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## DO R&D EXPENDITURE, MULTINATIONALITY AND CORPORATE GOVERNANCE INFLUENCE TRANSFER PRICING AGGRESSIVENESS?

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### Abstract

This research aims to examine the influence of R&D expenditure, multinationality and corporate governance (independent commissioners and shareholders ownership) toward transfer pricing aggressiveness. The prior study recommends determining the factors that affecting transfer pricing aggressiveness in different jurisdictions. Transfer pricing aggressiveness in this research is shown by transfer pricing index, which is the disclosure of transactions with related parties relating to transfer pricing. This research uses 63 multinational companies listed on Indonesia Stock Exchange from 2016-2017. The results indicate regression analysis research and development expenditures have no influence toward transfer pricing aggressiveness. Meanwhile, multinationality has a positive influence on transfer pricing aggressiveness. Moreover, corporate governances represented by independent commissioners and shareholders ownership have negative influences on transfer pricing aggressiveness.

**Keywords:** Transfer Pricing Aggressiveness, Research & Development Expenditure, Multinationality, Corporate Governance, Independent Commissioners, Shareholder Ownership

### Abstrak

*Penelitian ini bertujuan untuk menguji pengaruh biayapenelitian dan pengembangan, multinasionalitas, dan tata kelola perusahaan (direktur independen dan kepemilikan pemegang saham) terhadap agresivitas transfer pricing. Penelitian sebelumnya yang merekomendasikan untuk menentukan faktor-faktor yang mempengaruhi agresivitas penentuan harga transfer di berbagai yurisdiksi. Agresivitas transfer pricing dalam penelitian ini ditunjukkan oleh indeks transfer pricing yang merupakan pengungkapan transaksi dengan pihak berelasi berkaitan dengan transfer pricing. Penelitian ini menggunakan 63 perusahaan multinasional yang terdaftar di Bursa Efek Indonesia dari tahun 2016-2017. Hasil analisis regresi menunjukkan bahwa biaya penelitian dan pengembangan tidak memiliki pengaruh terhadap agresivitas transfer pricing. Sementara itu, multinasionalitas memiliki pengaruh positif pada agresivitas transfer pricing. Selain itu, tata kelola perusahaan yang diwakili oleh direktur independen dan kepemilikan pemegang saham memiliki pengaruh negatif pada agresivitas transfer pricing.*

**Keyword:** Agresivitas Transfer Pricing, Pengeluaran Penelitian dan Pengembangan, Multinasionalitas, Komisioner Independen, Kepemilikan Pemegang Saham.

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## INTRODUCTION

This research aims to examine the influence R&D expenditure, multinationality and corporate governances toward transfer pricing aggressiveness. Prior research held in Australia found intangible assets, multinationality, size, profitability and leverage were significantly associated with transfer pricing aggressiveness, the prior research recommends to determine the factors affecting transfer pricing aggressiveness in different jurisdictions (Richardson *et al.*, 2013). Moreover, Australian jurisdiction adheres to common law system which the judges have broader authority to interpret the legal basis law that has been made (McLeish, 2014). Unlike Australia, Indonesia is a civil law country where the judges only interpret existing laws without any authority to regulate it (Entah, 2016). Because of those differences, the similar research is conducted in Indonesia.

The practice of transfer pricing has led to the transfer pricing aggressiveness that significantly reduce the company tax liabilities. Transfer pricing is described as a technique for optimizing allocation of costs and revenues a group of company (Sikka & Willmott, 2010). Moreover, transactions between taxpayers and related parties should use the same fair value as transactions with other independent parties so as to comply with the principle of arm's length price. Therefore, aggressive transfer pricing activities are reflected in the many transactions that are not arm's length between the related parties.

Transfer pricing becomes the greatest opportunities for multinational companies with high profit margins generated from intangible assets (e.g., R&D expenditure) (Castellania *et al.*, 2017). In fact, prior research found companies can be more aggressive in transfer pricing practice through the effect of intangible assets and multinationality. This argument strengthened by Keuschnigget *al.* (2013) which stated multinational companies can do shifting profits aggressively to low tax jurisdictions due to minimize taxes. This is supported by significant empirical evidence in Danish, it shows Danish multinational companies do the shifting profits (Cristea & Nguyen, 2016). Since tax avoidance could happen by the contribution of R&D expenditure (Barker *et al.*, 2017), multinational companies have a greater opportunity to practice aggressive transfer pricing through the transfer of intangible assets between tax jurisdictions.

This research observes corporate governance from two perspectives of the company, internal and external. Therefore, independent commissioners measure the performance of corporate governance from the internal perspective and shareholders ownership from the external perspective. Moreover, corporate governance can reduce transfer pricing aggressiveness and avoid the manipulation (Lo, Wong, & Firth, 2010). Otherwise, companies will have higher transfer pricing aggressiveness if the corporate governances are not implemented well and lead to the transfer pricing manipulation. The research indicates two of corporate governance's aspects are independent commissioners and shareholders ownership can ensure the companies run well and make managers less effective to dominate the board.

According to Cornett *et al.* (2009), corporate governance could improve by independent commissioners even their performance depends on the business and regulatory compliance situation. Moreover, Minnick and Noga (2010) stated that corporate governance have influence on tax management where independent commissioners are included in it and this independent commissioners put more attentions on international tax management (e.g, transfer pricing). Independent commissioners weaken relatively aggressive levels of transfer pricing, which are likely to be indicative of not resolved agency problems. This is strengthened by Lo *et al.* (2010)'s

finding, their result show companies with more independent commissioners are less likely to engage with transfer pricing due to reducing agency cost. Hence, a higher proportion of independent commissioners can mitigate agency problem related to the aggressive level of transfer pricing.

Transfer pricing gives more benefit for the companies that conducting transfer pricing since the purpose of transfer pricing will be not fair for the government and minority shareholders. Conversely, it will be more profitable for the largest shareholders because decreasing or eliminating taxes through transfer pricing is drawing attention to the companies as it increases shareholders value, after-tax income and returns to shareholders. The largest shareholders ownership affects the corporate governance performances in order to committing transfer pricing aggressiveness (Akhtar *et al.*, 2017). This is confirmed by Lo *et al.* (2010) that prove the right of shareholders ownership is relative high and has a positive relation in transfer pricing aggressiveness. Nevertheless, Jensen *et al.* (1976) stated that unresolved agency problem occur when committing transfer pricing and it can be reduced by shareholders. Therefore, shareholders ownership has a part in decision making against transfer pricing aggressiveness depends on whether it is profitable for shareholders. Based on explanations above, it argues corporate governances especially the existence of Independent commissioners and shareholders ownership play a role in conducting transfer pricing aggressiveness

Based on explanations above, we proposed several hypotheses to be examined as follows:

- H1: R&D expenditure positively influence transfer pricing aggressiveness;
- H2: Multinationality positively influencetransfer pricing aggressiveness;
- H3: Independent commissioners negatively influencetransfer pricing aggressiveness;
- H4: Shareholders ownership negatively influence transfer pricing aggressiveness.

## METHODOLOGY

The research method used in this study is a quantitative method. This research uses purposive sampling technique for the sample selection, the criteria namely; The companies that listed on Indonesia Stock Exchange from 2016 until 2017. Non-financial companies. Based on Richardson *et al.* (2013), financial companies have significant differences in the application of accounting policies. Then, financial companies will be eliminated from the sample. The companies that have overseas subsidiary. The companies are using Rupiah (Rp) as the currency and The companies have complete data to analyze

### Operational Definition of Variables

#### Transfer Pricing Aggressiveness

Transfer pricing aggressiveness is business activities that done by the company aggressively in order to reduce tax liabilities. This variable is measured by the 'sum-score' which is TPRICE index consist of eight items that already develop by Richardson *et al.* (2013). Eight items are as follows:

- (1) The existence of interest free loans between related entities;
- (2) The existence of debt forgiveness between related entities;
- (3) The existence of impaired loans between related entities;

- (4) The provision of non-monetary consideration (e.g. services or non-liquid assets) without commercial justification between related entities;
- (5) The absence of formal documentation held by the firm to support the selection and application of the most appropriate arm's length methodologies or the absence of formal documentation relating to transfer pricing between related entities;
- (6) The disposal of capital assets to related entities without commercial justification;
- (7) The absence of arm's length justification for transactions between related entities;
- (8) The transfer of losses between related entities without commercial justification.

These eight transfer pricing aggressiveness items represented in the sample will get scored '1' if the company engaged in activities that indicative of transfer pricing aggressiveness, or '0' if there is no evidence of activities of transfer pricing aggressiveness. The total of the items index in the company will be divided by 7 to get the score of transfer pricing aggressiveness. The eight item is eliminated because accounting principles which are arm's length transaction and economic entity concept that the transfer of losses in Indonesia is not applicable. In addition, according to Income Tax Law Article 6 Paragraph 2 some points that need to be considered in terms of losses compensation are losses compensations are only for both entity and individual taxpayer who engage in business activities that the income is not subject to the final income tax and income's tax calculation do not use norms of calculation. Foreign business losses cannot be compensated by domestic income. Thus, maximum score of TPRICE Index is 1 or 100%, the higher (lower) of the overall score for TPRICE determines the higher (lower) of the level of transfer pricing aggressiveness.

**Research and Development Expenditure**

This research uses the following measurement from Dyreng *et al.* (2008) for this independent variable:

$$RDEX = \text{Ln of R\&D expenditure} \quad [1]$$

**Multinationality**

Companies can be called as multinational companies if they have subsidiaries or related party in other countries. This independent variable is measured by formula that based on Richardson *et al.* (2013) as follow:

$$MULTI = \frac{\text{Foreign Subsidiaries}}{\text{The Total of Subsidiaries}} \quad [2]$$

**Independent Commissioners**

Independent commissioners are presented by the proportion of the independent commissioners on board in keeping with previous study by Patelli and Prencipe (2007):

$$INDCOM = \frac{\text{Independent Commissioners}}{\text{The Total of Commissioners on The Board}} \quad [3]$$

### Shareholders Ownership

This variable represents by the proportion of shares owned by the largest shareholder base on study from Lo *et al.* (2010):

$$\text{SHARE} = \text{The Percentage Share Held by The Largest Shareholder} \quad [4]$$

### Firm Size

Rego (2003) states that big companies have a chance to avoid taxes because they engage in many business activities and financial transactions. Hence, this research uses firm size as a control variable that the measurement is from previous research by Richardson and Lanis (2007):

$$\text{SIZE} = \text{Ln of Total Assets} \quad [5]$$

### Profitability

The profitability of a company shows the ability of a company to generate profits for a certain period of time at certain levels of sales, assets and share capital. This ratio is measured by net income after taxes divided by total assets (Alper and Anbar, 2011).

$$\text{ROA} = \frac{\text{Net income After Tax}}{\text{Total Assets}} \quad [6]$$

### Leverage

Companies that have high tax obligations will prefer to owe to reduce taxes burden. Leverage is measured by long-term debt divided by total assets in keeping with Gupta and Newberry (1997).

$$\text{LEV} = \frac{\text{(Long-term Debt)}}{\text{Total Assets}} \quad [7]$$

### Statistical Analysis

In the research, the relation between variables present by regression model. The following regression model is used to examine the influence of R&D expenditure, multinationality and corporate governances toward transfer pricing aggressiveness with additional control variables:

$$\text{TPRICE} = \alpha_0 + \alpha_1 \text{RDEX} + \alpha_2 \text{MULTI} + \alpha_3 \text{INDCOM} + \alpha_4 \text{SHARE} + \alpha_5 \text{SIZE} + \alpha_6 \text{ROA} + \alpha_7 \text{LEV} + e$$

### Description:

$\alpha_0$	:	Constant
TPRICE	:	Transfer pricing aggressiveness
RDEX	:	Research and development expenditure
MULTI	:	Multinationality
INDCOM	:	Independent Commissioners
SHARE	:	Shareholders ownership
SIZE	:	Firm Size
ROA	:	Profitability
LEV	:	Leverage
$e$	:	Error

**RESULT AND DISCUSSION**

**Descriptive Analysis**

Descriptive analysis is used to summarize in Table 1 showed the characteristics of each variable that used in this research as follows:

**Table 4. 1 Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
Transfer Pricing Aggressiveness	126	0.140	1.000	0.52897	0.155876
R&D Expenditure	126	0.000	26.204	2.91581	7.703194
Multinationality	126	0.040	1.000	0.24095	0.169637
Independent Commisioners	126	0.200	0.833	0.40910	0.113491
Shareholders Ownership	126	0.044	0.925	0.51156	0.223391
Firm Size	126	22.969	32.108	29.35388	1.624496
Profitability	126	-2.084	2.192	0.00995	0.326013
Leverage	126	0.003	11.889	0.43852	1.397029
Valid N (listwise)	126				

The minimum value of R&D expenditure is 0 which means there are companies do not cost for research and development. Table 1 showed the maximum of R&D expenditure is 26.204. Second, the minimum value of multinationality shown is 0.04 and the maximum value is 1. There is big difference here due to the variety of business strategies the company has to expand its operations. Moreover, the greater the value of multinationality means many overseas subsidiaries are owned by the company. The minimum value of independent commissioners shown in Table 1is 0.20 and the maximum value is 0.83. The greater of independent commissioners value means the more independent commissioners the company has. The minimum value of shareholders ownership shown in Table 1is 0.04 and the maximum value is 0.92. As shown in Table 1, the minimum value of firm size is 22.969 while the maximum value of size is 32.108 It also shows the standard deviation which is smaller than the mean’s value, it means this research has varied data.

From Table 1, the profitably has the minimum value for -2.084 which means the profit generated is only -2.08% from the assets that used, while the value maximum is 2,192, so the net income generated is 2.19% of the total assets. The standard deviation is 0.326013 which means the tendency of ROA data between a company and other companies in Indonesia Stock Exchange during the year has a deviation rate of 0.326013. In Table 1, the minimum value of leverage is 0.003, which means the company do not have much long-term debt whereas the maximum value of leverage is 11.889. The company is very dependent on the use of debt to run the company. The difference between the maximum and minimum values lies in the company's policy in making their strategy to finance the company's operations.

**Classic Assumption Test Result**

**Normality Test**

This research uses Kolmogorov-Smirnov test to measure the normality of the data distribution. The distribution of data is normal if the value of Asymp. Sig in Kolmogorov-

Smirnov test is bigger than 0.05. as shown on the table 2, the value of Asym. Sig of Kolmogorov-Smirnov test is 0.059, it means the residual data has already distributed normally because the significant value is higher than 0.05.

**Table 2 Normality Test**

Kolmogorov-Smirnov Test - One sample	
Unstandardized Residual	
N	126
Mean	0.0000000
Std. Deviation	0.12486477
Absolute	0.078
Positive	0.078
Negative	-0.056
Test Statistic	0.078
Asymp. Sig. (2-tailed)	0.059

### Heteroscedasticity Test

This research uses the glejzer test to measure if the residual of data have constant variance or not. The test is done by putting the absolute residual of TPRICE as the dependent variable and test the regression. Table 3 shows the significant value is greater than 0.05. Then, it can be concluded that the residual data is already homogeneous.

**Table 3 Heteroscedasticity Test**

Coefficients			
Model	T	Sig.	
Constant	0.229	0.819	
R&D Expenditure	-1.550	0.124	
Multinationality	-0.348	0.728	
Independent Commissioners	1.203	0.232	
Shareholders Ownership	-1.229	0.222	
Firm Size	0.419	0.676	
Profitability	-1.195	0.234	
Leverage	-1.928	0.056	

### Multicollinearity Test

Multicollinearity exist if the value of VIF is higher than 10 and the tolerance value is not far from 1. According to Table 4, all the variable values of VIF are less than 10 and the tolerance value is not greater than 1. So, it can be concluded that there is no multicollinearity between independent variables.

**Table 4 Multicolliearity Test**

Coefficients		
Model	Collinearity Statistics	
	Tolerance	VIF
R&D Expenditure	0.955	1.047
Multinationality	0.920	1.087
Independent Commissioners	0.986	1.014
Shareholders Ownership	0.938	1.066
Firm Size	0.848	1.179
Profitability	0.593	1.687
Leverage	0.542	1.847

**Hypothesis Testing**

After passed the classical assumption test, the sample of this research can considered as good sample. Then, this research conducts regression analysis to test the coefficient of determination and to test the hypothesis that can be done by using F-test and t-test. The coefficient R<sup>2</sup>test is examined to know how much independent variables explain the dependent variable.

**Table 5 Coefficient Determination**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.599	0.358	0.320	0.128515

The result of the adjusted R<sup>2</sup> in this research is 0.320 or 32%, it means that all independent variables are explained to the dependent variable for 32% while the remaining 68% are explained by other variables outside of this research.

**Table 6 F Test**

Anova					
Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	1.088	7	0.155	9.413	.000 <sup>b</sup>
Residual	1.949	118	0.017		
Total	3.037	125			

According to the Table 6, the significant value is less than 0.05. It means that R&D expenditure, multinationality, independent commissioners, shareholders ownership, firm size, profitability and leverage are significant on transfer pricing aggressiveness.

**Regression Analysis**

T-test is used to analyze the partial relationship between each of independent variables on dependent variable.

**Table 7 T-Test**

Model	Coefficients				
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Constant	0.425	0.241		1.764	0.040
RDEX	-0.002	0.002	-0.089	-1.175	0.121
MULTI	0.158	0.071	0.171	2.241	0.013
INDCOM	-0.559	0.103	-0.407	-5.480	0.000
SHARE	-0.232	0.053	-0.332	-4.364	0.000
SIZE	0.014	0.008	0.148	1.854	0.033
ROA	0.092	0.046	0.191	1.998	0.024
LEV	-0.001	0.011	-0.012	-0.121	0.452

From the Table 7 regression equation is obtained as follows:

$$TPRICE = 0.425 - 0.002RDEX + 0.158MULTI - 0.559INDCOM - 0.232SHARE + 0.014SIZE + 0.092ROA - 0.001LEV$$

### **The Influence of Research and Development Expenditure towards Transfer Pricing Aggressiveness**

Based on the Table 7, it is known that the variable research and development expenditure has a significant level above 0.05 (5%) which is equal to 0.121. Therefore, the first hypothesis which states that R&D expenditure has significantly positive on transfer pricing aggressiveness is not supported. However, 55 of 63 companies do not conduct research and development, it makes the sample in this research cannot represent the entire population. The results of this research is not in line or contrary to the research that conducted by Richardson *et al.* (2013). According to Johnson (2006), companies tend to use the difficulty in measuring intangible assets, especially in research and development expenditure which is sometimes it difficult to compare its value with arm's length price. But, research and development expenditure abroad will not provide any benefits to the company because of lower taxes, while the expenditure in the country must achieve certain conditions in order to be used as deductible expenses.

Basically, all research and development expenditure are clearly issued by the company which supported by bookkeeping evidence related to current and future business activities that categorized as costs to obtain, maintain and collect the income, then can be deducted from gross income as referred to in Article 6 paragraph (1) of the income tax law of 1984 as amended for the last time by the law no 36 of 2008. According to The Decisions of Minister of Finance no. 769 / KMK.04 / 1990 about the tax treatment of research and development costs carried out by the company, to improve business competitiveness in Indonesia, in the international market and the development of the business world in general, companies need to conduct research and development. Moreover, research and development costs consist of costs for product development type and quality, as well as costs to improve company efficiency, including technology process. Then, the tax treatment of research and development costs is divided into 3 categories, such as; First, costs incurred in the framework of research and development according to the provisions of taxation laws and regulations must be depreciated / amortized, the charge must be made by depreciation / amortization in accordance with the provisions of Article 6 paragraph (1) letter b Article 11 of The Income Tax Law of 1984. Second, the costs which according to the provisions of the tax laws constitute daily business expenses, which are evidently issued in the framework of R & D, such as employee costs for R & D, purchase of research materials and so on, that charged as daily business expenses in the tax year where the expenditure is clearly carried out, it is in accordance with the provisions in Article 6 paragraph (1) letter a of The Income Tax Law of 1984, and the costs that out of fees as referred to in points 1 and 2, such as the fee of consultants who get allot R & D works which is quite material in number, the tax treatment is in accordance with general accepted accounting principles.

From the decision above, it can be concluded that the tax authorities want public companies in Indonesia to conduct research and development to improve business competitiveness. The tax authorities are not afraid of tax manipulation through transfer pricing practices because Indonesia has tax treaty agreements with other countries to avoid double taxation and also used to reach arm's length prices. As the implementation of the tax treaty, a tool can be used to prevent the transfer pricing practices of multinational companies is the existence of an exchange of information (EOI) on

concerns relating to taxation issues between countries, this is being intensively carried out with the existence of The Regulation of Minister of Finance No. 60 / PMK.03 / 2014.

Due to the strict Indonesian tax regulations on research and development, companies become more cautious in paying taxes because not all of research and development expenditures can be deductible expense for the company. Thus, research and development expenditure has no influence toward transfer pricing aggressiveness.

#### **The Influence of Multinationality towards Transfer Pricing Aggressiveness**

From the regression results in Table 7, it is proven that multinationality is significantly positive related to transfer pricing. It means H2 is accepted at a significant level of 0.013 with the coefficient value is 0.158. Then, it indicates that multinationality have a positive influence on transfer pricing aggressiveness in Indonesia. The results of this research are in line with the research conducted by Rego (2003) and Richardson *et al.* (2013) which state that companies with overseas subsidiaries have more opportunities to manipulate taxes through transfer pricing. This is indicated multinationality in Indonesia has a relationship with transfer pricing aggressiveness in relation to reducing corporate group tax payments by placing high taxes on low tax jurisdictions to make a profit. Thus, multinational companies in Indonesia are arguably more aggressive in the practice of transfer pricing compared to domestic companies.

#### **The Influence of Independent Commissioners towards Transfer Pricing Aggressiveness**

According to the table 7, independent commissioners have a significant level below 0.05 (5%) with a coefficient value of -0.559 which means independent commissioners have significant negative toward transfer pricing aggressiveness. Then, the third hypothesis is accepted. This result is in line with the research by Lo *et al.* (2010) that stated independent commissioners are negatively significant. Thus, companies with higher independent commissioners are less to engaged transfer pricing aggressiveness. Moreover, the higher the proportion of Independent commissioners will reduce the level of aggressive transfer pricing that can lead to manipulation. The higher proportion of independent commissioners in the company will improve the performance of the company because supervision of management, the board of directors and financial process of the company will be more stringent and objective. So, because of the presence of independent commissioners, management acts according to the goals of the company without committing deviant acts or transfer pricing aggressiveness that can lead to manipulation.

#### **The Influence of Shareholders Ownership towards Transfer Pricing Aggressiveness**

The result of Regression shows shareholders ownership has significant level below 0.005 (5%) with a coefficient value of -0.232. From this result, shareholders ownership is found to contribute negatively toward transfer pricing aggressiveness as expected. This is in contrast with the empirical evidence of Lo *et al.* (2010) in the context of China that found the largest shareholders have significantly positive on transfer pricing aggressiveness. The differences in results can occur due to the differences in the sample, the previous research used subsidiaries as a sample while the current research is using companies that have subsidiaries. However, the largest shareholders in this research are 54% held by the institutions and 8% held by the government. According to Shleifer and Vishny (1986), institutional shareholders ownership has an important role in minimizing agency conflicts that occur between shareholders and managers. Moreover, the largest of shareholders ownership causes more effective supervision in

controlling the opportunistic behavior of managers and can assist corporate decision making due to improve good performances by not conducting any activity that can lead to manipulations. Also, government has share in the company has rights to make company to not engage with transfer pricing aggressiveness due to avoiding taxes. Furthermore, the finding of this research is in line with the previous research that shareholders ownership which held by the institutions able to provide good controls over the actions of the opportunistic management in transfer pricing aggressiveness. So, it concludes that the higher proportion of shareholder can reduce transfer pricing aggressiveness in multinational companies listed on Indonesia stock exchange.

#### **The Influence of Firm Size, Profitability and Leverage towards Transfer Pricing Aggressiveness**

The regression indicate the size of the company has a significant level of 0.033 with a positive coefficient of 0.014. It shows firm size is proven to have a positive influence on transfer pricing aggressiveness. These results are in line with the results of research conducted by Rego (2003) and Richardson *et al.* (2013) stated large companies certainly have more activities than small companies have more opportunities to significantly avoid corporate taxes because the transactions carried out are very complex and also the larger the company must have competent human resources in minimizing the tax burden. Moreover, it allows companies to take advantage of existing gaps to carry out transfer pricing of each transaction. So, it can be concluded that the firm size in Indonesia is included as the consideration of the company to engage with transfer pricing. Therefore, firm size affects the company intensively to manipulate taxes through the practice of transfer pricing.

From the regression result shows that profitability has significant value for 0.024 with the coefficient value of 0.092. It means profitability that proxied by ROA has a positive effect on the company's decision to make transfer pricing. This evidence supports the argumentations of Rego (2003) and Richardson *et al.* (2013), more profitable companies will be involved in transactions and schemes that designed to significantly avoid corporate taxes compared to companies that are unprofitable. From the result, it can concluded that company with higher profitability in Indonesia take advantage of the opportunity to reduce the tax burden that obtained from large profits through transfer pricing. Thus, the higher profitability of a company, the greater incentive of the company to carry out transfer pricing aggressiveness.

The regression results for leverage in the table 4.9 shows the coefficient value is -0.001 with a significance level of 0.452. It indicates corporate's leverage has no influence towards transfer pricing aggressiveness. This finding is not in accordance with prior research from Richardson *et al.* (2013) which suggests a company with a higher leverage tends to be more aggressive in tax planning than a company with a lower leverage. The result of this research is might cause by two reasons. First, the management will be more conservative and more careful in making decisions and reporting financial report of the company's operational when the company has a high leverage. Moreover, if the company has a high leverage and that company will keep conduct transfer pricing aggressiveness simultaneously, this situation will make the company image unfavorable for the investors. Second, the company choose firm size and profitability as benchmarks and the company's incentives to carry out transfer pricing practices along with the regression results for firm size and profitability variables which had previously been explained that firm size and profitability positively affected transfer pricing aggressiveness so leverage does not indicate that the company is more aggressive in manipulating taxes through transfer pricing.

## DISCUSSION

Research and development expenditure has proven that it has no influence on transfer pricing aggressiveness. The researcher suspects it is because of the strict tax regulations in Indonesia regarding research and development costs so that the company is very careful in reporting taxation because not all costs can be used as deductible expense. Multinational that proxied by the number of overseas subsidiaries has a significant positive influence on the transfer pricing effectiveness. So, it can be concluded that multinational in Indonesia has an influence toward the transfer pricing aggressiveness in relation to reducing group corporate taxes by placing its subsidiaries in low tax jurisdictions. Independent commissioners proven to have a negative influence on the aggressiveness of price transfers. Thus, independent commissioners can control the management to acts according to the goals of the company without committing deviant acts or transfer pricing aggressiveness that can lead to manipulation. Shareholders ownership in this research held by institutions has a negative relationship to transfer pricing aggressiveness. It means shareholders ownership able to provide good controls for the companies to less engage with transfer pricing aggressiveness.

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