party transactions across jurisdictions with different tax rates, thereby shifting profits and reducing tax obligations (de Mooij & Liu, 2020; Waluyo & Basrowi, 2024). These cases indicate that managerial discretion in determining transfer prices continues to play a significant role, particularly in firms with extensive related-party transactions and complex ownership structures.

Numerous studies have explored drivers of pricing manipulation extensively to date. Some of the independent variables commonly examined in previous studies include intangible assets, debt covenants, and tax minimization. Several studies employ intangible assets such as royalty payments or the proportion of intangible assets as proxies for transfer pricing aggressiveness, finding that their valuation uncertainty provides firms with greater flexibility to shift profits across jurisdictions (Novira et al., 2020; Raehan Uzma & Budiantara, 2025). Other studies focus on debt covenants, suggesting that pressure to comply with contractual obligations may encourage managers to engage in transfer pricing to present favorable financial performance (Salsabila et al., 2023; Stevanni & Herijawati, 2024). In addition, tax minimization is frequently examined as a key motivation for transfer pricing, particularly in multinational firms operating across different tax regimes, yet findings remain inconsistent across sectors and periods (Cahyani Putri, 2023; Karmila & Kismanah, 2025; Marfuah et al., 2021).

Although prior studies report mixed and inconclusive findings regarding the impact of intellectual capital, contractual leverage limits, and tax avoidance decisions, such inconsistencies are largely attributable to differences in the characteristics of the industrial sectors examined. Empirical evidence from Indonesian manufacturing firms in the consumer goods sector and firms operating in the coal mining sector, for instance, shows conflicting results concerning how intellectual property and financial constraints shape pricing strategies(Haykal, 2024; Vianney Lelang Wayan & Khomsiyah, 2024). Variations in the intensity of intangible assets, capital structure, and the complexity of related-party transactions across sectors affect firms' incentives and opportunities to engage in transfer pricing. In Indonesia, transfer pricing behavior is further shaped by managerial compensation structures and the level of tax authority oversight, particularly by the Directorate General of Taxes (DGT), which varies across industries. Nevertheless, empirical research that explicitly incorporates bonus mechanisms as a moderating variable in the analysis of transfer pricing behavior among Indonesian firms remains limited. Despite growing interest in transfer pricing determinants, limited scholarly attention has been given to how bonus mechanisms interact with tax minimization strategies, even though profit-based incentives may intensify managers' motivation to combine tax avoidance and transfer pricing to maximize after-tax performance. Beyond sectoral differences, prior studies rarely consider how managerial incentive structures interact with these determinants, which may partly explain why similar proxies yield divergent findings across studies, particularly in emerging markets such as Indonesia, where bonus-based compensation remains heavily profit-oriented.

This study is grounded in agency theory and positive accounting theory to explain how managerial incentives and contractual pressures shape transfer pricing decisions. Agency framework explains tension from unequal information and misaligned goals, leading managers to prioritize personal incentives such as profit-based compensation over shareholder value maximization (Jensen & Meckling, 1976). In multinational corporations, this conflict may be exacerbated through transfer pricing, as managers can exploit discretion in pricing cross-border related-party transactions, particularly those involving intangible assets that are difficult to value, to shift profits and reduce tax burdens (Eden, 1998). Positive accounting theory further explains that managers' accounting policy choices are influenced by contractual arrangements, including debt covenants and bonus mechanisms (Watts & Zimmerman, 1986). Under the debt covenant hypothesis, managers facing tighter debt constraints are incentivized to adopt accounting strategies that increase reported earnings to avoid covenant violations and maintain compensation-related benefits (Priyanti & Suryarini, 2021). Transfer pricing thus represents an accounting policy choice that enables managers to reallocate profits among affiliated entities in response to contractual pressures arising from debt agreements and performance-based incentives (Lulut Sri & Amerieska, 2024; Tysan Parawansyah Syailendra & Martini Martini, 2024). Accordingly, transfer pricing decisions are viewed as the outcome of interactions between managerial incentives, contractual constraints, and firm-specific characteristics within both agency and positive accounting theory frameworks.

Based on the observed research gaps and inconsistent findings in prior studies, this study aims to investigate the effects of intangible assets, debt covenants, and fiscal burden minimization on transfer pricing practices, with the bonus mechanism serving as a interaction factor where incentive schemes alter relationships is intended to examine whether performance-based incentives strengthen, weaken, or alter the relationship between the independent variables and transfer pricing decisions by influencing managerial motivation in allocating profits among related entities. The analysis targets Indonesian publicly traded non-

financial firms from 2020 to 2024 and employs Moderated Regression Analysis (MRA) to accurately capture both direct effects and moderating interaction effects.

The relationship between agents as company operators and principals as owners is explained by agency theory (Jensen & Meckling, 1976). Differences in objectives between shareholders and executives fosters information imbalances, which in turn spark agency issues. A prime example of this is the manipulation of transfer pricing through intangible assets. These assets pose challenges in terms of accurate assessment and confirmation, yet they hold the potential to yield economic advantages in the future, making fair value determination challenging. This condition allows managers to engage in earnings management by allocating profits through intangible asset accounts. High intangible asset values attract investors, as companies appear to generate substantial income from copyrights, royalties, and franchises, enhancing public perception and profitability (Puspita Sari & Irawati, 2024). Consequently, higher levels of intangible assets increase a firm-level tendency toward price manipulation.

The results of this study align with the findings of Husna & Wulandari (2022), indicating that intellectual capital substantially increases pricing distortions. Companies with greater holdings of intangible assets tend to engage more in transfer pricing. Elements like trademarks, patents, and technological assets are inherently challenging to quantify accurately, which creates room for managerial discretion in determining transfer prices within transactions between related parties. These results are supported by (Sudaryono & Murwaningsari, 2023).

H_1: Intangible assets have a positive effect on transfer pricing practices

Debt covenants are agreements imposed by lenders to limit corporate operations may endanger loan value (Hidayah et al., 2025). Companies strive to demonstrate optimal performance to assure creditors of their repayment ability, particularly when leverage is high (Watts & Zimmerman, 1986). According to the accounting theory predicts higher manipulation as firms near covenant breaches managers are to apply accounting procedures that shift future earnings to the current period. As debt increases, credit restrictions tighten, raising the likelihood of covenant violations and associated costs. Managers therefore adopt accounting methods that increase reported profits to relax credit constraints and reduce technical violation costs (Marito & Rizal Putri, 2025). In this context, transfer pricing can be used to adjust financial performance to remain within covenant limits. This view is supported by Kristina & Muhyarsyah (2023), Salsabila et al. (2023), and Vianney Lelang Wayan & Khomsiyah (2024), who find that debt contracts positively influence transfer pricing.

H_2: Debt covenants have a positive effect on transfer pricing practices

Tax minimization is a major determinant of pricing choices where firms reallocate earnings across tax regimes jurisdictions by reallocating prices, revenues, costs, or asset usage among affiliated entities to reduce tax burdens (Devi & Suryarini, 2020). Based on agency theory, managers are motivated to demonstrate tax efficiency or increase after-tax profits, making tax minimization a strong incentive for transfer pricing. Higher tax burdens encourage firms to engage in tax minimization strategies, particularly through transfer pricing, to reduce financial obligations (Marfuah et al., 2021). Empirical studies, such as Aini & Rini (2023); Das et al. (2024), reinforce this relationship, indicating that tax minimization significantly influences transfer pricing practices. Therefore, firms facing higher effective tax rates are more likely to manipulate intra group transactions to reduce taxable income, which is reflected in lower reported transfer pricing measures.

H_3: Tax minimization has a negative effect on transfer pricing practices

Transfer pricing practices are often influenced by internal corporate policies, including bonus mechanisms linked to managerial financial performance. Based on agency theory, conflicts arise between principals and agents due to differing objectives, and bonus mechanisms serve as control tools to align these interests. Rizanti & Karlina (2024) explain that bonus systems may encourage managers to manipulate internal prices for earnings enhancement and, consequently, bonuses. Meanwhile, intangible assets allow greater flexibility in earnings manipulation due to valuation difficulties (Novira et al., 2020), increasing transfer pricing opportunities. Thus, bonus mechanisms may condition the linkage between intellectual capital and price manipulation. Well-designed bonus schemes can guide managers toward rational, transparent decisions aligned with shareholder interests, thereby preventing abusive transfer pricing (Solikhah et al., 2021).

H_4: Bonus mechanisms moderate the relationship between intangible assets and transfer pricing practices

Debt covenants pressure management to maintain certain financial ratios to avoid violations, influencing transfer pricing decisions as managers adjust profit recognition and cost allocation among related entities, including through intercompany loans and interest expenses, to improve financial performance monitored by creditors (Tarmidi et al., 2023). This aligns with the debt covenant hypothesis of positive accounting theory. However, bonus mechanisms linking compensation to profit performance may moderate this relationship. Strong bonus incentives may encourage more aggressive transfer pricing to boost profits, while long-term and compliance-oriented bonus designs may mitigate opportunistic behavior arising from debt covenant pressure.

H_5: Bonus mechanisms moderate the relationship between debt covenants and transfer pricing practices

Compensation schemes motivate managers to pursue shareholder value (Larasati & Arieftiara, 2023). However, profit-based bonus schemes often encourage managers to engage in opportunistic actions, such as transfer pricing, in order to report higher profits and obtain larger bonuses (Marfuah et al., 2021). This condition is consistent with agency theory, which posits that agents seek to maximize the bonuses they receive even when such actions may potentially harm the interests of principals. On the other hand, tax minimization practices are undertaken by firms to legally reduce tax burdens and enhance financial efficiency (Anindita Putri & Oktavianna, 2025). When tax minimization is combined with bonus incentives, managers' propensity to engage in transfer pricing becomes stronger, as they strive to achieve maximum after-tax profits that serve as the basis for bonus determination. The findings of Anindita Putri & Oktavianna (2025) indicate that tax minimization strengthens the relationship between bonus mechanisms and transfer pricing, implying that managers exploit tax avoidance opportunities to optimize the bonuses they receive.

H_6: Bonus mechanisms moderate the relationship between tax minimization and transfer pricing practices

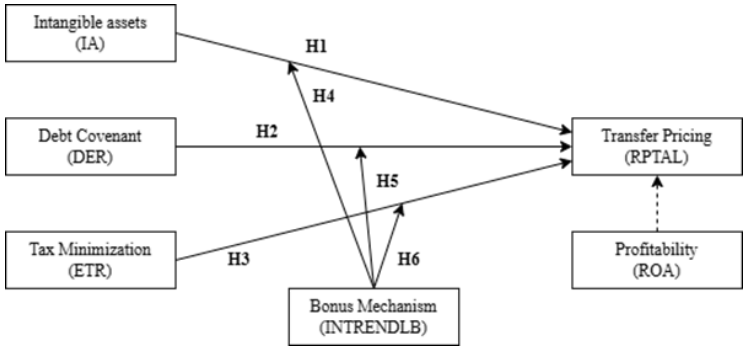

Figure 1. Theoretical framework

METHOD

This research undertakes a quantitative methodological framework, specifically employing a straight-line multi-period econometric framework. The empirical evidence is derived from secondary sources sourced from the Refinitiv LSEG repository. The investigation is structured as a census-based study, encompassing all publicly traded non-financial entities traded within Indonesia's capital market platform throughout the designated observation timeframe as the sample population. Consequently, a cohort of 843 enterprises was analyzed across the 2020–2024 period, yielding a total of 4,202 firm-year observations subsequent to data refinement and cleansing protocols. To address the potential impact of aberrant data points or extreme values on the dependent variable (Transfer Pricing) and all predictor variables (Intangible Assets, Debt Covenant, and Tax Minimization), as well as the moderating variable (Bonus Mechanism), a winsorization technique was implemented. extreme values were adjusted using widely accepted global methods, whereby values below the 1% percentile and above the 99% percentile are replaced with the nearest threshold values. This procedure enhances the robustness and representativeness of the data used in the analysis (Solikhah & Weng, 2024).

This study relies on yearly corporate reports from Indonesian non-financial firms over five years. In this context, transfer pricing serves as the dependent variable, while intangible assets, debt covenants, and tax minimization act as the independent variables. Additionally, the bonus mechanism plays a moderating role, influencing the connections between relationships between intellectual capital, leverage limits, and pricing manipulation practices, and profitability is included as a control variable. The aim of this research is to illustrate the genuine conditions among publicly traded non-banking corporations in Indonesia free from external influences and to achieve a comprehensive understanding of domestic market control. A complete overview of measurement criteria applied to each construct study is provided in Table 1.

Variable	Definition	Measurement
Dependent Variable		
Transfer Pricing (Y)	internal pricing policies governing intercompany exchanges transactions between affiliated entities, which ideally should comply with the arm's length principle; nonetheless, in real-world practice, it is frequently utilized as a tool to reallocate profits.	RPTAL= (RelatedPartyTransactionAssetsΛLiabilities)/(Total Equity) (Solikhah et al., 2021)
Independent Variable		
Intangible Assets (X1)	According to PSAK 19 (Revision 2010), intangible assets are defined as non-current, non-tangible resources yielding financial returns and ownership claim and are not classified under other asset categories in the financial statements..	Intangible Assets= Log (Total Intangible Assets) (Novira et al., 2020)
Debt Covenant (X2)	A debt covenant is a contractual agreement intended to safeguard the interests of lenders from managerial actions that may disadvantage creditors.	DER=(Total Liabilities)/(Total Equity) (Sofi et al., 2025)
Tax Minimization (X3)	Tax minimization refers to a strategy to shift income to lower-tax jurisdictions through related-party transactions and is measured using actual corporate tax burden relative to pre-tax earnings income, excluding firms with negative pre-tax income and controlling extreme values through winsorization.	ETR=(Income Tax Expense)/(Pre-Tax Income) (Marfuah et al., 2021)
Moderating variable		
Bonus Mechanism (M)	Bonus mechanisms are compensation schemes that link managerial incentives to company performance and can influence managerial decision-making, including transfer pricing practices.	ITRENDLB =(NetIncome(t))/(NetIncome(t-1)) X 100% (Solikhah et al., 2021)
Control Variable		
Profitability (C)	Company profitability reflects management effectiveness in achieving the firm's expected targets.	ROA=(Net Income)/(Total Assets) (Denny et al., 2024)

Table 1. Variables Definition and Measurement

Source: Data processed (2025)

The study employs a fixed effects model to ascertain the influence of intangible assets, debt covenants, and tax minimization strategies, with the bonus mechanism functioning as a crucial moderating factor. The empirical estimation is executed utilizing the EViews 12 software suite. The specific regression specifications employed in this research are delineated herein.

Model

$$RPTAL_{i,t} = \alpha_0 + \beta_1 IA_{i,t} + \beta_2 DC_{i,t} + \beta_3 TM_{i,t} + \beta_4 MB_{i,t} + \beta_5 (IA_{i,t} \times BM_{i,t}) + \beta_6 (DC_{i,t} \times BM_{i,t}) + \beta_7 (TM_{i,t} \times BM_{i,t}) + \beta_8 PROFIT_{i,t} + \varepsilon_{i,t}$$

Description :

$RPTAL_{it}$	: Transfer Pricing
α (alpha)	: Constant
$\beta_1 - \beta_8$	: Regression coefficients
IA_{it}	: Intangible Assets
DC_{it}	: Debt Covenant
TM_{it}	: Tax Minimization
MB_{it}	: Bonus Mechanism
$(IA \times MB)_{it}$	: Interaction between Intangible Assets and Bonus Mechanism
$(DC \times MB)_{it}$	: Interaction between Debt Covenant and Bonus Mechanism
$(TM \times MB)_{it}$	: Interaction between Tax Minimization and Bonus Mechanism
$PROFIT_{it}$	: Profitability (Control)
ε_{it}	: Error term

RESULTS AND DISCUSSION

Descriptive statistics

Preliminary numerical summarization of dataset characteristics employed to synthesize an understanding of the collected research information, utilizing key metrics such as the mean, maximum, minimum, and standard deviation for each delineated variable. The empirical findings derived from the descriptive statistical scrutiny within this investigation demonstrate that all investigative constructs exhibit notably substantial standard deviation measures.

	N	Minimum	Maximum	Mean	Std. Deviation
Intangible Assets	4202	14.756	30.342	27.795	4.128
Debt Covenant	4202	0.011	13.350	3.544	5.297
Tax Minimization	4202	-0.079	1.982	0.419	0.616
Bonus Mechanism	4202	-1.180	41.746	7.835	15.085
Transfer Pricing	4202	0.000	8.143	3.368	3.896
Profitability	4202	-0.670	31.394	0.375	0.524
Valid V (listwise)	4202				

Table 2. Description of Research Variable Statistics

Source: Secondary data processed using EViews 12, 2025

Based on Table 2, which presents descriptive statistics for 4,202 observations, this study shows that the sampled companies have a relatively high proportion of intangible assets, with a mean value of 27.795, indicating potential flexibility in transfer pricing determination. The debt covenant variable has an average value of 3.544 with considerable variation, reflecting differences in debt covenant pressure across firms. Tax minimization has a mean value of 0.419, indicating variations in corporate tax management strategies. The bonus mechanism has an average of 7.835 with high variability, suggesting significant differences in managerial incentive policies. Meanwhile, transfer pricing, proxied by related-party transactions, has a mean value of 3.368, indicating that such practices are relatively common, albeit with varying intensity. Profitability, used as a control variable, has a mean value of 0.375, reflecting differences in firms' ability to generate profits.

Inferential Statistics

Before testing the hypotheses, a rigorous assessment of the selected regression models is requisite to ascertain their empirical appropriateness. Specifically, this evaluation pertains to the three estimated pooled regression, entity-specific estimation, and stochastic effect approaches. The criterion for model selection is established through a systematic process involving statistical diagnostics, notably the Chow test and the Hausman test. The empirical outcomes derived from these diagnostic tests, which facilitate the identification of the most statistically sound model among the aforementioned alternatives, are comprehensively detailed in Tables 3 and 4.

Redundant Fixed Effects Tests

Equation: Untitled

Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	15.317993	(842.3354)	0.0000
Cross-section Chi-square	6630.953194	842	0.0000

Table 3. Chow Test Results.

Source: Secondary data processed using EViews 12, 2025

Referring to Table 3, the outcomes from the Chow test, which is also called the Redundant Fixed Effects Test, reveal that the significance probability for the cross-sectional test equals 0.0000, a figure below the 0.05 threshold, H_0 is rejected. These findings highlight variations among companies, indicating The Fixed Effect approach outperforms the Common Effect specification.

Table 4 shows the results of the model selection tests. From the outcomes of the Hausman test, the p-value associated with the cross-sectional random effect stands at 0.0000, falling below the 0.05 threshold, leading to the rejection of H_0. Consequently, the Fixed Effect Model (FEM) emerges as a better fit compared to the Random Effect Model (REM). Moreover, drawing from the findings of the Redundant Fixed Effects test (Chow Test) alongside the Hausman test, the chosen model for this research is the Fixed Effect Model (FEM), rendering the Lagrange Multiplier test unnecessary.

The multicollinearity test findings detailed in Table 5. reveal that every independent variable examined in this research displays correlation coefficients among variables that fall below 0.80. This indicates that the relationships among variables encompassing immaterial resources, loan agreement restrictions, tax planning strategies, and reward systems profitability do not exhibit high correlations. Although there is a relatively high correlation between tax minimization and the bonus mechanism, the value remains within acceptable limits. Consequently, no correlation distortion exists among predictors in the research data, and the model is suitable for further testing.

Correlated Random Effects – Hausman Test

Equation: Untitled

Test cross-section random effects

Table 4. Hausman Test Results.

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	27.913663	5	0.0000

Source: Secondary data processed using EViews 12, 2025

Multicollinearity Test

Table 5. Multicollinearity test.

	Intangible Assets	Debt Covenant	Tax Minimization	Bonus Mechanism	Profitability
Intangible Assets	1				
Debt Covenant	0.103	1			
Tax Minimization	0.101	0.487	1		
Bonus Mechanism	0.086	0.636	0.704	1	
Profitability	-0.009	0.044	0.049	0.053	1

Source: Secondary data processed using EViews 12, 2025

Panel Data Regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.078	0.458	4.540	0.000
Intangible Assets	0.023*	0.017	1.803	0.072
Debt Covenant	0.010	0.013	0.733	0.463
Tax Minimization	0.025	0.480	0.053	0.958
Bonus Mechanism	0.015*	0.008	1.919	0.055
IA*BM	-0.0003	0.017	-0.018	0.986
DC*BM	0.002**	0.001	2.805	0.005
TM*BM	0.010**	0.005	2.157	0.031
Profitability	0.049	0.045	1.103	0.270
R-squared	0.816			
Adjusted R-squared	0.770			
F-statistic	17.525			
Prob(F-statistic)	0.000			

Note: ***, **, * Represents 1% significance, 5% significance, or 10% significance, respectively.

Table 6. Multiple Linear Regression and Moderation Test Results.

Table 6. presents the estimation results of the panel data regression model with moderating variables. Accordingly, the research model is expressed as follows:

$$RPTAL_{i,t} = 2.078 + 0.023IA_{i,t} + 0.010DC_{i,t} + 0.025TM_{i,t} + 0.015MB_{i,t} - 0.0003(IA_{i,t} \times BM_{i,t}) + 0.002(DC_{i,t} \times BM_{i,t}) + 0.010(TM_{i,t} \times BM_{i,t}) + 0.049PROFIT_{i,t} + \varepsilon_{i,t}$$

This study adopts a 10% significance level, which is commonly applied in accounting and behavioral research to capture economically meaningful relationships, particularly in studies examining managerial incentives and firm-level decision-making. Findings derived from panel-based statistical modeling reveal a cross-section–based fixed effect approach show an F-statistic value of 17.525 with a Prob(F-statistic) of 0.0000, which is less than α (0.10). Therefore, H_0 H_0 fails to hold and H_a gains empirical backing and the moderating variable simultaneously affect transfer pricing, and thus the model is considered appropriate. The Adjusted R-squared value of 0.770 indicates that 77% of the variation in transfer pricing is influenced by non-physical assets, debt agreements, taxation efforts, and compensation structures the interaction variables included in the model, whereas the unexplained share originates from external influences.

Based on a 10% significance level, the partial regression results show that non-physical corporate resources contribute to upward variations in intercompany pricing decisions, alongside managerial incentive structures also shows a positive effect (t = 1.919; p = 0.055). These findings suggest that a higher proportion of intangible assets and stronger performance-based managerial incentives increase firms' propensity to engage in transfer pricing practices. Meanwhile, debt covenants (t = 0.733; p = 0.463) and tax minimization (t = 0.053; p = 0.958) do not show significant effects. The moderation test results indicate that the bonus mechanism significantly strengthens the effect of debt covenants (t = 2.805; p = 0.005) and tax minimization (t = 2.157; p = 0.031) on transfer pricing, while the interaction with intangible assets is not significant (t = −0.018; p = 0.986). In addition, the control variable profitability shows a positive but insignificant coefficient (t = 1.103; p = 0.270),

indicating that corporate profitability does not directly affect transfer pricing practices after considering agency factors and managerial incentives.

The Influence of Intangible Assets, Debt Covenants, and Tax Minimization on Transfer Pricing Practices

Based on the empirical test results, intangible assets are empirically demonstrated to strengthen internal pricing strategies practices, although the significance is at the 10% level. This finding indicates that intangible assets still play a role in encouraging companies to engage in transfer pricing, primarily due to their characteristics of being difficult to measure and objectively verify. These conditions provide management with greater flexibility in determining transaction values among affiliated entities, particularly through royalty payments, licensing, or the use of brands and technology. This result is consistent with the findings of Husna & Wulandari (2022), Novira et al. (2020), and Sudaryono & Murwaningsari (2023), which state that the greater the ownership of intangible assets, the higher the tendency for companies to engage in transfer pricing. Thus, although the statistical effect is relatively weak, intangible assets remain a strategic instrument in profit shifting practices among related entities.

In contrast to intangible assets, debt covenants in this study fail to exhibit measurable influence on internal pricing policies. This result indicates that pressure from debt agreements does not necessarily encourage companies to use transfer pricing as a means of earnings management. One possible explanation is that companies tend to be more cautious in formulating transfer pricing policies when under creditor supervision, thereby limiting opportunities for manipulation. Additionally, firms may choose alternative strategies to comply with debt covenants, such as operational efficiency or financial restructuring, rather than taking risks through transfer pricing transactions. This finding is consistent with the study by Stevanni & Herijawati (2024), which found that the existence of debt contracts does not always drive transfer pricing practices. This suggests that the role of debt covenants in transfer pricing is contextual and highly influenced by firm characteristics and the level of creditor monitoring.

Tax minimization is not found to immediately influence intercompany transaction values, indicating that a lower effective tax rate (ETR) does not necessarily lead firms to engage in transfer pricing practices. Companies may prefer other tax planning strategies that are perceived as safer and more compliant with regulations, especially given the increasingly strict oversight of related-party transactions by tax authorities. Moreover, the risk of sanctions and reputational damage may cause firms to adopt a more conservative stance toward using transfer pricing as a tax minimization tool. This finding supports the results of Cahyani Putri (2023) and Vianney Lelang Wayan & Khomsiyah (2024), which state that reducing fiscal burdens does not consistently drive internal pricing policies practices. However, the effect of tax minimization becomes significant when moderated by the bonus mechanism. Consistent with agency theory, performance-based bonuses alter managerial incentives by increasing the private benefits associated with aggressive tax outcomes. Under such conditions, lower effective tax rates (ETR), as an indicator of aggressive tax minimization, are more likely to be accompanied by transfer pricing practices when managerial incentives amplify risk-taking behavior.

The Moderating Effect of Bonus Mechanisms on the Relationship between Intangible Assets, Debt Covenants, and Tax Minimization and Transfer Pricing Practices

The moderation test results indicate that managerial incentive systems fail to alter the influence of intangible resources on pricing strategies. Because intangible assets inherently

embed substantial valuation discretion due to their uniqueness, limited comparability, and high subjectivity, the marginal incentive effect of bonus mechanisms becomes negligible. In such cases, managerial discretion is primarily driven by asset characteristics rather than compensation structures, rendering additional bonus incentives ineffective in further amplifying transfer pricing behavior. Empirical evidence also shows that the allocation of intangible assets within multinational enterprises is often distorted toward affiliates located in lower-tax jurisdictions, where firms tend to overstate transfer prices to shift profits from high-tax affiliates to entities holding intangible assets in low-tax countries (Wahyudi & Fitriah, 2021). This suggests that the complexity and subjectivity in valuing intangible assets alone are sufficient to motivate transfer pricing practices without reinforcement from bonus incentives.

The bonus mechanism is found to significantly adjust the interaction between borrowing restrictions and internal pricing policies. This finding indicates that when managers face debt covenant pressure while also having profit-based bonus incentives, the tendency to engage in transfer pricing becomes stronger. In such conditions, managers are not only motivated to avoid debt covenant violations but also to maximize reported profits in order to increase their bonuses. Transfer pricing then becomes a relatively quick and flexible tool for adjusting reported financial performance. The results correspond with positive accounting theory, particularly the covenant-based view that executives select reporting techniques to improve disclosed earnings when they are subject to contractual obligations and performance-related incentives.

The bonus mechanism is also shown to strengthen the relationship between tax minimization and transfer pricing. This finding indicates that although tax minimization does not directly affect transfer pricing, the presence of bonus incentives can alter managerial behavior in decision-making. When bonuses are linked to after-tax profits, managers have stronger incentives to combine tax minimization strategies with transfer pricing to achieve optimal financial outcomes. Within the agency theory framework, this condition reflects opportunistic managerial behavior aimed at maximizing personal interests through policies that exploit regulatory loopholes. This result supports the findings of Anindita Putri & Oktavianna (2025), which show that bonus mechanisms strengthen firms' tendencies to use transfer pricing as part of tax management strategies.

CONCLUSION

This study concludes that transfer pricing practices in Indonesian non-financial firms are influenced by a combination of asset characteristics and managerial incentives rather than by tax considerations alone. The empirical results indicate that intangible assets have a positive effect on transfer pricing, reflecting that the difficulty in valuing and benchmarking intangible assets provides managers with greater discretion in determining related-party transaction prices. In contrast, debt covenants and tax minimization do not exhibit a direct effect on transfer pricing, suggesting that contractual pressure from creditors and tax-saving motives alone are insufficient to drive firms to engage in transfer pricing practices under current regulatory conditions.S

Furthermore, the findings demonstrate that bonus mechanisms play a significant moderating role in shaping transfer pricing behavior. These results imply that bonus schemes heavily based on short-term profit targets may encourage opportunistic transfer pricing practices, particularly when managers face debt covenant pressure or tax minimization incentives. To minimize such behavior, firms are advised to design incentive systems that reduce reliance on short-term financial performance and incorporate compliance-oriented and long-term

indicators, such as adherence to the arm's length principle, the quality of transfer pricing documentation, and multi-period performance evaluation. In addition, deferred bonus schemes or bonuses linked to long-term firm value may help discourage managers from engaging in aggressive transfer pricing for short-term personal gains.

Despite its contributions, this study has several limitations. First, the analysis is limited to public companies in Indonesia, which may restrict the generalizability of the findings to other countries. Second, transfer pricing is measured using a single proxy, namely the ratio of related party transactions in assets and liabilities to total equity, which may not fully capture the complexity and diversity of transfer pricing practices across firms. In addition, this study does not consider factors such as differences in bonus scheme design, corporate governance mechanisms, industry characteristics, or changes in tax regulations that may influence transfer pricing behavior. Future research is therefore encouraged to expand the research scope by including firms from other countries, incorporating additional explanatory variables, and employing alternative transfer pricing proxies, such as related party sales, to provide a more comprehensive understanding of transfer pricing practices.

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