Analysis the Effect of Effective Tax Rate, Tunneling Incentive, Bonus Mechanism and Debt Covenant towards Company Transfer Pricing Decision

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Abstract *-This study aims to investigate the influence of effective tax rate, tunneling incentive, bonus mechanism and debt covenant towards transfer pricing decision in agriculture and mining companies. The population used based on main sectors companies that listed in Indonesia Stock Exchange period of 2016-2018. The sample was taken by purposive sampling and resulted in the final sample of 42 companies. Data collection were taken from the company's annual report and analyzed by logistic regression as an analysis tool. The results and discussion of the logistic regression show that tunneling incentive has a positive effect on transfer pricing decision. While others independent variables have no effect on transfer pricing decision.*

Keywords- *Transfer Pricing, Effective Tax Rate, Tunneling Incentive, Bonus Mechanism, Debt Covenant*

I. INTRODUCTION

Recently, transfer pricing is one of the most effective strategies to avoid taxes. Statement from Director General of Taxes Indonesia, Ken Dwijugiasteadi had revealed as many as 2000 multinational companies do not make tax payments on the reason they are loses. Tax evasion practices are conducted by transfer pricing mode by transferring profits from Indonesia to other countries with tax rates lower than Indonesia [14].

The high tax burden to be borne by the company, causing the company triggered to outsmart all means in order to reduce the tax burden. Differences tax rates between countries give an option for companies to make tax savings. [6] Discloses a profitable multinational company will shift income from countries with high tax rates to countries with low tax rates. The reason behind this relationship between tax evasion and transfer pricing is a high tax burden will trigger multinational companies to charge low prices among affiliates and transfer profits to low tax rate countries.

Stock ownership may influence transfer pricing decisions. In a concentrated ownership structure, the majority shareholders take part in the management of the company. Minority shareholders who do not get a position as good as the majority shareholder do not get the protection of their rights. Thus, it encourages the majority shareholders to conduct tunneling that harms the minority shareholders. Tunneling incentive is done with the behavior of the majority shareholder transferring the company's assets and profits for their own benefit.

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For example; in the case of an Indonesian company with foreign ownership overseas PT. Freeport Indonesia. In 2015, PT. Freeport Indonesia did not pay dividends to its shareholders. PT. Freeport claimed the company will focus on underground mining investment. Freeport's shareholding of 90.64% is a portion of shares held by Freeport McMoRan, while Indonesia has only a 9.36% stake. This becomes a bad record for PT. Freeport considering the new underground mining investment project will be completed in 2017, which means it is possible PT. Freeport Indonesia will not be able to distribute dividends until 2017 [15].

The other decision affecting transfer pricing is the bonus mechanism. Bonus mechanism is one strategy or motive calculation in accounting that aims to give an appreciation to the directors or management based on the company's overall profit. Corporate managers with certain bonuses tend to prefer to use accounting methods that raise earnings for the current period. That choice expected to increase the value of the bonus to be received. Directors and managers are considered successful in achieving good performance if able to display good profits and for such good performance, directors and managers will be rewarded with bonuses.

In addition, debt covenants can also affect transfer pricing. Debt covenant contract is an agreement to protect the creditor from the actions of managers to the interests of creditors. In accordance with the debt covenant hypothesis companies that have high debt ratios prefer to make accounting policies that make corporate profits higher to show good performance to the debt-holders [2]. It is intended that debt-holders believe the security of the funds is guaranteed. Efforts that the company can take to ensure debt-holders by presenting assets and profits as high as possible and liabilities and burdens as low as possible. This change finally triggers the company to practice transfer pricing.

AI. Literature Review And Hypothesis Development

Rationalization of Agency Theory

The agency theory focuses on the relationship between the company owner (principal) and management (agent). In carrying out the activities of the company, the owner acting as principal will employ the agent as management to manage the company [9].Contractual relationships between principals who hire agents to provide services and have the authority to make decisions that should side with the shareholders themselves trigger management to make earnings management. The determination of accounting numbers between the principal and the agent makes the agency think about how accounting practices can be used as a way to maximize their interests whereby the means by which earnings management can be used. The behavior of earnings management is explained in the positive accounting theory which, according to [13] is the basis of understanding the action of earnings management. Accounting theory presents three theoretical hypotheses about positive accounting are the bonus plan hypothesis, debt covenant hypothesis and political cost hypothesis.

The agent is motivated to maximize the contractual costs received as a means to meet his or her needs. While the principal motivated to maximize the return of resources to prosper himself. The essence of earnings management is to achieve a balance between corporate managers and the interests of the shareholders themselves. [8] provide a definition of earnings management occurring when managers use certain decisions in financial reporting and change transactions to alter financial statements to mislead stakeholders or influence contract results using the reported accounting figures.

Agencies themselves have more information about the company as a whole. This condition leads to an imbalance of information. Differences in interests between principals and agents can be detrimental to the principal (owner) itself because the owner does not have access to adequate information. This leads to information asymmetry in which managers as agents have more complete internal information than principals.

The Influences of Regulation Theory in Practice

The theory of economic regulation by [12] provides an understanding that the potential use of public resources and the power to improve the economy can be seen in terms of supply and demand theory. In terms of demand, executives and industry use public resources and power to improve the economic status and the business world widely. From the legislative side of the supplier (supply) it takes its role to regulate the provisions on what companies should do to determine information. Provision is required for all users and presenters to get the same and balanced information. Regulation Theory provides an understanding to explain the beneficiaries and those who bear the burden due to a regulation or economic rules. Economic regulation is issued by the regulator as a policy with a specific purpose. But in reality the benefits expected to get a negative impact or loss caused by the existence of the regulation. Economic regulatory theories analyze and discuss regulatory issues that give rise to these double implications [1].

Regulatory concept are created to explain the relationship between regulations made by regulators and stakeholders. According to [4] there are three things that encourage regulators to issue regulations known as Public Interest concept, Regulator Capture concept, and Private Interest concept. Public Interest is a concept that explains a regulation is made by the regulator because of the public need for correction of market failure. Regulator Capture concept are rules designed to safeguard the public interest of users, whose goals are not achieved because in the process of making regulators dominate those rules. Meanwhile, Private Interest concept is an activity such as a regulation that describes the brotherhood among the political forces of the interest group. This regulation is the result of lobbying from interested parties to maintain and convey their interests to the government.

Between government and industry a political contract exists. Where the government as a regulator has the authority to make various regulations or limitations to regulate public resources. While companies in the industrial sector have the power to improve the economy. The government through established regulations should be able to represent the interests of the industry and strive to minimize the negative impacts of the industry. The industrial sector also requires regulations from the government in which it can oversee and overshadow industrial interests because the industry also has a positive impact for the improvement of the community's economy.

Hypothesis Development

Effective Tax Rate in Transfer Pricing

Majority companies have tendency to minimize all expenses, the one of its which is tax. High tax burden that must be borne by the company. It made companies look for ways to minimize the tax burden that should be paid. The way that is often done by companies to minimize the tax burden that must be paid is by the practice of transfer pricing. As mentioned that [17] the increasing tax burden has triggered companies to do transfer pricing in the hope that they can reduce the burden.

The fiscal authority or taxation apparatus always wants transactions that occur between divisions or between companies in one fixed ownership to refer to the principle of fairness of prices. [18]stated that related party transaction prices and arm's-length are related to tax rates and import tariffs of destination countries where the import tariffs and taxes affect the incentives to conduct transfer pricing transactions. The developing country as Indonesia is aware that multinational companies use the use of transfer pricing engineering to transfer Indonesia's tax potential to countries that have lower tax rates than Indonesia for various reasons and justifications for the engineering. The view of the fiscal authority on transfer pricing is to avoid taxes so this makes the authority look at two things, namely affiliation / privileged transactions and arm's length transactions.

The characteristics of the relationship between subsidiaries in Indonesia and overseas holding companies are considered separate entities in terms of taxation. Between the subsidiary and the parent company can conduct transactions (inter-company transactions) that can be arranged so that the subsidiary in Indonesia suffers losses, while the company as a whole is still experiencing profits. This is done to reduce the tax burden in Indonesia. Multinationals carry out transfer pricing practices to minimize tax burdens. [19] it found that transfers between large companies could result in lower tax payments globally by enlarging the income of high-tax countries to low-tax countries. According to [20] the practice of transfer pricing often occurs because of the lack of resources in the Directorate General of Taxes in understanding transfer pricing so that it makes the company minimize the tax burden without nullifying the regulations to justify the assumption of transfer prices. Based on the explanation above, the research hypothesis is as follows:

H1: Effective tax rate has a positive effect on transfer pricing decisions

Tunneling Incentive in Transfer Pricing

In a concentrated ownership structure, controlling shareholders have a concentration on control rights and cash flow rights [10]. An increase in cash flow rights in the hands of a controlling shareholder can cause financial incentives to rise thereby motivating the controlling shareholder to align his interests with the company or non-controlling shareholder. Unfortunately, when the controlling shareholder increases control through control rights, the controlling shareholder will maximize his own welfare. This is supported by [21] stated that when companies have excess financial resources, controlling shareholders will transfer resources for their interests rather than distributing them as dividends.

One of the methods commonly used by controlling shareholders to maximize their welfare is through related party transactions. The controlling shareholder exercises control to maximize his own welfare by not paying dividends to minority shareholders and transferring profits to other companies that are also under his control [22] and also conduct sale-purchase transactions with related parties. Weak protection of the rights of minority shareholders, encourages majority shareholders to do tunneling which can harm minority shareholders [22], [23]. Ownership structure reflects the type of agency conflict that occurs. The higher the incentive for expropriation of controlling shareholders, the higher the inclusion of related party transactions. Moreover, in the research of tunneling incentive [23] also stated it has a significant effect on the transfer pricing decision [7],[22].[23] . Therefore, the hypothesis in this study is as follows:

H2: Tunneling incentive affects the transfer pricing decision.

Bonus Mechanism in Transfer Pricing

A popular way of giving awards to directors or management is by giving bonuses. In carrying out its duties the directors will show good performance to company owners in order to get bonuses. It's natural for managers to manipulate earnings to maximize their bonuses. Moreover, [7] the company owners will see the company's profits generated as a whole as an assessment of the performance of its directors, therefore the directors will try as much as possible to maximize the corporate profits so that overall corporate profits have increased including the involving of transfer pricing practices. The practice of transfer pricing does not rule out the possibility of a loss to one of the divisions or subunits [24], which states that bonus compensation seen based on teams varies in different divisions within an organization. As a company team, they must be willing to help each other. Thus, directors' bonuses are not seen based on subunit earnings but on company profits as a whole. Therefore, management can utilize transfer pricing as a mechanism for transferring profits between companies to increase management bonuses [25].

It can be concluded that the bonus mechanism is a tribute to management for showing an increase in overall company profits. The directors will certainly show a good performance to the owner of the company to obtain the award. Hence, the hypothesis in this study is as follows:

H3: The bonus mechanism has a positive effect on the transfer pricing decision

Debt Covenant in Transfer Pricing

In the positive accounting theory [13], one of three hypotheses, namely the debt agreement hypothesis, when companies get closer to accounting violations based on debt agreements, company managers have a tendency to choose accounting procedures by changing reported earnings from the future to present time. The higher the company's debt ratio, the more likely it is for managers to choose accounting procedures that can increase profits. One method used by companies to increase profits is to transfer future earnings to the current period, because this can reduce the risk of failure of the debt agreement.

In a debt covenant hypothesis the closer a company is to violations of accounting based on debt agreements, the tendency is the more likely the manager of the company chooses accounting procedures with changes in reported earnings from future periods to the present period. Identifying the debt covenants is to use a proxy of the level of leverage. Leverage is the ratio of total debt to total assets of the company. The ratio is used to provide an overview of the capital structure of the company, so that it can be seen the level of risk of uncollectible debt. The higher the leverage ratio, the more likely the company will use procedures that increasing more profits [26]. Thus, the hypothesis in this study is as follows:

H4: Debt covenant has a positive effect on transfer pricing decisions.

Effective Tax Rate, Tunneling Incentive, Bonus Mechanism and Debt Covenant in Transfer Pricing

Based on the description above, the four variables namely effective tax rate, tunneling incentive, bonus mechanism and debt covenant can influence the company's transfer pricing decision. The reasons for companies doing transfer pricing practices include high tax burdens that will trigger companies to transfer income to countries that have low tax rates, a concentrated ownership structure makes controlling shareholders have greater power so that they can transfer assets for their own interests, corporate profits also triggering management to do transfer pricing in order to get bonuses and debt agreements enables managers to practice accounting by transferring future period earnings to the current period thereby reducing the risk of uncollectible debt. Based on the description of these reasons, the hypothesis in this study is as follows:

H5: Effective tax rate, tunneling incentive, bonus mechanism and debt covenant simultaneously influence transfer pricing decisions.

BI. EXPERIMENTAL MATERIAL METHOD

This is a quantitative research approach, it concern on the form of numbers and statistical analysis using logistic regression method and descriptive statistic. Moreover, it is an empirical study in which the conclusions of the research results can be generalized to the population of sample was taken. This research will be conducted based on secondary data which was obtained from the official website of Indonesia Stock Exchange (IDX) (www.idx.co.id). The secondary data used in this research are financial and annual reports of mining company and agricultural company that called as the main sectors company's categories during three consecutive period that is from period 2016 to 2018. Descriptive statistics are used to provide an overview of the independent variables to the dependent variable. While logistic regression analysis is used to see the influence of independent variables to the dependent variable. The use of logistic regression because the existence of transfer pricing as the dependent variable in this study is dichotomous [3].

The data population will be taken from the main sector companies listed on the BEI consisting of mining companies and agricultural companies. Mining companies listed on the Stock Exchange consist of sub-sectors namely coal mining, oil & gas, metals & other minerals and rocks. While agricultural companies consist of sub-sectors food crops, plantation, fishery and forestry. In this research the sectors are made into a population that will subsequently develop into a sample if it meets the criteria that have been set. However, the sample collection method will be used is purposive sampling, which means that samples will be chosen from population if they fulfilled some criteria's. Thus the 42 of the companies listed in IDX for financial year 2016-2018 will be chosen after filtered based on below criteria's:

- The Company is listed on the Indonesia Stock Exchange and publishes its financial statements during 2016 to 2018.
- The Company did not suffer any losses during the study period. This is because companies that suffered losses have no tax obligations.
- The selected company is a company having a foreign minimum percentage of 20% (twenty percent) or more. In accordance with PSAK 15 (Guidance for Financial Accounting Standard No. 15) which states that the controlling shareholder is a party holding a minimum 20% ownership interest.

The variable such as transfer pricing, effective tax rate, tunneling incentive, bonus mechanism and debt covenant will be measured by the proxy as below the Table 1, which is summarize of the operationalization of the variables in this research.

TABLE 1. EXPERIMENTAL MATERIAL METHOD

Variable	Formula	Measured as
Transfer Pricing	Measurement of variables by looking at companies with foreign ownership selling to related parties located outside the country with lower tax rates than Indonesia is given a value of 1, while others are given a value of 0	Number
Effective Tax Rate	(Tax expense – defferred tax expense)/profit before tax	Number
Tunneling Incentive	share ownership of 20% or more owned by shareholders residing in other countries whose tax rate is lower than Indonesia.	Percentage

Bonus Mechanism	(Net income year t/net income year t-1) x 100%	Percentage
Debt Covenant	Total liabilities/total assets	Number

IV. Data Analysis

Descriptive statistic was conducted to explain and describe various data characteristics such as mean, standard deviation, maximum value and minimum value of the variables used in the study, as shown in the following table.

Table 2 Result of Descriptive Statistic

	Mean	Maximum	Minimum	Std. Dev.
TP	0.3571	1.00	0.00	0.48497
ETR	0.4102	1.29	0.01	0.25589
TI	0.5769	0.99	0.23	0.24715
MB	1.8798	16.75	0.01	2.91327
DC	0.3890	0.77	0.14	0.15827

The table 2 above is the result of descriptive statistic analysis of 42 companies as samples. The result of the analysis above consisting one dependent variables which is transfer pricing and four independent variables which are effective tax rate (ETR), tunneling incentive (TI), bonus mechanism (MB) and debt covenant (DC). Table 2 gives some informations about the samples in the research, such as:

1. The average of the transfer pricing from the total of 42 samples is 0,3571 or in other words, it is 35,7%. The maximum of transfer pricing is 1 refer to the companies who have foreign ownership selling to related parties outside of other countries with lower tax rates than Indonesia. The minimum of transfer pricing is 0 refer to the companies who don't have any foreign ownership and don't have any transaction to outside other countries.
2. The highest value of effective tax rate is 1.29 refer to Salim Ivomas Pratama Tbk (SIMP). While the lowest value of effective tax rate is 0.01 refer to Salim Ivomas Pratama Tbk (SIMP). The average of effective tax rate is 41%.
3. For tunneling incentive average on 42 samples is 57.6%. The company which has the highest value of tunneling incentive is 0.99 refer to Golden Energy Mines Tbk while the lowest is 0.23 refer to Bisi International Tbk.
4. The average percentage of bonus mechanism is 18,7%. From the table, we can conclude that maximum value of bonus mechanism is 16.75% refer to Golden Energy Mines Tbk. The lowest of bonus mechanism is 0.01 refer to Darma Henwa Tbk.
5. From the table, the largest company having debt covenant is 0.77 refer to Citatah Tbk. While the smallest company having debt covenant is 0.14 refer to Resource Alam Indonesia Tbk. The average percentage of debt covenant owned by company from 42 samples is 38.9%.

Table 3 Result of Overall Fit Model

Iteration History[a,b,c]

Iteration		-2 Log likelihood	Coefficients
			Constant
Step 0	1	54.750	-.571
	2	54.748	-.588
	3	54.748	-.588

a. Constant is included in the model.
b. Initial -2 Log Likelihood: 54.748
c. Estimation terminated at iteration number 3 because parameter estimates changed by less than .001.

Iteration History[a,b,c,d]

Iteration		-2 Log likelihood	Coefficients				
			Constant	ETR	TI	MB	DC
Step 1	1	47.842	-.843	-.756	2.609	.011	-2.427
	2	47.428	-.984	-.954	3.291	.005	-3.180
	3	47.423	-1.004	-.981	3.379	.003	-3.267
	4	47.423	-1.004	-.981	3.380	.003	-3.269
	5	47.423	-1.004	-.981	3.380	.003	-3.269

a. Method: Enter
b. Constant is included in the model.
c. Initial -2 Log Likelihood: 54.748
d. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

Table 4 Result of Hosmer and Lemeshow Test

Hosmer and Lemeshow Test

Step	Chi-square	Df	Sig.
1	9.035	8	.339

Table 5 Result of Nagelkerke R Square

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	47.423[a]	.160	.220

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

Table 6 Result of Table Classification

Classification Table[a]

	Observed		Predicted		
			TP		Percentage Correct
			.00	1.00	
Step 1	TP	.00	22	5	81.5
		1.00	11	4	26.7
	Overall Percentage				61.9

a. The cut value is .500

Table 7 Result of Variables in the Equation

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	ETR	-.981	1.522	.415	1	.519	.375
	TI	3.380	1.613	4.391	1	.036	29.380
	MB	.003	.132	.000	1	.984	1.003
	DC	-3.269	2.419	1.826	1	.177	.038
	Constant	-1.004	1.274	.621	1	.431	.366

a. Variable(s) entered on step 1: ETR, TI, MB, DC.

Table 8 Result of Omnibus test of Model Coefficients

Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	7.324	4	.120
	Block	7.324	4	.120
	Model	7.324	4	.120

In the logistic regression model, there are stages to note from the SPSS output model. The stages in the logistic regression model are as follows:

1. The results of the overall fit model -2LL for block 0 is 54.748. This figure is mathematically significant with alpha 5% and the null hypothesis is rejected. This means the model is not fit with the data if it only includes constants, where independent variables have not been incorporated into the regression model. The next step is to test the whole model by comparing the value of -2LogL (-2LL) block 0 with the value -2LL block 1. From the observation -2LL block 1 or when the model has entered the constant and the variable shows the result of 47.423. From these results seen a decrease in the value of -2LL block 0 with a value of 54.748 with a block 1 value of 47.423. Thus it can be concluded that the addition of independent variables into the regression model results in a decrease in value between block 0 and block 1 which means the null hypothesis cannot be rejected. This can make a better model or model fit with the data.

2. Test of Hosmer and Lemeshow's Goodnees of Fit Test Chi Square value of 9,035 with probability 0.339 where value above 0.05 which means model is able to predict the observation value or can be said fit model and can be accepted in accordance with the observation data.
3. Based on the above table shows the results of the coefficient of determination test with Nagelkerke R Square of 0.220. From these results can be concluded that the dependent variable can be explained by the independent variable is equal to 22% the remaining 78% explained by other variables not examined in this study.
4. According to the result of table classification the predictions of companies that doing a transfer pricing with affiliated companies amounted to 1, whereas the real analysis shows that companies that did transfer pricing transactions between companies that have a special relationship is 4 companies from a total of 15 companies that do transfer pricing. So the predictive power of the company model that does the pricing transfer is 26.7%.
5. Based on the result on variable in equation table, it indicates:

   Based on the above table it is known that the independent variable effective tax rate (X1) has a negative beta coefficient of -0.981 to the transfer pricing decision and the value of ρ value (sig.) of 0.519> 0.05, then the hypothesis test results H1 rejected which means effective tax rate has no effect on transfer pricing decision of the company.

   Based on table it is known variable tunneling incentive (X2) has a positive beta coefficient of 3.380 to the decision of transfer pricing and value ρ value (sig.) Of 0.036 < 0.05, then from the hypothesis test results H2 accepted which means tunneling incentive positive effect on transfer pricing decision of the company. Based on table it is known variable bonus mechanism (X3) has a positive beta coefficient of 0.003 to transfer pricing decisions and value ρ value (sig.) of 0.984 > 0.05, then H2 rejected, which means bonus mechanism does not affect the company's transfer pricing decisions.

   Based on table 4.11 above known variable debt covenant (X4) has a negative beta coefficient of -0.3629 to the decision of transfer pricing and value ρ value (sig.) Of 0.177> 0.05, then H4 is rejected, which means debt covenant does not negatively affect the transfer pricing decision company.
6. The Omnibus Tests of Model Coefficients shows the value of chi square of 7,324 with significance level of 0.120 > 0.05. Then Ha is rejected which means effective tax rate, incentive tunneling, bonus mechanism and debt covenant does not affect the transfer pricing decision.

DISCUSSION

The first hypothesis proposed by the author is effective tax rate has influence in transfer pricing. But hypothesis testing resulted in a coefficient of -0.981 with a significance value of 0.519 greater than the value of 0.05. Hence, H1 that the author proposed is rejected. In this study, the results show that the effective tax rate does not affect the transfer pricing decision of the company because the company in its development, doing tax management in an effort to minimize the tax burden to be paid. This study is in line with the research conducted by Mispiyanti (2015) which in her research also resulted the conclusion of effective tax rate has no influence to the decision of transfer pricing company. Tax management is a means by which taxpayers can fulfill their obligations properly on the one hand, and on the other hand reduce the tax burden in the most efficient possibility. Controlling the amount of tax paid by the taxpayer to be in the most efficient possible, must be arranged in such a way in various ways that within the scope of taxation is considered not to violate the provisions of the laws and regulations so that taxation accepted. Arranging taxation within the framework of preparation related to tax consequences may emphasize the control of any transactions that have tax consequences. This of course aims to control the amount of tax so as to reach the minimum.

The second hypothesis that the author proposed is tunneling incentive has influence in transfer pricing. Based on the results of the second hypothesis testing that shows that tunneling incentive has positive beta coefficient 3.380 and (sig.) Of 0.036 is smaller than 0.050, which means the second hypothesis accepted. The results of the hypothesis show that tunneling incentive positively affect the transfer pricing decision. Mutamimah (2009) states that tunneling in the concentrated ownership structure is caused by several things. First, the majority shareholder has the incentive and ability to make transactions for a certain price. Second, the lack of protection of the rights of minority shareholders. Third, the majority shareholder will influence management in making decisions that only maximize the interests of unilateral majority shareholders and harm the interests of minority shareholders because the majority shareholder has greater strength. This research is has been in a line with previous studies conducted by Hartati (2015) that tunneling incentive positively influence the transfer pricing decision. This indicates that the shares of a foreign-owned company will sell to a related party with an unfair price determination in order to emphasize the interests of the controlling shareholder.

The third hypothesis that the author stated is bonus mechanism has influence in transfer pricing. This study is not in line with studies conducted by Hartati (2015) where the study shows that bonus mechanism has no effect on transfer pricing decisions. This is supported by Mispiyanti's (2017) study where the bonus mechanism has no effect on transfer pricing decisions because there is no management tendency to only provide bonuses by looking at overall earnings but also can see the overall value of the company. The Company will not only use accounting methods to increase the profit of the current period by increasing or decreasing reported earnings as a way to show its performance in front of the company owner. The company can hold earnings retention whereby this will make the company inclined to excessive investment through improvement and growth in order to enlarge power and respect for itself.

The fourth hypothesis stated by the author is debt covenant has influence in transfer pricing. According to debt covenant hypothesis companies that have high debt ratios prefer to make accounting policies that make corporate profits higher. The purpose to make a company profit high is to ensure debt-holders that the company has a good performance. The study result of Rossa (2017) stated that debt covenant affects transfer pricing. The higher the credit limit the greater the likelihood of credit line deviations and expenditure. Managers will tend to choose a transfer pricing method that can increase profits so they can postpone the credit limit. However, in this study the influence of debt covenant on transfer pricing decisions is rejected. This is because the high leverage ratios in the sample companies do not affect the company's decision to transfer pricing. Companies with large debt ratios can transfer pricing and companies with small debt ratios can also transfer pricing. Conversely, companies with large and small debt ratios can also not transfer pricing with related companies. So debt covenant measured using debt to equity ratio or debt to equity ratio does not give influence to company decision to transfer pricing. Debt covenants contain debt agreements whereby debt-holder agreements must be met during the term of the agreement. These efforts are by presenting the highest possible assets and profits, as well as the lowest possible liabilities and burdens (Watts and Zimmerman, 1986).

The fifth hypothesis proposed by writer effective tax rate, tunneling incentive, bonus mechanism and debt covenant together have no influence towards transfer pricing. This can be seen on the result of Omnibus test of Model Coefficients. Not all companies will do transfer pricing as tax avoidance, transfers to increase profits or to fulfill debt agreements. Transfer pricing is performed as an interdisciplinary transaction within a single legal entity or legal entity in a single possession. For that reason, transfer pricing is commonly used in the management of a company, especially companies that have a number of different responsibility centers. Gunadi (1994) states that the transfer pricing of the financial management aspect is an instrument of planning and controlling the mechanism of the resource entity's economic flow for the company as a whole. A plan and control, an economic entity or multiple entities in one possession will be divided into several responsibilities centers. This center may be a division, department or a legal entity within the network of economic entities. The Center is a site of activity for which its manager is assigned a delegation of controlling authorities, and therefore has responsibility for such activities for a certain period.

CONCLUSION

This study was conducted with the aim to see the effect between variable effective tax rate, tunneling incentive, bonus mechanism and debt covenant to transfer pricing at the main sector companies listed in Indonesia Stock Exchange period 2016-2018. Based on the results of the analysis and discussion that has been done can be concluded as follows:

1. Effective tax rate has been found to have no influence in transfer pricing. The company implements tax management so that the company as a taxpayer can fulfill its obligations correctly on the one hand, and on the other hand reduce the tax burden in the most efficient circumstances possible.
2. The result of second variable, tunneling incentive has influence on transfer pricing. The ownership structure of the company and the financial resources have control over the company's transfer pricing decision policy. Where on a company's structure is concentrated, the controlling shareholder has the power to tunnel the company's resources for its own sake.
3. The result for bonus mechanism has been found to have no influence in transfer pricing. There is no tendency for management to take advantage of transfer pricing transactions to maximize the bonuses they receive if the bonuses are based on earnings. Companies in rewarding management can also see the value of the company as a whole.
4. The result of the study show that debt covenant has no influence in transfer pricing. The high debt to equity ratio in the company does not affect the company's decision to transfer pricing. Due to low debt equity ratio also does not close the possibility of companies to transfer pricing. The company in fulfilling the contract payable agreement will use accounting procedures to fulfill the fulfillment of the debt-holder.

SUGGESTION

This research have some limitations, such as the use of transfer pricing proxies in this research using dummy where if the company conducts sales transactions against a related party is assigned a value of 1 and 0 if it does not conduct sales transactions with companies that do not have a special relationship. Therefore, for subsequent research it is expected to use another proxy if the data is about sales to a related party in more detail. Based on the limitations mentioned earlier, some suggestion will needed to provide especially for further research can use other variables. This is supported by the value of Nagelkerke R Square of 22% which means the rest of 78% explained by other factors outside of this research. Moreover, further research is expected to use different objects or company not only the main sectors of company to prove whether the same results are obtained; as well as may use other proxies that provide sales data to related parties.

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