

TAX MINIMIZATION, PROFITABILITY, AND TRANSFER PRICING: A TRIPLE NEXUS IN CONSUMER NON-CYCLICAL COMPANIES

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Abstract

This study examines the influence of tax expense, bonus mechanism, tunneling incentive, debt covenant, and firm size on transfer pricing, with tax minimization as a moderating variable and profitability as a mediating variable, in consumer non-cyclicals sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. The study is motivated by the increasing prevalence of transfer pricing practices in the consumer non-cyclicals sector and the inconsistent findings of previous research regarding the determinants of related-party transactions. The sample consists of 655 firm-year observations obtained from 131 consumer non-cyclicals companies selected using purposive sampling. Panel data regression with the Fixed Effect Model was employed to test the proposed hypotheses. The results indicate that bonus mechanism and tunneling incentive have a positive and significant effect on transfer pricing, while debt covenant and firm size have a negative and significant effect. Tax expense does not significantly influence transfer pricing. Furthermore, tax minimization moderates the relationships between bonus mechanism, tunneling incentive, and debt covenant with transfer pricing, but does not moderate the relationships between tax expense and firm size with transfer pricing. Profitability mediates only the relationship between debt covenant and transfer pricing. The model explains 85.19% of the variation in transfer pricing. These findings suggest that managerial incentives, ownership structure, contractual obligations, and firm characteristics play significant roles in shaping transfer pricing behavior, while profitability serves as a transmission mechanism through which debt covenants influence transfer pricing decisions in the consumer non-cyclicals sector.

Keywords: Transfer Pricing, Tax Minimization, Profitability, Bonus Mechanism, Tunneling Incentive

1. Introduction

Transfer pricing decisions are one of the financial issues in corporate financial management, especially for companies engaged in intra-group transactions. Transfer pricing refers to the company's policy in determining transfer prices between entities or business units affiliated in a group, both domestically and abroad. This policy has significant implications for a company's tax burden, as the set transfer price can affect the amount of profit reported by each entity in various jurisdictions, which in turn will impact the amount of tax paid. In the context of taxation, transfer pricing is often under the scrutiny of tax authorities due to its potential to facilitate tax avoidance through profit shifting to lower-tax jurisdictions. Therefore, a comprehensive understanding of the factors influencing transfer pricing decisions is crucial, particularly for companies listed on the Indonesia Stock Exchange (IDX) that must comply with increasingly strict tax regulations.

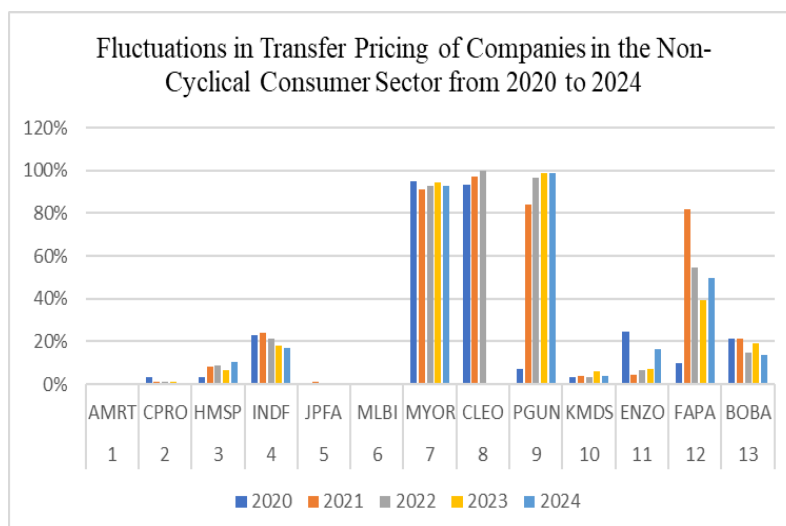


Figure 1. Transfer Pricing Trend in Consumer Non-Cyclicals Sector (2020–2024)
Source: Processed data (2025)

The phenomenon of transfer pricing in the consumer non-cyclicals sector in Indonesia during the 2020–2024 period shows considerable fluctuation among companies. Based on data from 13 issuers, several firms such as Mayora Indah Tbk (MYOR) and Sariguna Primatirta Tbk (CLEO) consistently recorded very high transfer pricing ratios, approaching a value of 1, indicating intense related-party transactions in their operational activities. In contrast, companies such as Japfa Comfeed Indonesia Tbk (JPFA) and Multi Bintang Indonesia Tbk (MLBI) exhibited relatively low and stable ratios below 0.01, suggesting more controlled transfer pricing practices. The increase in transfer pricing ratios in several companies, such as H.M. Sampoerna Tbk (HMSP) and FAP Agri Tbk (FAPA) during 2022–2024, may reflect strategies for tax efficiency or profit allocation among related entities amid post-pandemic economic recovery. In general, the main reasons companies engage in transfer pricing include minimizing tax burdens, shifting profits to entities in lower-tax jurisdictions, optimizing the group's financial structure, and enhancing product price competitiveness in international markets. These conditions demonstrate that the consumer non-cyclicals sector still faces diverse risks of transfer pricing practices among companies, highlighting the need for further study in relation to tax policy and the supervision of potential tax avoidance in Indonesia.

A concrete example of transfer pricing practice can be seen in the case of PT Indofood Sukses Makmur Tbk (ICBP) in 2020, where the company's acquisition of Pinehill Company Ltd (based in Brunei Darussalam and the British Virgin Islands) raised public concern regarding transfer pricing schemes between related parties. The transaction, valued at USD 3 billion, was conducted with an affiliated entity located in a tax haven jurisdiction (Kontan.co.id, 2020). This case illustrates how multinational and large domestic groups within the consumer non-cyclicals sector can be exposed to transfer pricing risks due to complex ownership structures and cross-border relationships. According to the Ministry of Finance of the Republic of Indonesia (2023), the consumer goods industry contributes significantly to national tax revenues but also remains one of the most scrutinized sectors due to potential transfer pricing and base erosion practices. Therefore, examining the determinants of transfer pricing along with moderating and mediating factors, such as tax minimization and profitability is essential to provide a comprehensive understanding of corporate tax behavior in Indonesia's consumer non-cyclicals industry.

The urgency of this research is driven by several critical factors. First, the consumer non-cyclicals sector in Indonesia faces significant transfer pricing risks due to its complex supply chains, high intensity of related-party transactions, and substantial contribution to national tax revenues, making it an ideal context for examining the determinants of transfer pricing. Second, the fluctuation in transfer pricing ratios among companies in the consumer non-cyclicals sector during 2020–2024 indicates diverse practices that require empirical investigation, particularly in relation to tax policy and supervision of potential tax avoidance. Third, the inconsistency of previous research findings regarding the influence of tax minimization, bonus mechanism, tunnelling incentive, debt covenant, and firm size on transfer pricing indicates a research gap that needs to be addressed. Some studies demonstrate that these factors positively influence transfer pricing (Murtanto & Bonita, 2021; Hertanto et al., 2023; Kharisma & Saputri, 2023), while others reveal that they do not significantly affect transfer pricing (Widiastuti et al., 2023; Hartinah & Fitria, 2024; Azzuhriyyah & Kurnia, 2023). Fourth, the role of profitability as a mediating variable in the relationship between these determinants and transfer pricing has not been extensively studied, particularly in the Indonesian consumer non-cyclicals sector context. Fifth, the gap between theoretical predictions from Agency Theory and Positive Accounting Theory and empirical findings necessitates renewed investigation with more comprehensive research designs.

Previous research highlights that the tax expense factor plays a significant role in influencing corporate transfer pricing behavior. Based on PSAK No. 46 (2018), tax expense represents the company's mandatory contribution to the state as a form of fiscal responsibility (Murtanto & Bonita, 2021). Many firms adopt transfer pricing policies by setting prices outside market rates to minimize their tax obligations and enhance reported performance. Empirical findings show varied results: several studies, such as Murtanto and Bonita (2021) and Hertanto et al. (2023), identified a positive relationship between tax expense and transfer pricing, whereas others, including Widiastuti et al. (2023), found a negative relationship. In contrast, Hartinah and Fitria (2024) reported no significant effect. The bonus mechanism has also been identified as a managerial incentive that drives transfer pricing activities. It refers to performance-based rewards provided to managers or directors according to the company's profit achievements during a specific period (Darmawati & Muslichah, 2022). Findings in this area are inconsistent, Aliyah and Indriani (2024) observed a negative impact, while Murtanto and Bonita (2021) reported no significant influence.

Another determinant of transfer pricing practices is the tunnelling incentive, which reflects the tendency of majority shareholders to divert corporate resources for personal benefit at the expense of minority shareholders. Such actions often occur through related-party transactions that shift assets or income across affiliated entities. Previous findings remain inconclusive; Murtanto and Bonita (2021) and Kharisma and Saputri (2023) documented a positive association, while Widiastuti et al. (2023) discovered a negative one. Conversely, Azzuhriyyah and Kurnia (2023) noted no significant link. Debt covenants, which serve as restrictions imposed by creditors to maintain financial discipline, also encourage companies to engage in transfer pricing (Sofi et al., 2025). Research outcomes are mixed: Salsabila et al. (2023) reported a positive relationship, Azzuhriyyah and Kurnia (2023) found a negative effect, and Khoirunisa and Wahyudin (2022) found no significant relationship. Company size can further shape managerial discretion in tax-related decision making. Larger firms typically possess more resources and complex organizational structures, which may encourage the use of transfer pricing

mechanisms. Studies by Gurusinga et al. (2024) and Anggraini et al. (2023) suggest a positive effect, while Salsabila et al. (2023) indicate a negative relationship. Marlina et al. (2022) found no effect of firm size on transfer pricing.

The research gap in this study lies in the limited understanding of how tax minimization, bonus mechanism, tunnelling incentive, debt covenant, and firm size influence transfer pricing with profitability as a mediating variable. While individual studies have examined the direct effects of some of these factors on transfer pricing, the comprehensive model integrating all these determinants with a mediating mechanism remains underexplored. Additionally, most previous studies have relied on single proxies for each determinant or focused on specific sectors, leaving a significant gap in knowledge regarding the dynamics of transfer pricing across the consumer non-cyclicals sector in Indonesia. Furthermore, empirical evidence on the mediating role of profitability in the relationship between these determinants and transfer pricing remains limited, particularly in the Indonesian context where the consumer non-cyclicals sector is characterized by stable demand, complex supply chains, and significant tax contributions.

The novelty of this research lies in several aspects. First, this study focuses on the consumer non-cyclicals sector in Indonesia during the 2020–2024 period, which represents a unique context characterized by stable demand, complex supply chains, significant tax contributions, and increasing regulatory scrutiny on transfer pricing practices. Second, this study develops an integrative model that simultaneously examines the influence of tax minimization, bonus mechanism, tunnelling incentive, debt covenant, and firm size on transfer pricing with profitability as a mediating variable, providing a more comprehensive understanding of the determinants of transfer pricing behavior. Third, this study positions profitability as a mediating variable, enabling the examination of whether these determinants influence transfer pricing through their impact on corporate profitability. Fourth, this study contributes to the limited empirical evidence on transfer pricing determinants in the Indonesian consumer non-cyclicals sector, providing insights into how tax-related incentives, managerial motivations, and corporate characteristics shape transfer pricing behavior. Fifth, this study extends the application of Agency Theory and Positive Accounting Theory to the context of transfer pricing in the consumer non-cyclicals sector.

The purpose of this study is to examine the influence of tax minimization, bonus mechanism, tunnelling incentive, debt covenant, and firm size on transfer pricing with profitability as a mediating variable in consumer non-cyclicals sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. Specifically, this research aims to: (1) analyze the effect of tax minimization on transfer pricing; (2) analyze the effect of bonus mechanism on transfer pricing; (3) analyze the effect of tunnelling incentive on transfer pricing; (4) analyze the effect of debt covenant on transfer pricing; (5) analyze the effect of firm size on transfer pricing; and (6) analyze the mediating role of profitability in the relationships between these determinants and transfer pricing.

The contribution of this research is multifaceted. From a theoretical perspective, this research contributes to the enrichment of literature on transfer pricing determinants by proposing and testing an integrative model that links tax minimization, bonus mechanism, tunnelling incentive, debt covenant, and firm size with transfer pricing, incorporating profitability as a mediating variable, extending the application of Agency Theory and Positive Accounting Theory to the context of transfer pricing in the consumer non-cyclicals sector. The findings contribute to the understanding of how specific incentives influence transfer pricing behavior and how profitability mediates these relationships,

providing a more nuanced theoretical framework for analyzing corporate decisions in managing related-party transactions. From a practical perspective, this study provides actionable insights for regulators, tax authorities, company management, and investors in assessing and managing transfer pricing practices. For regulators, particularly the Directorate General of Taxes and the Financial Services Authority (OJK), the findings provide empirical evidence to support the development of more effective transfer pricing regulations and monitoring mechanisms in the consumer non-cyclicals sector. For company management, the findings provide guidance on which factors most significantly influence transfer pricing decisions and how profitability considerations shape these decisions. For investors, the results offer insights into how to evaluate transfer pricing risks when making investment decisions in the consumer non-cyclicals sector.

2. Theoretical Background

2.1 Agency Theory

Agency theory, introduced by Jensen and Meckling (1976), describes the relationship between shareholders as principals and managers as agents who are entrusted with decision-making authority on behalf of the owners. Differences in objectives between these two parties often create agency conflicts, especially when managers possess more information about the firm's activities than shareholders. This information asymmetry gives managers opportunities to pursue personal interests that may deviate from the principals' goals. In the context of transfer pricing, managers may structure intra-group transactions in a manner that enhances their performance evaluations or compensation, even if such actions do not maximize shareholder value. As a result, understanding agency conflict is crucial for explaining why managerial incentives can influence internal pricing decisions within a corporate group. When managers are evaluated based on short-term financial performance, they may be incentivized to engage in transfer pricing practices that shift profits to entities where performance appears stronger, thereby securing bonuses or other performance-based rewards (Murtanto & Bonita, 2021).

2.2 Positive Accounting Theory

According to the perspective in "positive accounting theory" expressed by Watts and Zimmerman (1990), companies and various parties involved in the financial statement preparation process are often faced with challenges arising from the application of applicable accounting principles. This theory explains the accounting approach or method chosen by a company when certain conditions or requirements are met. Positive accounting theory posits that managers are rational actors who select accounting policies that maximize their own utility, considering factors such as compensation contracts, debt covenants, and political costs. In the context of transfer pricing, managers may choose accounting methods and intra-group pricing strategies that align with their personal objectives, such as enhancing reported earnings to trigger bonus payments or maintaining financial ratios to comply with debt agreements (Khoirunisa & Wahyudin, 2022). This theory provides a framework for understanding why firms engage in transfer pricing practices beyond purely tax-related motivations.

2.3 Transfer Pricing

Transfer pricing refers to managerial decisions related to determining the value of transactions carried out between entities that have a special relationship. It represents the company's internal policy for setting prices on goods, services, or financial arrangements

among its affiliated divisions or subsidiaries. Ideally, these transactions should reflect market-based prices to ensure fairness and compliance with taxation principles. In relation to agency theory, transfer pricing behavior may be influenced by managerial self-interest, which has the potential to create conflicts between managers and shareholders (Widiastuti et al., 2023). Therefore, firms need to establish clear and transparent transfer pricing policies to minimize agency conflicts and align managerial actions with the company's objectives. Managers might exploit transfer pricing opportunities to pursue personal benefits, such as performance-based bonuses. The complexity of transfer pricing decisions is particularly pronounced in multinational corporations and large domestic groups with extensive related-party transactions, where the potential for profit shifting and tax avoidance is significant.

2.4 Tax Expense

Taxes play a crucial role in financing government operations, supporting infrastructure projects, and maintaining economic stability through income redistribution. For this reason, shareholders are expected to design incentive systems that motivate managers to handle tax obligations efficiently. Effective supervision is also necessary to ensure that managerial decisions serve the broader interests of the company rather than personal goals. Companies with relatively high tax obligations might be motivated to implement transfer pricing strategies to lower their tax expenses; however, these practices must be carried out carefully due to the risk of legal penalties and potential damage to the company's reputation (Hartinah & Fitria, 2024). Empirical evidence from Hertanto et al. (2023) and Murtanto and Bonita (2021) indicates that tax expense influences transfer pricing behavior among firms. Based on these arguments, the following hypothesis is proposed:

H1: Tax expense significantly influences transfer pricing decisions.

2.5 Bonus Mechanism

The bonus mechanism represents a form of financial incentive provided by firms to managers as additional compensation for achieving or surpassing predetermined performance targets. Essentially, this reward system aligns managerial interests with company objectives by linking compensation to profitability and overall firm outcomes (Putra & Rizkillah, 2022). In the context of positive accounting theory, the existence of performance-based bonuses is closely tied to reported earnings, as such incentives may encourage managers to influence accounting figures to reflect favorable results. Consequently, the distribution of bonuses can create an incentive for management to engage in earnings management or transfer pricing arrangements aimed at improving reported financial performance. Findings from Imelda and Arsajah (2025) indicate a significant positive association between bonus mechanisms and transfer pricing decisions. Based on these arguments, the following hypothesis is proposed:

H2: Bonus mechanisms significantly influence transfer pricing practices.

2.6 Tunneling Incentive

Tunnelling occurs when controlling shareholders divert corporate resources for personal gain. Because controlling shareholders generally possess significant influence over corporate decisions, they can direct intra-group transactions in ways that shift income to entities where decisions hold stronger ownership stakes. Empirical research consistently finds that tunneling incentives are an important driver of transfer pricing

behavior (Khotimah, 2020; Murtanto & Bonita, 2021). Controlling shareholders may use transfer pricing to extract wealth from the company at the expense of minority shareholders, particularly when the firm has complex ownership structures and multiple subsidiaries. This practice is particularly concerning in the consumer non-cyclicals sector, where stable demand and established brands may create opportunities for resource diversion through related-party transactions. Based on these arguments, the following hypothesis is proposed:

H3: Tunneling incentives significantly influence transfer pricing decisions.

2.7 Debt Covenant

A debt covenant represents a contractual agreement between creditors and borrowers that establishes certain restrictions or conditions to protect the lender's interests (Khoirunisa & Wahyudin, 2022). Companies operating under strict debt covenants often seek to maintain favorable financial ratios by choosing accounting methods that increase reported earnings or reduce expenses. In this context, transfer pricing can serve as a managerial tool to enhance profitability or minimize tax burdens, thereby helping firms comply with covenant requirements and avoid default. However, the same mechanism can also be misused to manipulate earnings beyond acceptable limits (Khoirunisa & Wahyudin, 2022). Previous empirical studies, such as those by Azzuhriyyah and Kurnia (2023), revealed that debt covenant factors significantly affect transfer pricing behavior. Based on these arguments, the following hypothesis is proposed:

H4: Debt covenant significantly influences transfer pricing practices.

2.8 Company Size

Company size reflects the overall scale of an organization's operations and can generally be measured through indicators such as total assets or total sales revenue. Assets are considered a more stable measure than income because they better represent the company's long-term capacity to generate value. Larger firms typically have greater access to capital markets, the ability to invest on a broader scale, and stronger bargaining power when dealing with suppliers and customers (Gurusinga et al., 2024). From the perspective of positive accounting theory, managers in larger companies may choose accounting policies that serve their reporting goals, including utilizing transfer pricing as a mechanism to allocate profits among affiliated entities. However, larger firms often exercise greater caution in implementing transfer pricing due to concerns about reputation and closer scrutiny by regulators. This perspective is supported by research from Gurusinga et al. (2024) and Anggraini et al. (2023), which indicates that firm size has a positive influence on transfer pricing decisions. Based on these arguments, the following hypothesis is proposed:

H5: Company size significantly influences transfer pricing.

2.9 Tax Minimization as Moderation

Tax minimization refers to a firm's deliberate effort to reduce its tax liabilities through lawful planning strategies, including the use of regulatory allowances or structural opportunities within the tax system. Within this study, tax minimization functions as a moderating variable that may amplify or diminish the influence of tax expense, bonus mechanisms, tunneling incentives, and debt covenants on transfer pricing behavior. Companies experiencing substantial tax burdens often rely on transfer pricing arrangements to shift reported income and lessen tax payments, which aligns with agency

theory suggesting that managers are motivated to reduce the firm's overall tax exposure (Hartinah & Fitria, 2024).

In addition, compensation designs such as bonus schemes can intensify managerial incentives to adjust reported earnings via transfer pricing to meet performance objectives. Evidence from Mardiana and Badjuri (2023) indicates that tax minimization strengthens the association between bonus mechanisms and transfer pricing, making earnings manipulation through intra-group pricing more likely. Similar dynamics emerge for tunneling incentives, where controlling shareholders may reallocate profits across related entities, and tax-saving motives make such practices even more attractive (Surianto et al., 2023).

Companies bound by restrictive debt agreements may also manipulate internal pricing to preserve required financial ratios or to exploit deductible interest expenses. Rahmawati and Machdar (2024) report that tax minimization intensifies the positive relationship between debt covenants and transfer pricing policies. Firm size likewise interacts with tax-minimizing strategies; although larger firms are generally subject to closer monitoring, their extensive structures allow them to implement more complex tax planning arrangements. Salsabila et al. (2023) show that tax minimization moderates the relationship between firm size and transfer pricing, indicating that both small and large firms may engage in aggressive tax planning when incentives are strong. Based on these arguments, the following hypotheses are proposed:

H6: Tax minimization moderates the relationship between tax expense and transfer pricing.

H7: Tax minimization moderates the relationship between bonus mechanisms and transfer pricing.

H8: Tax minimization moderates the relationship between tunneling incentives and transfer pricing.

H9: Tax minimization moderates the relationship between debt covenants and transfer pricing.

H10: Tax minimization moderates the relationship between firm size and transfer pricing.

2.10 Profitability as Mediation

Profitability reflects the company's ability to generate economic value from the resources it manages (Kemal et al., 2025). A higher level of profitability indicates that the firm is more effective in utilizing its assets to produce earnings, which in turn contributes to business expansion and enhances shareholder wealth. In this study, profitability serves as an intervening variable that clarifies the linkage between tax expense, bonus mechanisms, tunneling incentives, debt covenants, and transfer pricing practices.

Tax expense directly affects a firm's reported net income, where an increase in tax obligations reduces retained earnings. To maintain financial stability, companies may implement transfer pricing strategies aimed at reallocating profits toward subsidiaries located in jurisdictions with lower tax rates. However, Rahayu et al. (2025) found that profitability does not mediate the relationship between tax expense and transfer pricing. Bonus mechanisms also shape managerial behavior in transfer pricing decisions. When profit-based bonuses are emphasized, managers become more motivated to pursue higher earnings through transfer pricing activities that enhance reported profitability. Thus, profitability acts as a connecting pathway between bonus mechanisms and transfer

pricing. Managers seeking greater compensation may engage in income-shifting practices to meet performance targets.

Furthermore, tunneling incentives defined as the reallocation of assets or profits by controlling shareholders can indirectly influence profitability. When controlling shareholders divert company resources for personal benefit, minority shareholders experience reduced returns, which often signals that transfer pricing policies have been applied to channel profits within the corporate group. Debt covenants also have a notable effect on profitability, as firms must maintain financial ratios that comply with loan agreements. To achieve this, management may employ transfer pricing to present stronger earnings performance and safeguard their reputation with creditors. Similarly, firm size reflects operational complexity and resource capacity; larger firms tend to possess greater flexibility to implement transfer pricing strategies as part of their financial management efforts. According to Rahayu et al. (2025), profitability mediates the relationship between firm size and transfer pricing, implying that more profitable firms are better positioned to manage profit allocation within a business group. Based on these arguments, the following hypotheses are proposed:

H11: Profitability mediates the relationship between tax expense and transfer pricing.

H12: Profitability mediates the relationship between bonus mechanisms and transfer pricing.

H13: Profitability mediates the relationship between tunneling incentives and transfer pricing.

H14: Profitability mediates the relationship between debt covenants and transfer pricing.

H15: Profitability mediates the relationship between firm size and transfer pricing.

3. Methods

3.1 Research Design

This study employs a quantitative approach using descriptive and verificative methods to examine the effect of tax expense, bonus mechanism, tunneling incentive, debt covenant, and firm size on transfer pricing, with tax minimization as a moderating variable and profitability as a mediating variable in consumer non-cyclicals sector companies listed on the Indonesia Stock Exchange. The verificative method is used to analyze the causal relationship between corporate behavior and transfer pricing through panel data regression analysis. The quantitative approach is considered appropriate because the study aims to empirically test the proposed hypotheses using statistical analysis of numerical data derived from annual reports and financial statements. The explanatory research design enables the examination of causal relationships between independent variables (Tax Expense, Bonus Mechanism, Tunneling Incentive, Debt Covenant, and Firm Size), moderating variable (Tax Minimization), mediating variable (Profitability), and dependent variable (Transfer Pricing).

3.2 Population and Sample

The research population consists of all consumer non-cyclicals sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. The consumer non-cyclicals sector was selected due to its stable demand characteristics, complex supply chains, high intensity of related-party transactions, and significant contribution to national tax revenues, making it an ideal context for examining transfer pricing

determinants. Using purposive sampling, the study selected companies that met the following criteria: (1) the company must remain listed throughout 2020–2024; (2) consistently publish audited annual financial statements; (3) record positive net income each year; (4) report related-party receivables; and (5) maintain a minimum ownership concentration of 20% held by the largest shareholder. Based on these criteria, the final sample includes 131 consumer non-cyclicals companies observed over five years, resulting in 655 balanced panel observations (131 companies × 5 years).

3.3 Data Collection Techniques

Secondary data were collected from audited annual reports and official corporate disclosures of consumer non-cyclicals sector companies listed on the Indonesia Stock Exchange during 2020–2024, obtained from the official IDX website (www.idx.co.id) and company websites. The data collection procedure involved several sequential steps: (1) identification of consumer non-cyclicals sector companies listed on the IDX during the 2020–2024 period; (2) selection of companies meeting the predetermined purposive sampling criteria; (3) extraction of financial data from audited annual financial statements, including information required for calculating transfer pricing, tax expense, bonus mechanism, tunneling incentive, debt covenant, firm size, tax minimization, and profitability; and (4) documentation of all extracted data systematically organized into a panel dataset suitable for statistical analysis using EViews 12. The secondary data sources employed in this research are considered reliable as they represent official publications from the Indonesia Stock Exchange and audited financial reports.

3.4 Operational Definition of Variables

The operational definitions of the variables examined in this study are presented in Table 1.

Table 1. Operational Definition and Measurement of Variables

Variable	Definition	Measurement	Scale	References
Transfer Pricing (Y)	Managerial decisions related to determining the value of transactions between entities that have a special relationship	RPT = Related Party Receivables / Total Receivables	Ratio	Suhartono et al. (2022); Widiastuti et al. (2023)
Tax Expense (X ₁)	The company's mandatory contribution to the state as a form of fiscal responsibility	ETR = Income Tax Expense / Profit Before Tax	Ratio	Murtanto & Bonita (2021); Hertanto et al. (2023)
Bonus Mechanism (X ₂)	Performance-based financial incentives provided to managers as additional compensation	Dummy: 1 = if company reports bonus expense; 0 = otherwise	Dummy	Putra & Rizkillah (2022); Imelda & Arsjah (2025)
Tunneling Incentive (X ₃)	The tendency of controlling	TUN = Related Party	Ratio	Khotimah (2020);

Variable	Definition	Measurement	Scale	References
	shareholders to divert corporate resources for personal gain	Receivables / Total Assets		Murtanto & Bonita (2021)
Debt Covenant (X ₄)	Contractual agreement between creditors and borrowers that establishes restrictions to protect lender interests	DAR = Total Debt / Total Assets	Ratio	Khoirunisa & Wahyudin (2022); Azzuhriyyah & Kurnia (2023)
Firm Size (X ₅)	The overall scale of an organization's operations measured through total assets	SIZE = Ln (Total Assets)	Ratio	Gurusinga et al. (2024); Anggraini et al. (2023)
Tax Minimization (Z)	A firm's deliberate effort to reduce its tax liabilities through lawful planning strategies	ETR = Income Tax Expense / Profit Before Tax	Ratio	Hartinah & Fitria (2024); Mardiana & Badjuri (2023)
Profitability (M)	The company's ability to generate economic value from the resources it manages	ROE = Net Income / Total Equity	Ratio	Kemal et al. (2025); Rahayu et al. (2025)

Source: Developed for this research (2026)

3.5 Data Analysis Techniques

Data analysis in this study is conducted using panel data regression with the assistance of EVIEWS 12 software. The analysis stages include:

1. Descriptive Statistics: Descriptive statistics are employed to describe the characteristics of the research data, including mean, standard deviation, minimum, and maximum values for all variables examined in the study.
2. Panel Data Model Selection: The selection of the appropriate panel data regression model is carried out through three main stages: the Chow Test to compare whether the Common Effect Model (CEM) or Fixed Effect Model (FEM) is the better model to use; the Hausman Test to determine whether the best model is FEM or Random Effect Model (REM); and the Lagrange Multiplier (LM) Test to confirm whether REM is more appropriate than CEM.
3. Classical Assumption Tests: Prior to hypothesis testing, classical assumption tests are conducted to ensure that the regression model satisfies the required assumptions so that the estimation results are more reliable. The tests include multicollinearity test using Variance Inflation Factor (VIF), heteroscedasticity test, normality test, and autocorrelation test (Durbin-Watson).
4. Panel Data Regression Analysis: The regression models used in this study are formulated as follows:

Model 1: Direct Effects Model

$$TP_{it} = \alpha + \beta_1 ETR_{it} + \beta_2 BON_{it} + \beta_3 TUN_{it} + \beta_4 DAR_{it} + \beta_5 SIZE_{it} + \varepsilon_{it}$$

Model 2: Moderation Effects Model (MRA)

$$TP_{it} = \alpha + \beta_1 ETR_{it} + \beta_2 BON_{it} + \beta_3 TUN_{it} + \beta_4 DAR_{it} + \beta_5 SIZE_{it} + \beta_6 TM_{it} + \beta_7 (ETR \times TM)_{it} + \beta_8 (BON \times TM)_{it} + \beta_9 (TUN \times TM)_{it} + \beta_{10} (DAR \times TM)_{it} + \beta_{11} (SIZE \times TM)_{it} + \varepsilon_{it}$$

Model 3: Mediation Effects Model

$$ROE_{it} = \alpha + \beta_1 ETR_{it} + \beta_2 BON_{it} + \beta_3 TUN_{it} + \beta_4 DAR_{it} + \beta_5 SIZE_{it} + \varepsilon_{it}$$

$$TP_{it} = \alpha + \beta_1 ETR_{it} + \beta_2 BON_{it} + \beta_3 TUN_{it} + \beta_4 DAR_{it} + \beta_5 SIZE_{it} + \beta_6 ROE_{it} + \varepsilon_{it}$$

Where:

TP = Transfer Pricing
ETR = Tax Expense (Effective Tax Rate)
BON = Bonus Mechanism
TUN = Tunneling Incentive
DAR = Debt Covenant (Debt to Assets Ratio)
SIZE = Firm Size
TM = Tax Minimization
ROE = Profitability (Return on Equity)
 α = Constant
 β_1 – β_{11} = Regression coefficients
 ε = Error term
i = Company
t = Year

5. Hypothesis Testing: Hypothesis testing is conducted using:
 - a. t-test: Used to determine the partial effect of each independent variable on the dependent variable. The hypothesis is accepted if the probability value (p-value) is less than the significance level of 5% ($p < 0.05$).
 - b. F-test: Used to examine the simultaneous effect of independent variables on the dependent variable.
 - c. Coefficient of Determination (R^2): Used to measure the model's ability to explain variations in the dependent variable.
 - d. Moderated Regression Analysis (MRA): Used to test the moderating effect of tax minimization by examining the significance of the interaction terms between the independent variables and tax minimization.
 - e. Sobel Test: Used to test the mediating effect of profitability by examining the indirect effect of independent variables on transfer pricing through profitability.
- All hypothesis tests are conducted at a significance level of 5% ($p < 0.05$).

4. Results and Discussion

4.1 Results

Table 2. Panel Data Model Selection Results

Model	Testing	Prob.	Sig.	Conclusion	Result
1	Chow	0.0000	0.050	(0.0000<0.050)	FEM
	Hausman	0.0127	0.050	(0.0127<0.050)	FEM

Source: Data processed by researchers (EViews 12), 2026.

Table 2 shows the model has chosen Fixed Effect Model based on Chow and Hausman Test because of the value is not on the significance criteria 0.050. The Chow Test results show that both the Cross-section F and Cross-section Chi-square statistics yielded p-values of 0.0000, indicating that the Fixed Effect Model (FEM) is preferred over the Common Effect Model (CEM). The Hausman Test results show a Cross-section random p-value of 0.0127, indicating that the Fixed Effect Model (FEM) is preferred over the Random Effect Model (REM). Therefore, the Fixed Effect Model was selected as the most appropriate estimation technique for this study.

After the selection panel test conducted, classic assumptions test is needed to ensure that the regression model fulfils the basic statistical assumptions required to have unbiased and reliable estimation results. Therefore, the results of classic assumption tests are presented as follows:

Table 3. Classic Assumption Test

Multicollinearity	TE	MB	TNC	DAR	UP	TE_ETR	MB_ETR	TNC_ETR	DAR_ETR	UP_ETR
TE	1.000									
MB	-0.146	1.000								
TNC	0.175	0.053	1.000							
DAR	0.004	0.101	0.226	1.000						
UP	-0.140	-0.102	0.066	0.546	1.000					
TE_ETR	0.907	-0.135	0.162	0.002	-0.185	1.000				
MB_ETR	0.033	0.795	0.110	0.016	-0.177	0.112	1.000			
TNC_ETR	0.518	-0.130	0.682	0.057	-0.072	0.638	0.193	1.000		
DAR_ETR	0.399	-0.131	0.240	0.599	0.257	0.541	0.172	0.670	1.000	
UP_ETR	0.445	-0.269	0.130	-0.013	0.054	0.636	0.176	0.770	0.769	1.000
Heteroscedasticity								0.3174–0.8984		

Source: Data processed by researchers (EViews 12), 2026.

Table 3 shows the multicollinearity test results the value under 0.80 which means no correlation between each variable in this regression. The highest correlation coefficient observed is between TE_ETR and TE (0.907236), which is expected as these variables are related by construction. For the main independent variables, all correlation coefficients remain well below the 0.8 threshold, confirming that multicollinearity does not distort the regression estimates. The heteroscedasticity diagnostic results reveal that the model is homoscedastic, evidenced by probability values for all independent variables being above the 0.05 significance level. This finding implies that the regression equation meets the assumption of constant variance and is suitable for further estimation.

Based on the classical assumption test results, panel data regression analysis was subsequently conducted to examine the effect of tax expense, bonus mechanism, tunneling incentive, debt covenant, and firm size on transfer pricing, as well as the moderating role of tax minimization and the mediating role of profitability. The regression results are presented in Table 4.

Table 4. Hypothesis Test Results

Variable	Model 1(Direct)		Model 2 (Moderation)		Model 3 (Mediation)		Result
	Coeff.	Prob.	Coeff.	Prob.	Coeff.	Prob.	
C	0.1283	0.1707	-	-	-	-	
TE (X ₁)	0.0948	0.1438	-0.0064	0.9788	0.0544	0.6288	H1 Rejected
MB (X ₂)	0.0623	0.0312	0.1171	0.0286	0.0035	0.8849	H2 Accepted
TNC (X ₃)	-2.8791	0.0001	2.9650	0.0193	-0.3566	0.3701	H3 Accepted

Variable	Model 1(Direct)		Model 2 (Moderation)		Model 3 (Mediation)		Result
	Coeff.	Prob.	Coeff.	Prob.	Coeff.	Prob.	
DAR (X ₄)	-1.8542	0.0006	-6.1863	0.0016	-0.6085	0.1051	H4 Accepted
UP (X ₅)	0.1048	0.0129	-0.5164	0.0013	-0.0097	0.8383	H5 Accepted
TE_ETR			0.5074	0.4385			H6 Rejected
MB_ETR			-0.5653	0.0241			H7 Accepted
TNC_ETR			-15.5367	0.0004			H8 Accepted
DAR_ETR			21.4502	0.0079			H9 Accepted
UP_ETR			-0.0301	0.6949			H10 Rejected
ROE					0.1194	0.6231	
R-squared							0.8519
Prob (F-Stat)							0.0000

Note: Significantly at $p < 0.05$

Source: Data processed by researchers (EViews 12), 2026.

Based on the panel data regression results presented in Table 4, the regression equations of this study can be formulated as follows:

Model 1 (Main Effect Model):

$$TP = 0.1283 + 0.0948(TE) + 0.0623(MB) - 2.8791(TNC) - 1.8542(DAR) + 0.1048(UP) + \varepsilon$$

Model 2 (Moderated Regression Analysis Model):

$$TP = -0.0064(TE) + 0.1171(MB) + 2.9650(TNC) - 6.1863(DAR) - 0.5164(UP) + 0.5074(TE_ETR) - 0.5653(MB_ETR) - 15.5367(TNC_ETR) + 21.4502(DAR_ETR) - 0.0301(UP_ETR) + \varepsilon$$

Model 3 (Mediation Effects Model):

$$ROE = 0.0316(TE) + 0.0048(MB) + 0.6569(TNC) + 0.9776(DAR) + 0.0902(UP) + \varepsilon$$

$$TP = 0.0544(TE) + 0.0035(MB) - 0.3566(TNC) - 0.6085(DAR) - 0.0097(UP) + 0.1194(ROE) + \varepsilon$$

Based on the regression results presented in Table 4, this study examines the direct effect of tax expense, bonus mechanism, tunneling incentive, debt covenant, and firm size on transfer pricing, as well as the moderating role of tax minimization and the mediating role of profitability in the relationship between these determinants and transfer pricing behavior. The regression analysis was conducted using the Fixed Effect Model (FEM), which was selected as the most appropriate panel estimation model based on the Chow test and Hausman test results.

Model 1 explains the direct relationship between the independent variables and transfer pricing. The regression results indicate that bonus mechanism, tunneling incentive, debt covenant, and firm size significantly influence transfer pricing, while tax expense does not show a significant direct effect. Model 2 incorporates interaction

variables to examine the moderating effect of tax minimization through Moderated Regression Analysis (MRA). The regression results indicate that tax minimization moderates the relationships between bonus mechanism, tunneling incentive, and debt covenant with transfer pricing, but does not moderate the relationships between tax expense and firm size with transfer pricing. Model 3 examines the mediating role of profitability through mediation analysis. The regression results indicate that profitability mediates the relationship between debt covenant and transfer pricing, but does not mediate the relationships between tax expense, bonus mechanism, tunneling incentive, and firm size with transfer pricing. Furthermore, the R-squared value of 0.8519 indicates that the regression model has strong explanatory power in explaining variations in transfer pricing among consumer non-cyclicals companies during the observation period. The probability values of the F-statistic are below 0.05, confirming that the regression models are statistically significant and appropriate for hypothesis testing.

4.2 Discussion

4.2.1 Tax Expense Does Not Affect Transfer Pricing

The hypothesis testing results indicate that tax expense does not have a significant effect on transfer pricing, with a coefficient value of 0.0948 in Model 1 ($p = 0.1438$) and a probability value of 0.9788 in Model 2, indicating that H1 is rejected. This finding suggests that the level of tax burden does not significantly influence companies' decisions to engage in transfer pricing practices. This result aligns with Napitullu et al. (2024), who reported that tax burden has no significant impact on transfer pricing. These findings suggest that principals can mitigate unethical managerial behavior through various strategies, such as designing appropriate incentives for agents and implementing effective monitoring mechanisms. When companies have strong internal control systems and governance mechanisms, the pressure to engage in transfer pricing for tax minimization purposes may be reduced. Based on Agency Theory, effective monitoring and governance mechanisms can align managerial interests with those of shareholders, reducing the incentive to use transfer pricing for opportunistic purposes (Jensen & Meckling, 1976).

4.2.2 Bonus Mechanism Affects Transfer Pricing

The hypothesis testing results indicate that the bonus mechanism has a significant positive effect on transfer pricing, with a coefficient value of 0.0623 in Model 1 ($p = 0.0312$) and 0.1171 in Model 2 ($p = 0.0286$), indicating that H2 is accepted. This finding suggests that performance-based bonus systems motivate management to manipulate profits via transfer pricing strategies to secure higher compensation. In the consumer non-cyclicals sector, where stable demand and established brands create opportunities for profit shifting, managers may use intra-group pricing to enhance reported earnings and trigger bonus payments. Based on Agency Theory, when managers' compensation is tied to performance metrics, they may have incentives to use transfer pricing to shift profits and enhance reported earnings, thereby increasing their bonuses (Jensen & Meckling, 1976). These results are consistent with previous research by Imelda and Arsjah (2025), which also reported a significant impact of the bonus mechanism on transfer pricing. From the perspective of Positive Accounting Theory, managers are rational actors who select accounting policies that maximize their own utility, considering factors such as compensation contracts (Watts & Zimmerman, 1990).

4.2.3 Tunneling Incentive Affects Transfer Pricing

The hypothesis testing results indicate that tunneling incentive has a significant positive effect on transfer pricing, with a coefficient value of 2.9650 and a probability value of 0.0193 in Model 2, indicating that H3 is accepted. This finding suggests that controlling shareholders use transfer pricing to extract wealth from the company at the expense of minority shareholders. In the consumer non-cyclicals sector, where complex ownership structures and multiple subsidiaries are common, tunneling incentives may be particularly pronounced. In practice, transactions between affiliated entities are frequently used for tunneling, such as transferring company assets through purchasing goods or services at above-market prices and selling at below-market prices. These findings are consistent with the research of Murtanto and Bonita (2021) and Khotimah (2020), which highlight that tunneling incentives significantly influence transfer pricing. Based on Agency Theory, controlling shareholders possess significant influence over corporate decisions and can direct intra-group transactions in ways that shift income to entities where they hold stronger ownership stakes.

4.2.4 Debt Covenant Affects Transfer Pricing

The hypothesis testing results indicate that debt covenant has a significant negative effect on transfer pricing, with a coefficient value of -1.8542 and a probability value of 0.0006 in Model 1, and -6.1863 with $p = 0.0016$ in Model 2, indicating that H4 is accepted. This finding suggests that stricter debt covenants lead to a reduction in transfer pricing practices. In the consumer non-cyclicals sector, where companies often maintain significant debt levels to fund operations and expansion, debt covenant pressures may influence managerial behavior. When companies face tight debt restrictions, they may be more cautious in implementing transfer pricing to avoid violating covenant terms. This result aligns with the studies of Azzuhriyyah (2023) and Sari (2024), which suggest that debt covenants reduce transfer pricing. Based on Positive Accounting Theory, companies operating under strict debt covenants often seek to maintain favorable financial ratios by choosing accounting methods that increase reported earnings or reduce expenses (Watts & Zimmerman, 1990). However, the negative coefficient suggests that managers comply with debt obligations to minimize personal risk and maintain creditor relationships, thereby reducing transfer pricing activities.

4.2.5 Company Size Affects Transfer Pricing

The hypothesis testing results indicate that company size has a significant negative effect on transfer pricing, with a coefficient value of -0.5164 and a probability value of 0.0013 in Model 2, indicating that H5 is accepted. This finding suggests that larger firms exercise greater caution in implementing transfer pricing due to reputational concerns and closer regulatory scrutiny. These results support the conclusions of Suhartono et al. (2022) and Salsabila et al. (2023), which highlight that larger firms generally experience stricter internal and external monitoring, prompting managers to exercise greater caution in managing profits among affiliated entities. Based on Agency Theory, larger firms are subject to greater public scrutiny, regulatory oversight, and reputational concerns, which may discourage aggressive transfer pricing practices. From the perspective of Positive Accounting Theory, managers in larger companies may choose accounting policies that serve their reporting goals, but the political costs associated with being a large firm may outweigh the benefits of aggressive tax planning (Watts & Zimmerman, 1990).

4.2.6 Tax Minimization Does Not Moderate Tax Expense and Transfer Pricing

The hypothesis testing results indicate that tax minimization does not moderate the effect of tax expense on transfer pricing, with a coefficient value of 0.5074 and a probability value of 0.4385, indicating that H6 is rejected. This finding suggests that the relationship between tax expense and transfer pricing is not contingent on the level of tax minimization strategies adopted by firms. These results are consistent with Sofi et al. (2025), who reported that tax minimization does not serve as a moderating factor for the effect of tax expense on transfer pricing. Based on Agency Theory, when companies have strong internal control systems and governance mechanisms, the pressure to engage in transfer pricing for tax minimization purposes may be reduced regardless of the level of tax minimization strategies.

4.2.7 Tax Minimization Moderates Bonus Mechanism and Transfer Pricing

The hypothesis testing results indicate that tax minimization moderates the effect of bonus mechanism on transfer pricing, with a coefficient value of -0.5653 and a probability value of 0.0241, indicating that H7 is accepted. This finding suggests that when combined with a tax minimization strategy, the bonus mechanism encourages managers and directors to actively engage in transfer pricing activities. These findings align with Mardiana and Badjuri (2023), who found that tax minimization as a moderating factor can amplify the effect of bonus mechanisms on transfer pricing. Based on Agency Theory, compensation designs such as bonus schemes can intensify managerial incentives to adjust reported earnings via transfer pricing to meet performance objectives, particularly when tax minimization strategies provide additional motivation to shift profits (Jensen & Meckling, 1976).

4.2.8 Tax Minimization Moderates Tunneling Incentive and Transfer Pricing

The hypothesis testing results indicate that tax minimization moderates the effect of tunneling incentive on transfer pricing, with a coefficient value of -15.5367 and a probability value of 0.0004, indicating that H8 is accepted. This finding suggests that tax minimization plays a significant role in influencing the link between tunneling incentives and transfer pricing. Tunneling incentives, in practice, may promote transfer pricing by facilitating the movement of profits among entities within a corporate group to benefit majority shareholders, often at the expense of minority shareholders (Mardiana & Badjuri, 2023). According to Surianto et al. (2023), tax minimization significantly influences the relationship between tunneling incentives and transfer pricing. Based on Agency Theory, controlling shareholders may use transfer pricing to extract wealth from the company, and tax-saving motives make such practices even more attractive (Jensen & Meckling, 1976).

4.2.9 Tax Minimization Moderates Debt Covenant and Transfer Pricing

The hypothesis testing results indicate that tax minimization moderates the effect of debt covenant on transfer pricing, with a coefficient value of 21.4502 and a probability value of 0.0079, indicating that H9 is accepted. This finding suggests that tax minimization strengthens the relationship between debt covenants and transfer pricing. These results are consistent with Rahmawati and Machdar (2024), who found that tax minimization can serve as a moderating factor in the relationship between debt covenants and transfer pricing. Companies with high leverage often engage in transfer pricing to boost profits and maintain stable financial ratios, thereby avoiding violations of debt

agreements with creditors. Based on Positive Accounting Theory, companies bound by restrictive debt agreements may manipulate internal pricing to preserve required financial ratios or to exploit deductible interest expenses (Watts & Zimmerman, 1990).

4.2.10 Tax Minimization Does Not Moderate Company Size and Transfer Pricing

The hypothesis testing results indicate that tax minimization does not moderate the effect of company size on transfer pricing, with a coefficient value of -0.0301 and a probability value of 0.6949, indicating that H10 is rejected. This finding suggests that the relationship between company size and transfer pricing is not contingent on the level of tax minimization strategies adopted by firms. These results are consistent with Mardiana and Badjuri (2023), who also found that tax minimization does not act as a moderating factor in the relationship between company size and transfer pricing. Based on Agency Theory, larger firms are subject to greater public scrutiny, regulatory oversight, and reputational concerns, which may discourage aggressive transfer pricing practices regardless of tax minimization strategies.

4.2.11 Profitability Does Not Mediate Tax Expense and Transfer Pricing

The Sobel test results indicate that profitability does not mediate the relationship between tax expense and transfer pricing, with a t-statistic of 0.482797 ($p > 0.05$), indicating that H11 is rejected. This finding suggests that profitability does not serve as an intermediary between tax expense and transfer pricing decisions. These findings are in line with Rahayu et al. (2025), who also found that profits do not function as a mediating variable in the effect of tax expense on transfer pricing.

4.2.12 Profitability Does Not Mediate Bonus Mechanism and Transfer Pricing

The Sobel test results indicate that profitability does not mediate the relationship between bonus mechanism and transfer pricing, with a t-statistic of 0.385188 ($p > 0.05$), indicating that H12 is rejected. This finding suggests that profitability does not function as an intermediary in the influence of the bonus mechanism on transfer pricing decisions.

4.2.13 Profitability Does Not Mediate Tunneling Incentive and Transfer Pricing

The Sobel test results indicate that profitability does not mediate the relationship between tunneling incentive and transfer pricing, with a t-statistic of 1.815106 ($p > 0.05$), indicating that H13 is rejected. This finding suggests that profitability does not act as an intermediary in the effect of tunneling incentives on transfer pricing.

4.2.14 Profitability Mediates Debt Covenant and Transfer Pricing

The Sobel test results indicate that profitability mediates the relationship between debt covenant and transfer pricing, with a t-statistic of 4.941310 ($p < 0.05$), indicating that H14 is accepted. This finding suggests that debt covenants significantly affect transfer pricing through profitability. Companies with high leverage often engage in transfer pricing to boost profits and maintain stable financial ratios, thereby avoiding violations of debt agreements with creditors. In this context, debt covenants indirectly influence transfer pricing decisions by creating pressure to enhance profitability, which motivates managers to implement transfer pricing strategies to present stronger financial performance. Based on Agency Theory, debt covenants create pressure on management to maintain financial ratios, which may encourage the use of transfer pricing to manage profits and avoid covenant violations (Jensen & Meckling, 1976).

4.2.15 Profitability Does Not Mediate Company Size and Transfer Pricing

The Sobel test results indicate that profitability does not mediate the relationship between company size and transfer pricing, with a t-statistic of 1.033327 ($p > 0.05$), indicating that H15 is rejected. This finding suggests that profitability does not serve as an intermediary between company size and transfer pricing decisions. These findings differ from Rahayu et al. (2025), who reported that profitability functions as a mediating variable in this relationship.

5. Conclusion

This study examines the influence of tax expense, bonus mechanism, tunneling incentive, debt covenant, and firm size on transfer pricing, with tax minimization as a moderating variable and profitability as a mediating variable, in consumer non-cyclicals sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. Using panel data regression with the Fixed Effect Model (FEM) on 131 consumer non-cyclicals companies with 655 observations, the results show that the bonus mechanism has a positive and significant effect on transfer pricing, indicating that performance-based bonus systems motivate management to manipulate profits via transfer pricing strategies to secure higher compensation. Tunneling incentive has a positive and significant effect on transfer pricing, suggesting that controlling shareholders use transfer pricing to extract wealth from the company at the expense of minority shareholders. Debt covenant has a negative and significant effect on transfer pricing, indicating that stricter debt covenants lead to a reduction in transfer pricing practices as managers comply with debt obligations to minimize personal risk. Company size has a negative and significant effect on transfer pricing, suggesting that larger firms exercise greater caution in implementing transfer pricing due to reputational concerns and closer regulatory scrutiny. In contrast, tax expense does not significantly influence transfer pricing, implying that tax burden does not substantially affect companies' decisions to engage in related-party transactions. Furthermore, tax minimization moderates the relationships between bonus mechanism, tunneling incentive, and debt covenant with transfer pricing, but does not moderate the relationships between tax expense and firm size with transfer pricing. Profitability mediates only the relationship between debt covenant and transfer pricing, suggesting that debt covenants indirectly influence transfer pricing decisions through profitability, while no significant mediating role is observed for the other variables. The coefficient of determination (R^2) value of 0.8519 indicates that the model explains 85.19% of the variation in transfer pricing, confirming that the regression model has strong explanatory power.

The theoretical implications extend Agency Theory and Positive Accounting Theory to the context of transfer pricing in the consumer non-cyclicals sector. The positive effect of the bonus mechanism supports Agency Theory by confirming that performance-based incentives motivate managers to use transfer pricing for personal gain (Jensen & Meckling, 1976). The positive effect of tunneling incentive supports Agency Theory by demonstrating that controlling shareholders exploit information asymmetry to divert corporate resources through related-party transactions. The negative effect of debt covenant supports Positive Accounting Theory by showing that debt restrictions constrain managerial discretion in transfer pricing decisions (Watts & Zimmerman, 1990). The negative effect of company size supports Positive Accounting Theory by confirming that larger firms face higher political costs and regulatory scrutiny, which discourage

aggressive transfer pricing practices. The moderating role of tax minimization extends both theories by showing that tax-saving motives amplify the effects of bonus mechanisms, tunneling incentives, and debt covenants on transfer pricing. The mediating role of profitability on debt covenant extends the theoretical framework by demonstrating that debt covenants influence transfer pricing through profitability pressures, providing empirical evidence that financial performance serves as a transmission mechanism between contractual obligations and managerial behavior.

From a practical perspective, companies in the consumer non-cyclicals sector should strengthen internal control systems and monitoring mechanisms to prevent the misuse of transfer pricing for opportunistic purposes, particularly in relation to bonus mechanisms and tunneling incentives. Boards of directors and audit committees should ensure that performance-based compensation schemes are designed to align managerial interests with long-term shareholder value rather than short-term profit manipulation. Companies should enhance transparency in related-party transactions and ensure compliance with the arm's length principle to minimize regulatory and reputational risks. Regulators, particularly the Directorate General of Taxes and the Financial Services Authority (OJK), should strengthen monitoring of transfer pricing practices in the consumer non-cyclicals sector, paying particular attention to companies with high bonus incentives, concentrated ownership structures, and significant debt levels. Tax authorities should consider the moderating role of tax minimization when evaluating transfer pricing practices, as companies with aggressive tax planning strategies may be more likely to engage in opportunistic related-party transactions. Investors should consider the interaction between corporate governance mechanisms and transfer pricing practices when evaluating investment decisions in the consumer non-cyclicals sector.

This study has several limitations. First, the analysis is limited to the consumer non-cyclicals sector, restricting generalizability to other sectors with different characteristics and regulatory environments. Second, the five-year observation period (2020–2024) may not capture longer-term trends and patterns in transfer pricing behavior. Third, the study focuses on five independent variables, excluding other potential determinants of transfer pricing such as foreign ownership, multinationality, and tax haven utilization. Fourth, the study uses a single proxy for each variable, which may not fully capture the complexity of these constructs. Fifth, the mediation analysis using the Sobel test assumes normal distribution of indirect effects, which may limit the robustness of the mediation findings.

Future research should broaden the scope to include multiple sectors to test the generalizability of findings across different industry characteristics and regulatory environments. Future studies should integrate additional variables such as foreign ownership, multinationality, tax haven utilization, and corporate governance mechanisms to develop a more comprehensive model of transfer pricing determinants. Researchers should employ longer observation periods to capture longer-term trends and patterns in transfer pricing behavior. Future studies should consider alternative proxies for transfer pricing, such as related-party transactions or profit shifting indicators, to provide a more comprehensive assessment. Researchers should employ more advanced mediation analysis techniques, such as bootstrapping, to provide more robust estimates of indirect effects. Comparative studies between different sectors or between domestic and multinational firms could provide insights into how different organizational characteristics influence transfer pricing behavior. Finally, future research could employ qualitative approaches such as case studies or interviews to provide richer insights into

the mechanisms through which these determinants influence transfer pricing decisions in the consumer non-cyclicals sector.

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