

The Influence of Tax Minimization, Firm Size, Exchange Rate, and Multinationalism on Indication to Performs Transfer Pricing: Evidence from Manufacturing Companies Listed on the Indonesia Stock Exchange (IDX)

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Abstract

Transfer pricing means the price that arises because of the existence of transfer goods, services, and other intangible assets between the companies that have a special relationship or related parties. If the purpose of transferring prices is to meet production needs between companies within the same group, then transfer pricing is carried out neutrally. However, if the goal is to avoid taxes, then the practice is called abuse of transfer pricing. This practice is legal based on regulations but must be following the arm's length principle. This study intends to discover how the simultaneous and partial influence of tax minimization, firm size, exchange rate, and multinationalism on the indication to perform transfer pricing. In this research quantitative methods are used with purposive sampling as a sampling technique. Manufacturing companies listed on the Indonesia Stock Exchange for the year 2016 until 2020 are the population of the study. Based on the sample criteria, the sample companies studied amounted to 14 companies with a period of 5 years. Logistic regression analysis is the analytical technique used in the study through the assistance IBM SPSS Statistics 25 application. According to the results, variables of tax minimization, firm size, exchange rate, and multinationalism simultaneously have a significant influence on the indication to perform transfer pricing. Based on the partial test, multinationalism has a significant positive influence on the indication to perform transfer pricing whereas tax minimization, firm size, and exchange rate do not influence the indication to perform transfer pricing.

Keywords

Tax minimization, Firm size, Exchange rate, Multinationalism, Transfer pricing

1. Introduction

Globalization is increasingly widespread, making the economy grow. Companies that are oriented to the location of their operations in only one country will expand their business on the international scene. Therefore, the company will expand its business activities to Indonesia and other countries. This also creates an opportunity for companies domiciled in Indonesia to open their subsidiaries in other countries, and even practice transfer pricing (Septiyani et al. 2018). Pohan (2018) reveals that transfer pricing means the price incurred because of the transfer of goods, services, and other intangible assets. This includes the definition of transfer pricing neutrally. However, transfer pricing is then connoted as a term that means not good (abuse of transfer pricing). This meaning comes from the transfer pricing which is conducted by the company in the form of transferring taxable income from the company in one country to a company located in another country within the same group. The purpose of this practice is to shift the profit to the company located in a low tax country; the act is intended to diminish the entire tax burden of the group. Therefore, the impact on the state is the erosion of tax revenues.

Transfer pricing in Indonesia is regulated in Regulation of the Directorate General of Taxes PER-32/PJ/2011. If the conditions in the transactions between related parties are the same as or comparable to the conditions in transactions between unrelated parties that are being compared, the price or profit in the transaction must be the same or within the range of prices or profits in transactions with non-related parties. Following the arm's length principle, the transactions are carried out to reflect the fair market price (Yanti and Pratiwi 2021). The practice is legal to do if it is still within

the arm's length principle. However, problems arise when the practice of transfer pricing is misused by business actors without being based on the arm's length principle.

One of the factors that influence the indication to perform transfer pricing is tax. In Law of the Republic of Indonesia Number 28 of 2007 taxes are defined as mandatory contributions to the state for individuals or entities and used by the state for the prosperity of the people. Each country has different tax regulations, this momentum is used for affiliated companies that are in other countries to avoid taxes. The scheme is carried out by transferring the income to affiliated companies in a different country, the total tax paid will be lower, but the profits will increase (Saraswati and Sujana 2017). In this case, the higher the company's tax burden, will increase the transfer pricing activities conducted by the company. This is supported by Septiyani et al. (2018) that explains tax minimization positively influences transfer pricing. However, this is not supported by Kurnia et al. (2021) that explains tax burden does not influence transfer pricing.

Furthermore, one of the factors that influence the indication to perform transfer pricing is firm size. In Nurwati et al. (2021) size is generally identified as a comparison of the size of an object. Large companies are indicated by large assets. In case the greater assets of the company, then the company is considered mature in earning consistent profits and guaranteeing good business opportunities (Adelia and Santioso 2021). In this case, the larger the company, the more opportunities the company has in conducting transfer pricing. The statement is supported by Rezky and Fachrizal (2018) explained that firm size positively influences transfer pricing. Meanwhile, this is not supported by Nurwati et al. (2021) explained that firm size does not influence transfer pricing practices.

In addition to firm size, the indication to perform transfer pricing is also influenced by the exchange rate. The exchange rate means the exchange rate of currency between one country and another that is used as a tool to pay either in the present or in the future (Prananda and Triyanto 2020). Companies that carry out cross-border transactions will involve a currency that is different from the currency in which the company is located. According to Hikmatin and Suryarini (2019), the exchange rate fluctuated very much. The exchange rate that continues to fluctuate causes the price of the goods or services produced to fluctuate. The existence of a strong currency of another country is considered to avoid the risk of fluctuating exchange rates, hence management conducts transfer pricing. The statement is supported by Apriani et al. (2020) that explains the exchange rate influences transfer pricing. However, this is not supported by Mulyani et al. (2020) that explains the exchange rate does not influence the indication to perform transfer pricing.

The next factor that influences the indication to perform transfer pricing is multinationalism. Multinationalism refers to the degree of internationalization of a company (Agata et al. 2021). Internationalization is carried out by developing businesses in other countries. Therefore, companies that have affiliated relationships with companies located abroad will increase the level of multinationalism. This is because multinational companies will take advantage of international tax policies. Therefore, the higher the degree of multinationalism of the company, the more it motivates the company to execute transfer pricing. The statement is supported by Liana et al. (2020) explained that the complexity of the company's operations projected with multinationalism positively influences transfer pricing. However, the findings are not supported by Maulina et al. (2021) explained that multinationalism does not influence transfer pricing.

1.1 Objectives

Tax is the burden of the company and is given to the government based on the applicable tax provisions. To avoid paying taxes, companies take advantage of loopholes in the applicable tax regulations. Transfer pricing is an alternative used by companies to do the shifting of the profit from high tax country to low tax country. The aim is to minimize the tax burden that must be paid in a high-tax country. The object of the study is a manufacturing company. The manufacturing company was chosen because it is a company that is closely related to the production of finished and semi-finished goods. It is indicated that there is a production bond, such as the transfer of goods or services between the parent and subsidiary. The following are the objectives of this research:

1. Knowing the influence of tax minimization, firm size, exchange rate, and multinationalism on the indication to perform transfer pricing.
2. Knowing the influence of tax minimization on the indication to perform transfer pricing.
3. Knowing the influence of firm size on the indication to perform transfer pricing.
4. Knowing the influence of exchange rate on the indication to perform transfer pricing.
5. Knowing the influence of multinationalism on the indication to perform transfer pricing.

According to the research objectives that have been described previously, the research can be considered as well as input for the management in performing transfer pricing practices. Especially in terms of decision-making strategies in performing transfer pricing. On the other hand, the results of this study can be considered for investors who invest their capital in companies that perform transfer pricing. This study also has the contributions to the tax authority to be a consideration in targeting companies that perform transfer pricing, such as the factors that indicate the company performs transfer pricing. Additionally, this research can be a reference for further researchers in examining the topic of transfer pricing with independent variables that developed. Furthermore, the study can be used as insights in developing knowledge for readers regarding the factors that influence the indication to perform transfer pricing.

2. Literature Review

2.1 Literature Review

2.1.1 Agency Theory

Agency theory explains that there is a relationship between principal and agent (Jensen and Meckling 1976). The principal is the shareholder, meanwhile, the agent is the manager. According to Hikmatin and Suryarini (2019), the principal and the agent both agreed to work together and were included in the contract. In addition, the principal authorizes the agent to approve the company's operational and financial decisions. The existence of this relationship causes agency problems. An agency problem is defined as a conflict of interest between shareholders and managers. Conflicts of interest arise due to information asymmetry. Information asymmetry between agents and principals can be demonstrated through the company's goal of maximizing profits through transfer pricing. Agents are parties who are more aware of the ins and outs of transactions recorded in financial statements so that they will maximize profits for themselves. Meanwhile, shareholders are not directly involved in the operation of the company, so information hiding is prone to occur (Nurwati et al. 2021).

The existence of information asymmetry becomes the agent's motive to perform transfer pricing practices. This practice is carried out because he wants to maximize the profits of the group of companies without the knowledge of the principal so that his achievements look good to the principal. Transactions carried out by management are implementing transfer pricing with affiliated parties.

2.1.2 Transfer Pricing

In Pohan (2018) transfer pricing practice is defined in the form of a price calculated as the existence of transfer of goods, services, and other intangible assets from one company to another company that has a special relationship or related parties with conditions based on the arm's length price principle. Based on the Regulation of the Minister of Finance of the Republic of Indonesia Number 22/PMK.03/2020 defines transfer pricing as the establishment of transfer prices on transactions that are affected by special relationships. A special relationship is an attachment or dependence between one party and another. The meaning of dependence or attachment here is the condition of one or more parties controlling the other party or not standing free in carrying out their business activities.

In this research, transfer pricing uses a dummy variable with a dichotomous approach. This approach is definitive by looking at sales transactions to related parties abroad. This is because the agreed price in sales to related parties often uses unreasonable prices and is not following the arm's length principle. A value of one indicates that the company conducts transactions of sales to related parties abroad and a value of zero indicates that the company does not conduct the transaction of sales to related parties abroad (Saraswati and Sujana 2017).

2.1.3 Tax Minimization

A strategy taken by companies to reduce the tax burden is defined as tax minimization (Yulianti and Rachmawati 2019). From the government's perspective, taxes are a source of revenue in the context of state development. However, from the company's perspective, the tax is the amount that must be paid to the state. This strategy is also used by multinational companies to maximize their income globally and reduce their tax payments (Badri et al. 2021).

In this research, the Current ETR (Current Effective Tax Rate) is the proxy used in the tax minimization variable (Mulyani et al. 2020). Calculating the Current ETR does not include deferred tax. This is because deferred tax has the meaning of tax benefits whose amount is recovered in the future because of temporary differences between Pernyataan Standar Akuntansi Keuangan (PSAK) and tax regulations in Indonesia, also because of the balance of uncompensated losses in the future (Sutadipraja et al. 2019). Based on this explanation, it produces the following formula:

$$\text{Current ETR} = \frac{\text{Current Tax Burden}}{\text{Profit Before Tax}}$$

2.1.4 Firm Size

A measurement used to measure the size of a company is defined as firm size (Nurwati et al. 2021). The risk owned by a large company is greater than a small company, on the other hand, pressure from stakeholders in medium and large companies does exist (Rezky and Fachrizal 2018). This is because the performance targets of medium and large companies are higher than smaller companies, thus creating high pressure or expectations from stakeholders. The size of the company also is definitive by total assets, total sales, and stock market value. In this research, the size of the company is calculated by the natural logarithm of total assets (Septiyani et al. 2018). Based on Khairunisa et al. (2017) the natural logarithm is used in the calculation because it reduces excessive fluctuations in the data, but does not change the proportion of the original value. Total assets are used because the amount is relatively more stable than the company's total sales and stock market value. Based on this explanation, it produces the following formula:

$$\text{SIZE} = \text{Ln (Total Assets)}$$

2.15 Exchange Rate

The exchange rate of currency between one country and another which is used to pay either in the present or in the future is defined as the exchange rate (Prananda and Triyanto 2020). The company's transactions involving various countries in a significant amount will have an impact on the foreign exchange profit and loss of the company. The cash flows owned by the company will be denominated in several different currencies along with the time difference (Mulyani et al. 2020). In this study, the exchange rate is definitive by dividing the foreign exchange profit and loss by the profit before tax (Nurwati et al. 2021). The following is the exchange rate measurement formula used in the study:

$$\text{Exchange Rate} = \frac{\text{Foreign Exchange Profit and Loss}}{\text{Profit Before Tax}}$$

2.1.6 Multinationalism

Business expansion and industrial progress make the company expand its business on the international scene. These companies are called multinational companies. Multinational companies see the world as the opening gate for their business expansion. In addition, multinational companies also see the opportunity that international business is more profitable than companies that rely on their company operations in one country (Maulina et al. 2021). In addition, based on Agata et al. (2021) multinational companies are geographically diversified companies. The company's development strategy which includes opening branch offices, opening new business lines, mergers, acquisitions, and others is the definition of diversification. The more affiliations of the company that covers geographical differences, the greater the level of multinationalism. In this study, multinationalism is emphasized in its geography. Multinationalism is measured by comparing the number of foreign subsidiaries with the total subsidiaries (Rezky and Fachrizal 2018). Based on this explanation, it produces the following formula:

$$\text{Multinationality} = \frac{\text{Number of Foreign Subsidiaries}}{\text{Number of Subsidiaries}}$$

2.2 Hypothesis Development

2.2.1 The Influence of Tax Minimization on Indication to Perform Transfer Pricing

Taxes when viewed from the company's perspective are a burden that must be paid to the state. Large tax payments will reduce the profits earned by the company. Therefore, management minimizes the tax burden payable through transfer pricing. The transfer pricing practice is executed by increasing the volume of sales transactions at lower prices to the group of companies located abroad at lower tax rates so that tax payments can be minimized, and the companies get the maximum overall group profit. In this case, the large tax burden becomes an impetus for management to minimize the burden of the tax, therefore the company will be indicated for transfer pricing to achieve maximum profit. The statement is supported by Septiyani et al. (2018) and Mulyani et al. (2020) that explains tax minimization has a significant influence with a positive direction toward transfer pricing.

H_{a,1}: Tax minimization significantly and positively influences the indication to perform transfer pricing.

2.2.2 The Influence of Firm Size on Indication to Perform Transfer Pricing

There are three types of the size that company had, specifically small companies, medium companies, and large companies. The more assets the company has, the bigger the size of the company. Large companies are at a mature stage and are more consistent in obtaining profits (Adelia and Santioso 2021). Consequently, large companies are considered more able to generate profits than medium and small companies. When a company generates profit consistently, it invites more investors to invest. Investors as shareholders give authority to the management. The authority granted is in the form of approval of the transactions that occur. However, in this case, there is investor pressure on management so that the company achieves maximum profit. To maintain investor confidence in generating profits, large companies tend to do transfer pricing to pursue maximum profits. The statement is supported by Rezky and Fachrizal (2018) and Anh et al. (2018) that explains firm size has a significant influence with a positive direction toward transfer pricing.

H_{a,2}: Firm size significantly and positively influences the indication to perform transfer pricing.

2.2.3 The Influence of Exchange Rate on Indication to Perform Transfer Pricing

The exchange rate between one currency with another currency as a medium of payment in international trade is the definition of the exchange rate. Based on Devita and Sholikhah (2021) the exchange rates are highly volatile. Companies that purchase their raw materials for production abroad due to fluctuating exchange rates will be affected by the fact that the prices of these goods may vary, even though the supplier does not change the selling price that has been set. In addition, the existence may affect the price of traded products or services (Ayshinta et al. 2019). Fluctuating exchange rates are also accompanied by exchange rate risk. The existence of exchange rate risk motivates companies to shift their profits to countries that have strong currencies. Companies will tend to transfer their profits with transfer pricing schemes to countries with strong currencies through affiliated parties to avoid exchange rate risk. In this case, when the exchange rate increases, the management will be indicated for transfer pricing to avoid the risk of fluctuating exchange rates. The statement is supported by Ayshinta et al. (2019) and Viviany (2018) that explains the exchange rate has a significant influence with a positive direction toward transfer pricing.

H_{a,3}: The exchange rate significantly and positively influences the indication to perform transfer pricing.

2.2.4 The Influence of Multinationalism on Indication to Perform Transfer Pricing

Multinational companies are companies that have branches or subsidiaries abroad. The operational activities of multinational companies also cover cross-border transactions, so both export and import activities involve two companies within the same group with different regulations depending on where the company is domiciled. The business expansion of multinational companies is carried out to expand consumer networks and market share to increase profits. In addition, multinational companies also take advantage of different tax regulations between countries. In this case the greater the level of multinationalism, the management will be encouraged to execute transfer pricing to maximize the profit of the business group. The statement is supported by Rezky and Fachrizal (2018) and Liana et al. (2020) that explains multinationalism has a significant influence with a positive direction toward transfer pricing.

H_{a,4}: Multinationalism significantly and positively influences the indication to perform transfer pricing.

3. Methods

Quantitative methods used in this study with the population are manufacturing companies listed on the Indonesia Stock Exchange from the year 2016 until 2020. Purposive sampling is the sampling technique used with the criteria including manufacturing companies listed on IDX between 2016-2020, manufacturing companies consistently listed on IDX between 2016-2020, manufacturing companies that consistently publish financial reports between 2016-2020, manufacturing companies that do not experience losses between 2016-2020, and manufacturing companies that deliver the complete data related to variables between 2016-2020. Under the criteria, a total of 14 samples of companies were obtained in the study for 5 years. The following is the logistic regression analysis equation used in the study:

$$\text{Ln}\left(\frac{\text{TP}}{1 - \text{TP}}\right) = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Information:

$\ln \frac{TP}{1-TP}$: The probability that the company is indicated to perform transfer pricing
α	: Constant
X_1	: Tax minimization
X_2	: Firm Size
X_3	: Exchange rate
X_4	: Multinationalism
$\beta_1\beta_2\beta_3\beta_4$: Regression coefficient per variable
ε	: Error Term

4. Data Collection

Data collection is a systematic and standard procedure to obtain the necessary data, in this case, there is a relationship between the data collection method and the research problem to be answered (Siregar 2017). The methods of data collection used are as follows:

- a) Literature Study
Literature study is defined as the process of collecting data through books and previous relevant research such as journals, proceedings, articles, scientific works, and other readings related to research to be studied by researchers.
- b) Documentation
Documentation is the process of collecting data sourced from the financial report which is accessed through the website of IDX and the official website of the related company.

5. Results and Discussion

To analyze the results, this study used descriptive statistics and logistic regression analysis. The following are the results of the test that have been carried out:

5.1 Results

5.1.1 Descriptive Statistical Analysis

Descriptive statistical analysis was used to describe the data on the research variables. According to Sugiyono (2019), descriptive statistics provide an overview of the data collected without drawing generally accepted conclusions. The following is a descriptive statistical analysis based on the measurement scale. In this case, the variables with a ratio scale are tax minimization, firm size, exchange rate, and multinationalism. Meanwhile, the variable measured using a nominal scale is the indication to perform transfer pricing.

Table 1. The results of the descriptive statistical test on a ratio scale

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Tax Minimization	70	0,0002	0,5488	0,2219	0,0984
Firm Size	70	27,2779	32,4730	29,8610	1,4634
Exchange Rate	70	-0,3047	0,3112	-0,0014	0,0670
Multinationality	70	0,0370	1,0000	0,4479	0,2550
Valid N (listwise)	70				

Table 2. The results of the descriptive statistical test on a nominal scale

Variable	Category	Sample	
		Total	Percentage
Transfer Pricing	Indicated for Transfer Pricing	38	54%
	Not Indicated for Transfer Pricing	32	46%
Total		70	100%

Table 1 presents the results of descriptive statistical tests on ratio scales such as tax minimization, firm size, and multinationalism variables have data that do not vary or are grouped. This is due to the average (mean) value being greater than the standard deviation. While the exchange rate variable has data that varied or is ungrouped. This is due to the average (mean) owned being lower than the standard deviation. Furthermore, Table 2 shows that from a total of 70 samples, 38 samples of companies or 54% indicated transfer pricing, while 32 samples of companies or 46% did not indicate transfer pricing.

5.1.2 Regression Model Feasibility Test

Hosmer and Lemeshow's Goodness of Fit Test was used to assess the feasibility of the regression model. It was used in the context of testing the H_0 whether the empirical data matched or not according to the model (Ghozali 2018). In case Hosmer and Lemeshow Goodness-of-fit test statistics (sig. value) are greater than 0,05, then the model is said to be fit, meaning that the model could predict the value of the observation, moreover the value of the observation matches the model. The result is summarized in Table 3.

Table 3. Hosmer and lemeshow test

Step	Chi-square	df	Sig.
1	12,417	8	,134

Table 3 presents the Hosmer and Lemeshow test including the value of Chi-Square is 12,417 by sig. value of 0,134, identify as greater than alpha 0,05. Based on the explanation, we can conclude that H_0 is accepted. A model that is being used is fit, also it means the model able to predict the value of the observation, so it can be used for further analysis.

5.1.3 Overall Fit Test Model

In this test, the hypothesis does not reject the H_0 because the aim is to make the overall model fit with the data (Ghozali 2018). If there is a decrease in the value of the likelihood function identified as -2LogL block number = 0 and -2LogL block number = 1, then accepting H_0 , means that hypothesized model is fit with the data. The result is summarized in Table 4.

Table 4. Overall fit test model

Overall Fit Test Model	
-2LogL Block Number = 0	96,526
-2LogL Block Number = 1	86,104

Table 4 presents the initial -2LogL (Block Number = 0) value is 96,526 also -2LogL (Block Number = 1) value is 86,104. Based on two results it can be concluded that there is a decrease of -2LogL. Additionally, the decrease in the value means that hypothesized model fits the data, furthermore, we can conclude that H_0 is accepted.

5.1.4 Coefficient of Determination

The coefficient of determination (R^2) tends to measure how far the model can explain variations in the dependent variable. This can be shown through the number Nagelkerke's R Square. In this case the greater the percentage of Nagelkerke's R Square, the better the independent variable explains the dependent variable (Ghozali 2018). The result is summarized in Table 5.

Table 5. Model summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	86,104 ^a	,138	,185

Table 5 presents the Cox and Snell R Square has a value of 0,138, furthermore Nagelkerke R Square has a value of 0,185. It means that the combination of tax minimization, firm size, exchange rate, and multinationalism would define

the variation of indication to perform transfer pricing with a percentage of 18,5%. Additionally, the rest with a percentage of 81,5% are the factors outside this study.

5.1.5 Simultaneous Test (F Test)

In logistic regression, to find out the simultaneous test (F test) we can see this from the Omnibus Test of Model Coefficient. Ghozali (2018) reveals that Omnibus Test of Model Coefficient through logit regression based on level significance (α) of 5%. If the significance value is lower than the significance level, then the decision taken is that the independent variables significantly influence the dependent variable. The result is summarized in Table 6.

Table 6. Omnibus tests of model coefficients

		Chi-square	df	Sig.
Step 1	Step	10,421	4	,034
	Block	10,421	4	,034
	Model	10,421	4	,034

Table 6 presents the Chi-square value is 10,421 and the degree of freedom = 4 also the value of significance is 0,034 lower than the level of significance ($0,034 < 0,05$). Thus H_0 is rejected and H_a is accepted. Simultaneously, all independent variables significantly influence the dependent variable.

5.1.6 Partial Test (T Test)

Ghozali (2018:99) reveals that partial testing tends to determine the influence of each independent variable on the dependent variable. In logistic regression analysis, a partial test shown in the table of variables in the equation with a significance level is 5%. If the significance value $< 0,05$ then reject H_0 , so that the independent variable significantly influences the dependent variable and vice versa. The result is summarized in Table 7.

Table 7. Variables in the equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a	Constant	-3,548	6,194	,328	1	,567	,029
	Tax Minimization	1,059	2,924	,131	1	,717	2,883
	Firm Size	,064	,195	,107	1	,744	1,066
	Exchange Rate	1,585	4,573	,120	1	,729	4,882
	Multinationality	3,624	1,334	7,378	1	,007	37,504

Table 7 presents the comprehensive results of the partial test. The significance value of tax minimization is 0,717, the value shows that greater than the 0,05 level of significance. It means that accepting $H_{0,1}$, namely tax minimization does not influence the indication to perform transfer pricing. The regression coefficient value of the tax minimization variable is 1,059 which indicates the direction of the positive influence. Furthermore, the significance value of firm size is 0,744, the value shows that greater than the 0,05 level of significance. It means that accepting $H_{0,2}$, firm size does not influence the indication to perform transfer pricing. Additionally, the firm size regression coefficient is 0,064 which indicates the direction of the positive influence. Furthermore, the significance value of the exchange rate is 0,729, the value shows that greater than the 0,05 level of significance. It means that accepting $H_{0,3}$, the exchange rate does not influence the indication to perform transfer pricing. Additionally, the regression coefficient value of the exchange rate variable is 1,585 which indicates the direction of the positive influence. Furthermore, the significance value of multinationality is 0,007, the value shows a lower than the 0,05 level of significance. It means that rejecting $H_{0,4}$ and accepting $H_{a,4}$, the multinationality variable significantly influences the indication to perform transfer pricing. The regression coefficient value of the multinationality variable is 3,624 which indicates the direction of the positive influence. Based on table 7, the equation of logistic regression is as follows:

$$\text{Ln}\left(\frac{\text{TP}}{1 - \text{TP}}\right) = -3,548 + 1,059X_1 + 0,064X_2 + 1,585X_3 + 3,624X_4 + \varepsilon$$

Information:

X_1 : Tax minimization

X₂ : Firm size
X₃ : Exchange rate
X₄ : Multinationalism
ε : Error Term

The explanation of the existence of the regression model above is as follows:

- 1) The constant value of -3,548 indicates that when all the X variables, namely tax minimization, firm size, exchange rate, and multinationalism are worth 0, then the Y variable, which is an indication to perform transfer pricing, has a decreased probability of 3,548.
- 2) The value of the regression coefficient β_1 of 1,059 indicates that when tax minimization is 1 while firm size, exchange rate, and multinationalism are worth 0, then the Y variable indication to perform transfer pricing has an increased probability of 1,059.
- 3) The value of the regression coefficient β_2 of 0,064 indicates that when the firm size is 1 while tax minimization, exchange rate, and multinationalism are worth 0, then the Y variable indication to perform transfer pricing has an increased probability of 0,064.
- 4) The value of the regression coefficient β_3 of 1,585 indicates that when the exchange rate is 1 while tax minimization, firm size, and multinationalism are worth 0, then the Y variable indication to perform transfer pricing has an increased probability of 1,585.
- 5) The value of the regression coefficient β_4 of 3,624 indicates that when multinationalism is worth 1 while tax minimization, firm size, and exchange rate are worth 0, then the Y variable indication to perform transfer pricing has an increased probability of 3,624.

5.2 Discussion

5.2.1 The Influence of Tax Minimization, Firm Size, Exchange Rate, and Multinationalism on Indication to Perform Transfer Pricing

According to the simultaneous test, it reveals that the significance value 0,034 is lower than 0,05, then H_a is accepted. The variables of tax minimization, firm size, exchange rate, and multinationalism significantly influence the indication to perform transfer pricing. In other words, we can conclude that all independent variables significantly influence the dependent variable.

5.2.2 The Influence of Tax Minimization on Indication to Perform Transfer Pricing

Tax minimization significantly and positively influences the indication to perform transfer pricing. Meanwhile, the findings showed that tax minimization does not influence the indication to perform transfer pricing. In addition, the hypothesis that has been made was rejected. The company's strategy of minimizing the tax burden does not influence the company's decision to execute transfer pricing. Companies tend to do other tax planning to minimize the tax burden they have as well as utilize tax provisions legally. This is supported by Hikmatin and Suryarini (2019) and Kurnia et al. (2021) that explain tax does not influence transfer pricing.

5.2.3 The Influence of Firm Size on Indication to Perform Transfer Pricing

Firm size significantly and positively influences the indication to perform transfer pricing. Meanwhile, the findings showed that firm size does not influence the indication to perform transfer pricing. In addition, the hypothesis was rejected. Large companies have a greater responsibility to investors because the transactions that occur within the company are more complex than small companies. When there is a very large transaction volume, the company is required to disclose it in the financial statements. The financial statements are intended for users of financial statements such as investors and the government. Both parties demand the company terms of transparency of activities that occur so that companies tend to be careful in making transfer pricing an alternative to maximizing their profits. This is supported by Septiyani et al. (2018) and Nurwati et al. (2021) that explain firm size does not influence transfer pricing.

5.2.4 The Influence of the Exchange Rate on Indication to Perform Transfer Pricing

The exchange rate significantly and positively influences the indication to perform transfer pricing. Meanwhile, the findings showed that the exchange rate does not influence the indication to perform transfer pricing. Additionally, the hypothesis that has been made was rejected. Changes in the exchange rate used to determine the profit and loss on the foreign exchange do not influence the transfer pricing decisions made by management. The existence of transactions involving different currencies in addition to generating profits also causes losses. Thus, the company has an assumption that the exchange rate did not provide the amount of significant profit for the company. This is supported by Nurwati et al. (2021) and Mulyani et al. (2020) that explain the exchange rate does not influence transfer pricing.

5.2.5 The Influence of Multinationalism on Indication to Perform Transfer Pricing

Multinationalism significantly and positively influences the indication to perform transfer pricing. In addition, the result is following the hypothesis that has been made. In this case, when the company's operations cover cross-border transactions, the company will further expand the market share and consumer networks, so it will open subsidiaries in other countries to obtain increased profits. The higher level of competition in the international business makes the company perform transfer pricing to meet the production needs between affiliated parties and maintain their existence in the international business. In addition, multinational companies are more likely to take advantage of different tax regulations among countries. This is supported by Rezky and Fachrizal (2018) and Liana et al. (2020) that explain multinationalism has a significant positive influence on transfer pricing.

6. Conclusion

This study intends to find out how the influence of tax minimization, firm size, exchange rate, and multinationalism on the indication to perform transfer pricing. The population in this study are manufacturing sector companies listed on the Indonesia Stock Exchange from the year 2016 until 2020. According to sample criteria, there are 14 companies with a period of 5 years, then 70 samples of companies are obtained. The study reveals that the independent variables namely tax minimization, firm size, exchange rate, and multinationalism significantly influence the indication to perform transfer pricing. Additionally, the result of the study showed that tax minimization does not influence the indication to perform transfer pricing. This proved that to minimize the burden of the tax, companies could do other tax planning in a way that legal and permissible. Additionally, firm size does not influence the indication to perform transfer pricing. This is proved that the larger the company, the more transactions that occur and disclose in the financial statement. So that the company tends to be careful in executing transfer pricing to maximize profit. Furthermore, the exchange rate does not influence the indication to perform transfer pricing. Changes in exchange rates are like something that has two sides. Exchange rate movements that continue to fluctuate from the transactions could provide profits, otherwise, the exchange rate can provide losses. The existence of this makes the company have the assumption that changes in the exchange rate do not provide potential profit, so the company did not perform transfer pricing. Meanwhile, the multinationalism variable significantly and positively influences the indication to perform transfer pricing. The higher the level of multinationalism of a company, the more it indicates the company performs transfer pricing. This is done to achieve maximum profit and prosper the business group. Companies that establish affiliates abroad will have the opportunity to expand market share and consumer networks. Furthermore, the companies could take an advantage of different tax regulations.

According to the results, the multinationalism variable significantly and positively influences the indication to perform transfer pricing. For companies that have subsidiaries abroad, when transacting with their subsidiaries, the price or profits being transacted must be following the arm's length principle, for investors who invested in multinational companies are expected to understand how companies perform transfer pricing to maximize their profits. Meanwhile, the tax authorities are expected to supervise more multinational companies that perform transfer pricing, whether the transactions are following the provisions regarding transfer pricing so that tax revenues of the state are not eroded. In this study, only 18,5% of the combination of independent variables were able to describe the variation of dependent variables. Furthermore, subsequent researchers expected to add other independent variables such as corporate governance, audit committee, and tax haven. In addition, further researchers are also advised to be able to expand research objects such as the mining sector, agriculture, and other sectors.

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