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MODERATING ROLE OF BOARD INDEPENDENCE IN THE EFFECT OF TAXES, DEBT COVENANT, AND OWNERSHIP STRUCTURE ON TRANSFER PRICING

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Abstrak
Praktik transfer pricing kerap menjadi masalah diberbagai negara karena bertentangan dengan peraturan perpajakan dan digunakan untuk mengurangi beban pajak, serta dipengaruhi oleh faktor internal yang memberi ruang bagi manajer bertindak oportunistik. Studi ini bertujuan untuk mengkaji bagaimana pengaruh pajak, perjanjian utang, dan struktur kepemilikan terhadap praktik transfer pricing, serta bagaimana independensi dewan direksi berperan sebagai variabel moderasi. Analisis dilakukan dengan metode kuantitatif berbasis regresi data panel serta moderated regression analysis (MRA) menggunakan data sekunder dari laporan keuangan perusahaan yang diperoleh melalui situs web Bursa Efek Indonesia (IDX) dan database Refinitiv. Sampel mencakup 844 perusahaan non-keuangan yang terdaftar di IDX antara tahun 2020–2024, menghasilkan 4.220 unit observasi. Selain itu, penelitian ini mempertimbangkan ukuran perusahaan sebagai variabel kontrol. Hasil menunjukkan bahwa pajak dan perjanjian utang berpengaruh positif terhadap transfer pricing, sementara struktur kepemilikan berpengaruh negatif. Peran independensi dewan direksi tidak secara signifikan memoderasi hubungan antara variabel-variabel tersebut dan praktik transfer pricing. Berdasarkan temuan ini, disarankan agar perusahaan meningkatkan kepemilikan asing dan institusional untuk mengurangi praktik transfer pricing yang berpotensi menimbulkan risiko jangka panjang. Keunikan studi ini terletak pada cakupan data yang lebih luas, mencakup seluruh perusahaan non-keuangan di Indonesia, guna menilai pengaruh independensi dewan secara lebih umum dalam konteks tata kelola perusahaan nasional.

Keywords: *Transfer pricing, taxes, debt covenant, ownership structure, board independence*

Abstract
Transfer pricing practices often become issues in various countries because they conflict with tax regulations and are used to reduce tax burdens, as well as being influenced by internal factors that allow managers to act opportunistically. This study aims to examine how taxes, debt agreements, and ownership structures affect transfer pricing practices, as well as how the independence of the board of directors acts as a moderating variable. The analysis was conducted using a quantitative method based on panel data regression and moderated regression analysis (MRA) using secondary data from company financial reports obtained through the Indonesia Stock Exchange (IDX) website and the Refinitiv database. The sample includes 844 non-financial companies listed on IDX between 2020 and 2024, resulting in 4,220 observation units. Additionally, this research considers company size as a control variable. The results indicate that taxes and debt agreements have a positive impact on transfer pricing, whereas the ownership structure has an adverse effect. The role of board independence does not significantly moderate the relationship between these variables and transfer pricing practices. Based on these findings, it is recommended that companies increase foreign and institutional ownership to reduce transfer pricing practices that could pose long-term risks. The uniqueness of this study lies in its broader data coverage, encompassing all non-financial companies in Indonesia, to more generally assess the influence of board independence within the context of national corporate governance.

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INTRODUCTION

The rapid growth of the expanding economic sector, driven by globalization, has led to the continuous expansion of international businesses, disregarding geographical boundaries. The development of global trade has contributed to the rise of multinational corporations (MNCs) operating in multiple countries (Waluyo & Basrowi, 2024). Multinational companies primarily aim to maximize profits and support their business growth by taking advantage of opportunities in various countries. To achieve these goals, Multinational companies often exploit differences in regulations that apply. One of the most common strategies employed is the implementation of transfer pricing, which aims to maximize profits while minimizing the tax burden by adjusting prices or reallocating profits among companies within a corporate group (Maryanti & Munandar, 2024).

Transfer pricing refers to the prices set in transactions between related business entities. These prices are often used to shift profit allocation among related parties, whether in international trade involving operations across different jurisdictions or in domestic trade activities (de Mooij & Liu, 2020). Furthermore, transfer pricing is directly connected to the pricing strategy for goods, services, or intangible assets transferred to related entities within the same organization or between companies, whether they are in the same country or across borders (Hidayah et al., 2025). Initially, transfer pricing was limited to internal transfers within a company or between divisions, which did not raise tax issues in Indonesia because the focus remained on the company's overall profit without differences in recognition between units (Kumar et al., 2021). However, over time, this activity can become illegal if it violates existing regulations and involves setting transaction prices that do not conform to market norms.

In Indonesia, efforts to address transfer pricing are carried out through collaboration with other countries and international organizations that deal with global taxation. Indonesia has also incorporated several recommendations from the Organization for Economic Co-operation and Development (OECD) to tackle these challenges and released Minister of Finance Regulation No. 172/PMK.03/2023 (PMK-172). Specifically, transfer pricing regulations are established to strengthen guidelines for compatibility analysis, secondary and correspondence adjustments, and to introduce clearer procedures for mutual agreement procedures (MAP) and advance pricing agreements (APA), while maintaining consistency with OECD principles. The OECD rule aims to ensure that entities with special ties set transaction prices proportionately, similar to the prices that would be applied when transacting with independent parties without a privileged relationship (Duho et al., 2024).

Nevertheless, transfer pricing remains a serious issue in various countries, including Indonesia, where multinational companies often conduct transactions that violate applicable tax laws (Waluyo & Basrowi, 2024). This situation is exacerbated by asymmetric information between tax authorities and companies, resulting in tax authorities having significantly limited access compared to companies regarding policies on inter-entity transactions conducted within a group. This creates opportunities for MNCs and local entities to manipulate transfer prices, potentially enabling them to evade taxes. Such manipulation can occur by setting artificially low or high selling prices for transactions between related parties in jurisdictions with low or high tax rates. With this strategy, companies can shift profits and reduce their tax obligations, thereby causing distortions in reporting and decreasing government revenue from the tax sector (de Mooij & Liu, 2020).

Based on OECD data through the Mutual Agreement Procedure (MAP), Indonesia had 42 transfer pricing cases in 2023, with 42 still ongoing. This is a rise from 2022, which had 29 cases. (Organisation for Economic Co-operation and Development, 2023). In addition, the OECD also revealed that base erosion and profit shifting (BEPS) causes harm to countries, amounting to $200-240 billion in lost revenue each year. This represents 4-10% of global corporate income tax revenue. One of the transfer pricing cases in Indonesia involves PT Adaro Energi (ADRO). PT Adaro is suspected of engaging in transfer pricing practices from 2009 to 2017 with its subsidiary in Singapore. In this case, PT Adaro sold coal to its affiliated company. The Directorate General of

Taxes revealed that the products transferred to Singapore were sold at prices below market value and then resold at market prices (Melani & Tulus, 2019).

Research on the factors that influence transfer pricing has been conducted extensively to date. Some of the independent variables used in previous studies include income tax, debt covenants, ownership structure, and board independence. Research conducted by several researchers, Nadhira & Asalam (2024), Maryanti & Munandar (2024), Thinh & An. (2023), Waluyo & Basrowi (2024) prove that the effective tax rate hurts transfer pricing. However, research conducted by Kumalasari & Wahyudin (2020), Murtanto & Bonita (2021), and Rafiqah Asaff (2022) shows that income tax has a positive effect on transfer pricing. Research on the effect of debt covenants on transfer pricing, conducted by Cook et al. (2020), Devita & Sholikhah (2021), and Hidayah et al. (2025), shows a positive influence. Meanwhile, the research conducted by Kumala et al. (2025) shows that debt covenants do not affect transfer pricing.

Several studies examining ownership structure, particularly institutional ownership and foreign ownership, also show varied results. Research by Devita & Sholikhah (2021) showing that institutional ownership has a positive effect on transfer pricing. Meanwhile, the research by Haryadi et al. (2025) shows that institutional ownership and foreign ownership do not affect transfer pricing. Meanwhile, research conducted by Hasan et al. (2022), Pujiningsih & Salsabyla (2022), and Widiastutik et al. (2024) shows that foreign ownership is associated with reduced profit shifting behavior. The moderating variable used in this study is board independence. The moderating variable is employed because previous research on transfer pricing has yielded inconsistent results. Based on the research conducted by Duho et al. (2024), Nekhili & Cherif (2011), and Santosa et al. (2021), board independence is found to hurt transfer pricing.

Agency theory and positive accounting theory serve as the foundation for this study. An agency relationship is the connection between a company's management, acting as the agent, and its shareholders, acting as the principals (Jensen & Meckling, 1976). The agency theory assumes that people tend to favour their personal interests, so that the goals of the agent do not always align with those of the principal. Shareholders, as principals, focus on boosting profits and increasing investment value, while agents, such as managers, are more concerned with financial compensation, including wages (Lambert, 2001). This relationship is often characterized by information asymmetry, where the agent has broader access to the company's operational data, leading to agency problems. This information asymmetry allows agents to exploit internal reports to maximize their personal utility, which can potentially harm the principal and create inherent conflicts (Nadhira & Asalam, 2024). This theory is also connected to transfer pricing, where human selfishness causes collaboration problems between parties with different goals. The principal, who is not involved in operations, is at a disadvantage due to information asymmetry compared to the agent, who can use asset management authority, such as transfer pricing mechanisms that harm the overall interests of shareholders.

Positive Accounting Theory, proposed by Watts & Zimmerman (1990), explains and predicts events that occur in accounting practices for the selection of policies and accounting methods used by companies. Watts and Zimmerman proposed three (3) hypotheses in positive accounting theory, namely the bonus hypothesis, debt hypothesis, and political cost hypothesis. In this study, positive accounting theory focuses on the debt hypothesis and the political cost hypothesis. In various loan agreements, some clauses or provisions restrict the company's activity behaviors, such as minimum profits or specific financial ratios, which can protect creditors from the risk of the company failing to meet its debt obligations. Therefore, when a company is close to violating an agreement, there is an increased likelihood that managers will use accounting methods that can modify profits to avoid the consequences of contract violations (Markarian et al., 2008). One strategy that can be used to manipulate profits is through transfer pricing, which allows companies to shift profits between entities to help meet their contractual obligations.

In business, political costs refer to various government regulations or policies that are strict, such as excess-profit taxes, price controls, and other directives or provisions (especially in highly regulated industries). These can transfer wealth from the private sector to the public sector. These political costs lead companies, giant corporations, to become more targeted and face stricter scrutiny. Watts & Zimmerman (1990). It is argued that companies under political pressure have greater incentives for managers to choose accounting methods that report lower profits, considering taxes,

politics, and regulations, rather than selecting accounting standards that report higher profits, which could increase their compensation.

Based on the observed research gaps and the inconsistent findings in prior studies, this study aims to investigate the influence of taxes, debt covenants, and ownership structure on transfer pricing, with board independence serving as a moderating variable The moderating role of board independence is intended to examine whether corporate governance mechanisms can strengthen, weaken, or otherwise alter the relationship between the independent variables and transfer pricing practices. This research focuses on non-financial companies listed on the Indonesia Stock Exchange during the period 2020-2024, using Moderated Regression Analysis (MRA) to capture both the direct effects and the moderating interaction accurately.

Hypothesis Development

The Effect of Taxes on Transfer Pricing

Based on the political cost hypothesis by Watts & Zimmerman (1990), the determination of tax rates in a country is closely related to government regulations that require companies to pay taxes. When a company has a higher ability to generate profits, the social pressure from the government on the company will also increase. Therefore, to avoid increased scrutiny from the government, company managers tend to choose to perform transfer pricing to other companies within the same group located in countries with lower tax rates. As a result, the tax burden that the company has to pay can be reduced (Indriaswari & Nita, 2018). This transfer pricing practice is typically implemented by adjusting the sale price in transactions between related parties. The goal is to reduce the profit reported by companies located in countries with higher tax rates. As a result, the amount of tax owed becomes lower than it should be. This is supported by research conducted by Indriaswari & Nita (2018) and Murtanto & Bonita (2021), which shows that taxes, measured by the effective tax rate, have a significant impact on a company's decision to use transfer pricing to reduce the tax burden it must pay.

H1: Taxes have a positive effect on transfer pricing

The Effect of the Debt Covenant on Transfer Pricing

A debt covenant is an agreement issued by creditors to debtors, restricting the company's activities that could negatively impact its loans. Therefore, based on the Debt Contract Hypothesis Theory put forward by Watts & Zimmerman (1990), when a company approaches a breach, management often uses specific accounting policies to adjust its financial statements to remain compliant with the terms of the debt covenant (Sari et al., 2022). One of the policies that managers can implement is transfer pricing practices, which can shift profits between entities to help the company meet its agreements (Hidayah et al., 2025). This transfer pricing strategy enables the company to increase profits in line with debt covenant requirements. Therefore, based on the Debt Contract Hypothesis Theory, the greater the pressure from debt agreements faced by the company, the more likely management is to use transfer pricing to remain compliant with the debt terms. Cook et al. (2020), Devita & Sholikhah (2021), and Hidayah et al. (2025) state that the debt covenant has a positive impact on transfer pricing. Therefore, it is hoped that a positive relationship exists between debt covenants and transfer pricing practices within the company.

H2: Debt covenant has a positive effect on transfer pricing

The Effect of the Ownership Structure on Transfer Pricing

Agency Theory explains the relationship between the principal (the owner or shareholder) and the agent (the manager), which often involves conflicts of interest due to differing objectives and asymmetry (Jensen & Meckling, 1976). Managers can exploit this condition to avoid paying taxes, one of which is through transfer pricing for their personal interests, which can be detrimental to the company's principal interests. Foreign and institutional shareholders are less likely to support the actions of managers who engage in tax avoidance. This is because if tax evasion measures are known to the public, the company's reputation will be significantly impacted, and the tax authorities will impose sanctions on the company (Widiastutik et al., 2024).

In addition, compared to domestic investors, foreign investors bear greater additional agency costs when the companies they invest in are involved in tax evasion, including transfer pricing (Hasan et al., 2022). This is due to the limited information available about local managers, making it more difficult to believe that tax evasion carried out by companies is a profitable measure (Balakrishnan

et al., 2019). Balakrishnan et al. (2019), Hasan et al. (2022), and Widiastutik et al. (2024) show that foreign ownership has a positive effect on tax avoidance. Widiastutik et al. (2024) and Susilawati & Tarmidi (2024) also state that institutional ownership has a negative influence. Thus, it is expected that foreign ownership and institutional ownership have a negative influence on transfer pricing.

H3a: Foreign ownership hurts transfer pricing

H3b: Institutional ownership hurts transfer pricing

Board Independence Moderates the Effect of Taxes on Transfer Pricing

Differences in interest between the principal and the agent can lead to a conflict of interest, where the manager has the potential to make decisions that benefit him but harm the principal. This condition is exacerbated by information asymmetry, which increases the likelihood of managers engaging in opportunistic practices, such as profit manipulation or transactions with related parties. In this context, the independence of the board of directors is crucial because a more independent board can prevent opportunistic actions by management, including manipulative practices such as transfer pricing (Duho et al., 2024). Therefore, ensuring board independence enhances oversight, accountability, and transparency, safeguarding shareholder value and corporate integrity.

Independent non-executive directors have no direct economic interest in the company, allowing them to supervise objectively (Fama & Jensen, 1998). When the number of independent directors is low, doubts arise about the board's ability to fulfill its supervisory role and protect the interests of minority shareholders. Therefore, the appointment of an independent director can limit the number of RPTs (Nekhili & Cherif, 2011). The presence of independent directors who act objectively and have no financial interests in the company will enhance the supervisory role over management decisions, including practices of tax avoidance through transfer pricing. As the proportion of independent directors on boards increases, managers will likely be more restrained in profit shifting, reducing the impact of taxes on transfer pricing. Therefore, the independence of the board of directors weakens the influence of taxes on transfer pricing.

H4: Board Independence weakens the positive influence of taxes on transfer pricing

Board Independence Moderates the Effect of Debt Covenant on Transfer Pricing

Debt covenants are restrictions imposed by creditors to ensure the company's financial stability, including the regulation of specific financial ratios and other key metrics. Under these conditions, managers are incentivized to maintain company performance by engaging in transfer pricing practices to meet the debt agreement's requirements and minimize the tax burden (Hidayah et al., 2025). In these conditions, the existence of an independent board of directors is expected to moderate by weakening the influence of debt covenants on transfer pricing. An effective independent board can strengthen oversight and mitigate management's inclination to use transfer pricing as a means of fulfilling debt agreements or avoiding taxes. With stricter supervision and more objective decisions, managers will tend to be more cautious in taking manipulative financial policies.

H5: Board Independence weakens the positive influence of debt covenant on transfer pricing

Board Independence Moderates the Effect of Ownership Structure on Transfer Pricing

Foreign and institutional shareholders generally have concerns that tax avoidance practices may harm companies if such actions become publicly known. Additionally, foreign investors find it more difficult to believe that the transfer pricing actions carried out by the company are profitable due to the limited information available about local managers (Hasan et al., 2022). Therefore, foreign investors and institutional investors are more encouraged by companies to avoid transfer pricing practices. The presence of an independent non-executive director acting as an external supervisor can also limit such manipulative actions (Duho et al., 2024). The appointment of independent directors indicates a strengthening of governance controls and could restrict transfer pricing strategies initiated by foreign shareholders. Thus, board independence is expected to strengthen the negative relationship between foreign ownership and the use of transfer pricing. Transfer pricing.

H6a: Board Independence strengthens the negative influence of foreign ownership on transfer pricing

H6b: Board Independence strengthens the negative influence of institutional ownership on transfer pricing

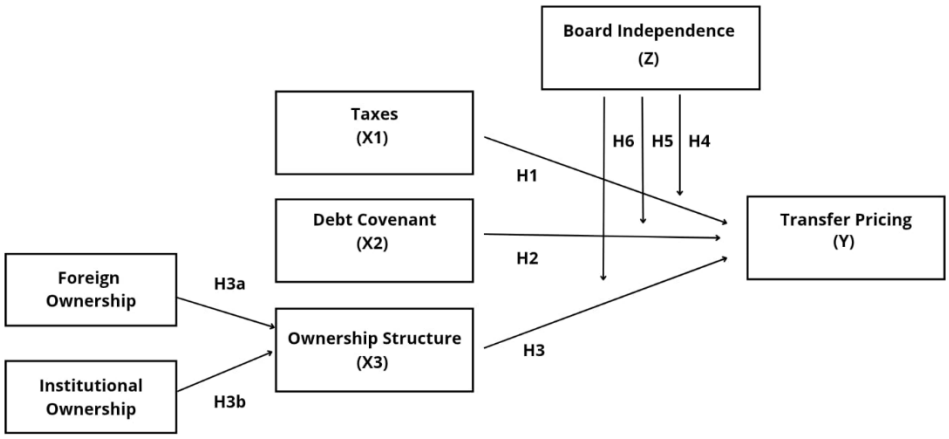

Figure 1. Research Model

METHOD

This study employs a quantitative research approach, utilizing a population sampling method. The data source is secondary data collected from the company's financial statements, which are available on the official Indonesia Stock Exchange (www.idx.co.id) website and the Revinatif database. The sample includes non-financial companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2024. The non-financial sector was chosen because it is governed by different regulations compared to the more stringent and specialized financial sector, which helps prevent bias in transfer pricing analysis and ensures more relevant findings. The total research sample comprised 844 companies over five years, from 2020 to 2024, resulting in 4,220 observation units. The sample was derived from an initial population of 954 companies, with 108 financial companies excluded due to stricter regulations in the financial sector and to avoid potential bias, thereby ensuring consistency with the scope of non-financial research. With a broader scope of data, this study is expected to overcome the limitations of previous studies. Research conducted by Sari et al. (2022) focuses solely on multinational companies in the manufacturing sector, with a total sample of 23 companies over 3 years. Maryanti & Munandar (2024) also focus solely on manufacturing companies, collecting 13 final samples over five years. With broader data, this study is expected to provide a more in-depth and accurate understanding of the determinants of transfer pricing practices in Indonesia compared to previous research.

The variables analysed in this study include taxes, debt covenants, institutional ownership, and foreign ownership as independent variables, and board independence as a moderating variable, with transfer pricing as the dependent variable. The control variables used are firm size because larger firms typically have more resources, more complex operations, and higher public visibility, which may influence their transfer pricing strategies. These control variables are employed based on the findings of previous research, which suggests that they can influence transfer pricing decisions (Duho et al., 2024; Haryadi et al., 2025). The operational definition and measurement method of each variable are presented in Table 1.

Table 1. Operation Definition of Variable

No.	Variables	Description	Definition	Measurement
Dependent Variable				
1.	TPI	Related Party Transaction of Assets and Liabilities	The price paid by two or more companies for goods and services for goods delivered to companies with which they have a special relationship (M. P. Sari et al., 2022).	The ratio of the total assets of the related party and the amount of liabilities of the related party divided by the total equity.

Independent Variable				
2.	ETR	Taxes	Percentage of tax rate charged to the entity (Thinh & An, 2023).	Income tax expense is divided by profit before tax.
3.	DEBT	Debt Covenant	An agreement to protect lenders from managerial actions that could harm creditors' interests, such as over-distributing dividends or allowing equity to fall below a predetermined level (Devita & Sholikhah, 2021).	Ratio of total liabilities to total equity.
4.	IO	Institutional Ownership	Ownership of shares owned by insurance institutions, banks, pension funds, securities, mutual funds, and corporations (Haryadi et al., 2025).	The shares owned by institutional investors are divided by the number of shares outstanding.
5.	FO	Foreign Ownership	Ownership of outstanding shares of a company owned by a party outside the company with foreign status (Haryadi et al., 2025).	Ratio of total shares owned by foreigners to total outstanding shares.
Moderation Variable				
6.	BIND	Board Independence	Members of the board of directors who have no economic interests or family ties to the company or controlling shareholders (Duho et al., 2024).	Proportion of independent directors on the board
Control Variable				
7.	SIZE	Firm Size	Indicators of a business entity's size, measured by proxy, include total assets, sales, or stock market value.	Natural logarithm of total assets.

This section contains methods, types of data, data sources, data collection techniques, data analysis techniques, and measurement of variables. Made in the form of flowing paragraphs and not numbered. Statistical symbols use standard symbols and terms, such as t-test instead of t-count. Qualitative research, such as case studies, must clearly disclose the researcher's presence, research subjects, and participating informants, as well as the methods used to collect data, the research location, the research duration, and a description of the research results' validation.

Empirical Model

In this study, the data analysis techniques used are descriptive statistical analysis and moderated regression analysis (MRA). This study employed winsorization of the variables by limiting the values to the 1% and 99% percentiles, thereby minimizing the influence of outlier data on the regression model (Solikhah et al., 2025). Data processing is carried out using Eviews 12. The regression model used is as follows:

Model 1

$$TPI_{i.t} = a_0 + \beta_1 ETR_{i.t} + \beta_2 DEBT_{i.t} - \beta_3 FO_{i.t} - \beta_4 IO_{i.t} + \beta_5 SIZE_{i.t} + \varepsilon_{i.t}$$

Model 2

$$TPI_{i.t} = a_0 + \beta_1 ETR_{i.t} + \beta_2 DEBT_{i.t} - \beta_3 FO_{i.t} - \beta_4 IO_{i.t} - \beta_5 BIND_{i.t} + \beta_6 SIZE_{i.t} + \varepsilon_{i.t}$$

Model 3

$$TPI_{i.t} = a_0 + \beta_1 ETR_{i.t} + \beta_2 DEBT_{i.t} - \beta_3 FO_{i.t} - \beta_4 IO_{i.t} - \beta_5 BIND_{i.t} - \beta_6 ETR_{i.t} * BIND_{i.t} - \beta_7 DEBT_{i.t} * BIND_{i.t} + \beta_8 IO_{i.t} * BIND_{i.t} + \beta_9 FO_{i.t} * BIND_{i.t} + \beta_{10} SIZE_{i.t} + \varepsilon_{i.t}$$

RESULT AND DISCUSSION

Result

Descriptive Statistic

Descriptive statistical analysis aims to provide a summary of the data indicated by the minimum, maximum, mean, median, and standard deviation values of each variable.

Table 2. Descriptive Statistic

Variable	N	Minimum	Maksimum	Mean	Median	Std. Deviation
TPI	4220	0.5047	1.0783	0.7158	0.7360	0.2094
Taxes	4220	0.8114	1.0400	0.8966	0.93220	0.0669
Debt Covenant	4220	0.8460	1.1298	0.9791	0.9902	0.0625
Foreign Ownership	4220	0.4298	1.0000	0.6843	0.7258	0.2322
Institutional Ownership	4220	0.0017	60.282	2.7866	0.0017	7.2817
Board Independence	4220	0.0105	0.9883	0.0380	0.0105	0.1257
Size	4220	0.2287	0.3235	0.2762	0.2767	0.0219

Source: Secondary data processed using EViews v.12, 2025

Based on the results of descriptive statistics, the Transfer Pricing Index (TPI) variable has an average value of 0.7158, a median of 0.7360, a range of 0.5047 to 1.0783, and a standard deviation of 0.2094. The Taxes variable, which is measured using the effective tax rate (ETR), has an average value of 0.8966 and a median value of 0.9322. The minimum value of ETR is 0.8114, the maximum value of ETR is 1.040076, and the standard deviation is 0.0669. The debt covenant variable, measured through the debt-to-equity ratio (DER), has an average value of 0.9791 and a median value of 0.9902. The minimum debt covenant value is 0.8460. The foreign ownership variable has an average value of 0.6843, a median value of 0.7258, and a standard deviation value of 0.7258. The minimum value is 0.0017, and the maximum value is 1.0000.

In the institutional ownership variable, the average value is 2.7866, the median value is 0.0017, and the standard deviation value is 7.2817. The minimum value is 0.0017, and the maximum value is 60.282. The board independence variable has an average value of 0.0380, a median value of 0.0105, and a standard deviation value of 0.1257. The minimum value is 0.0105, and the maximum value is 0.9883. The size variable has an average value of 0.2762, with a range of 0.2287 to 0.3235 and a standard deviation of 0.0219. This indicates that the size of the company in the sample is relatively homogeneous. The narrow range of values shows that the observed companies have a similar economic scale.

Inferential Test

Before conducting the hypothesis test, it is necessary to test the regression model that is acceptable from the three models produced, namely the Common Effect Model (CEM), the Fixed Effect Model (FEM), and the Random Effect Model (REM). The model selection was conducted using the Chow test, the Hausman test, and the Lagrange Multiplier (LM) test. The test results of the best model among the three models are shown in Table 3. The results of the Chow test in Table 3 show that the probability value of the cross-section F is 0.000, which is lower than the specified significance level of 0.05. Based on the Chow test, the Fixed Effect Model (FEM) is the most appropriate model among the CEM and FEM models. In Table 3, the Hausman test shows a probability of 0.0000, which is lower than the specified significance level of 0.05. Based on the Hausman test, the most suitable panel data regression model is the Fixed Effect Model (FEM). Therefore, the regression model is complete, and the Lagrange Multiplier (LM) test is not continued.

Table 3. Model Selection Test Results

	Estimation Model	**Prob**	**α**	**Selected Model**

Chow Test	CEM-FEM	0.0000	0.05	FEM
Hausman Test	FEM-REM	0.0000	0.05	FEM

Source: Secondary data processed using EViews v.12, 2025

In addition to conducting regression model tests, additional tests, specifically classical assumption tests, also need to be performed. Classical assumption tests include multicollinearity tests and heteroscedasticity tests (Wahyudin, 2015). The first classical assumption test is the heteroscedasticity test. This test aims to detect whether the assumption of constant variance (homogeneity) has been fulfilled and to ensure the validity of statistical tests, such as p-values and confidence intervals. There are two primary methods for detecting heteroscedasticity: residual plots and statistical tests, such as the Breusch-Pagan test (Astivia & Zumbo, 2019). In this study, the heteroscedasticity test was performed by examining residual graphs. Based on Figure 1, the residual value appears to be randomly scattered around zero without forming a clear pattern. Residual points are spread in a relatively small range, which is between -0.4 and 0.4. According to Napitululu et al. (2021), if the residual value does not exceed the range of -500 to 500, it can be concluded that the regression model in this study does not show heteroscedasticity. Additionally, on the residual graph, there are no patterns that indicate widening or narrowing, nor are there any patterns such as arcs, cones, or trends of variance that suggest heteroscedasticity (Astivia & Zumbo, 2019).

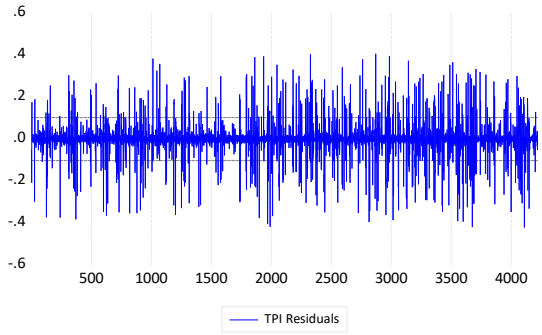

Figure 2. Residual Plot Heteroscedasticity Test

The following classical assumption test is a multicollinearity test, which is performed to identify whether there is a high correlation between independent variables in a regression model. A slight amount of multicollinearity may not cause a problem, but when the level is moderate or high, it becomes a serious issue (Daoud, 2018). Correlations below 0.9 or above -0.9 are still acceptable and are not considered problematic (Napitululu et al., 2021). Based on the results shown in Table 4, no correlation exceeds this threshold. This indicates that the regression model is free from multicollinearity and remains valid, allowing for interpretation without further adjustment.

Table 3. Multicollinearity Test Result

	ETR	DER	FO	IO	BIND	SIZE
ETR	1.0000	0.2086	0.1095	-0.0593	0.1215	0.2540
DEBT	0.2086	1.0000	0.0937	0.0266	0.0983	0.3557
FO	0.1095	0.0927	1.0000	0.0218	0.1717	0.4696
IO	-0.059	0.0266	0.0218	1.0000	0.0094	0.0820
BIND	0.1215	0.0983	0.1717	0.0094	1.0000	0.3505
SIZE	0.2540	0.3557	0.4696	0.0820	0.3505	1.0000

Source: Secondary data processed using EViews v.12, 2025

Table 5 presents the results of the t-test as part of the regression test against the independent variables that affect the dependent variables. In addition, Table 5 presents the results of Moderated Regression Analysis (MRA) to test the role of moderation variables in strengthening or weakening the relationship between variables. This study uses three regression models. Based on regression analysis using the fixed effect model, the regression equation produced for the dependent variable transfer pricing is as follows:

Model 1

$$TPI_{i.t} = 0.2703 + 0.0788 + 0.0974 - 0.0365 - 0.0037 + 1.1637 + \varepsilon_{i.t}$$

Model 2

$$TPI_{i.t} = 0.2721 + 0.0789 + 0.0970 - 0.0367 - 0.0037 - 0.0233 + 1.1621 + \varepsilon_{i.t}$$

Model 3

$$TPI_{i.t} = 0.271121 + 0.081076 + 0.096415 - 0.038049 - 0.003778 + 0.004649 - 0.075194 + 0.006850 + 0.048225 - 0.000700 + 1.164323 + \varepsilon_{i.t}$$

In model 1 (Table 5), which tested the direct influence of independent variables, it was found that taxes (ETR) had a significant positive effect on transfer pricing (β = 0.0788, p < 0.05), indicating that H1 was accepted. The debt covenant (DEBT) variable also showed a significant positive influence on transfer pricing (β = 0.0974, p < 0.05), which means that H2 was accepted. On the other hand, the variables of foreign ownership (FO) (β = -0.0365, p < 0.05) and institutional ownership (IO) (β = -0.0037, p < 0.1) showed a negative influence until H3a and H3b were accepted.

For the moderation variable in Model 3 (Table 5), the test results indicated that board independence (BIND) did not significantly moderate the influence of independent variables. When partially tested in Model 2, the BIND variable also did not show a significant effect on transfer pricing. This research model demonstrates a relatively good explanatory ability, as indicated by the Adjusted R-squared value of 0.760 or 76%, with the remaining 24% explained by other variables outside the model. Additionally, all regression equations tested through the F test had a significance level of 0.000, which is below 0.05, indicating a good model fit.

Table 4. Estimation Result

Variable	Model 1		Model 2		Model 3	
	β	Sig	β	Sig	β	Sig
Constanta	0.2703	0.0002	0.2721	0.0001	0.2711	0.0002
ETR	0.0788	0.0265**	0.0789	0.0264**	0.0810	0.0269**
DEBT	0.0974	0.0240**	0.0970	0.0245**	0.0964	0.0294**
FO	-0.0365	0.0484**	-0.0367	0.0474**	-0.0380	0.0428**
IO	-0.0037	0.0931***	-0.00378	0.0932***	-0.0037	0.0937***
BIND	-	-	-0.0233	0.3950	0.0046	0.9943
BIND*ETR	-	-	-	-	-0.0751	0.8313
BIND*DEBT	-	-	-	-	0.0068	0.9904
BIND*FO	-	-	-	-	0.0482	0.6487
BIND*IO	-	-	-	-	-0.0007	0.8376
SIZE	1.1637	0.0000*	1.1621	0.0000*	1.1643	0.0000*
R-square	0.8091	-	0.8091	-	0.8092	-
Adj. R-square	0.7608	-	0.7608	-	0.7605	-
F-Test	0.0000	-	0.0000	-	0.0000	-

Note: * significant at 0.01, ** significant at 0.05, *** significant at 0.10.
Source: Secondary data processed using Eviews v12, 2025

Discussion

The Effect of Taxes on Transfer Pricing

The results of empirical testing on Model 1 (Table 5) show that variable taxes, measured through the effective tax rate (ETR), consistently have a significant positive effect on transfer pricing in the three models that have been tested (Table 5), This result proves that the greater the tax burden that the company must bear, the higher the tendency of managers to transfer profits through the transfer pricing mechanism. Such behavior can be interpreted as a strategic response to minimize the company's overall tax liability, reflecting the application of tax planning practices in corporate decision-making. Therefore, this relationship may reflect a company's strategic response to rising fiscal pressures (Murtanto & Bonita, 2021).

Theoretically, this aligns with the Political Cost Hypothesis, which considers a company as an entity striving to minimize exposure to political pressure, including by reducing the tax burden it

pays. As profits rise, scrutiny from tax authorities and regulatory pressures also increase, creating an incentive for managers to seek mechanisms to lower the tax burden. Transfer pricing then becomes a rational method to shift profits to related entities in jurisdictions with lower tax rates, mainly through intra-group selling price reductions that can lower taxable income profits (Indriaswari & Nita, 2018). These findings are also consistent with research conducted by Indriaswari & Nita (2018) and Murtanto & Bonita (2021). However, this research differs from that of Arifin et al. (2020), which shows that ETR does not influence transfer pricing. These findings confirm that enormous tax burdens are the primary drivers of profit shifting practices, in line with the Political Cost Hypothesis; however, the effectiveness of tax authorities' supervision remains a crucial factor that can either strengthen or weaken these incentives.

The Effect of the Debt Covenant on Transfer Pricing

The test results for the three models (Table 5) indicate that debt covenants, measured using DER, have a positive and significant impact on transfer pricing. This finding is consistent with the debt contract hypothesis, which states that when a company is close to violating its debt agreement, managers are motivated to use accounting policies that present financial performance in a way that complies with the limits set in the debt agreement (Sari et al., 2022). Transfer pricing then becomes one of the strategic mechanisms that can be chosen because it allows companies to shift profits between entities within a group, thereby increasing the profit of the entity that is close to violating debt agreements. As a result, the company can present a stronger-looking financial performance, which minimizes the risk of covenant violations in the eyes of lenders. The results of this study align with those of Cook et al. (2020), Devita & Sholikhah (2021), and Hidayah et al. (2025), which confirm that a high debt ratio increases the risk of being unable to meet debt obligations. This encourages management to look for loopholes by choosing accounting techniques that can increase profits. In this case, transfer pricing is a rational instrument because it enables the company to adjust profits to stay within the limits required by the debt covenant.

The Effect of the Ownership Structure on Transfer Pricing

The results of the analysis indicated that foreign ownership (H3a) and institutional ownership (H3b) hurt transfer pricing practices, as hypothesized. In the three models tested, foreign ownership exhibits a negative and significant coefficient in relation to transfer pricing. Institutional ownership also showed a consistent negative influence direction in all three models, with a significance of 10%. These findings align with research conducted by Widiastutik et al. (2024), which shows that foreign ownership and institutional ownership have a significant negative impact on profit shifting practices, including the use of transfer pricing. Susilawati & Tarmidi (2024) also stated that institutional ownership hurts profit shifting. Studies conducted by Balakrishnan et al. (2019) and Hasan et al. (2022) also indicate a negative influence of foreign ownership on profit shifting behavior.

Theoretically, this result aligns with agency theory, which posits that a conflict of interest exists between managers and shareholders due to differing objectives and asymmetrical information. Managers can exploit the asymmetrical information condition to engage in transfer pricing for personal gain, which has the potential to harm the principal. However, foreign and institutional shareholders tend to oppose this practice. If transfer pricing practices are publicly known, the company's reputation can deteriorate, and tax authorities may impose sanctions. In addition, foreign investors face significant additional relationship costs due to limited information about local managers, making the risk of tax avoidance uncertain and difficult to predict (Balakrishnan et al., 2019; Hasan et al., 2022). Therefore, foreign and institutional investors tend to encourage companies to avoid risky transfer pricing practices. In addition, foreign ownership and institutional ownership are also seen as capable of strengthening the supervision of managers' opportunistic actions (Davis & García-Cestona, 2023).

Board Independence Moderates the Effect of Taxes on Transfer Pricing

The results of the test on board independence as a moderation variable show that independent boards cannot moderate the influence of taxes on transfer pricing. In Model 3 (Table 5), the interaction variable between ETR and board independence did not yield significant results, indicating that the expected moderation did not occur. Theoretically, agency theory, as proposed by Jensen & Meckling (1976), explains that managers tend to make decisions that benefit themselves but are detrimental to shareholders. Therefore, the existence of independent directors is seen as having a

conceptually objective supervisory function to limit the opportunistic actions of managers (Duho et al., 2024).

However, the results of this study indicate that the monitoring mechanism is not functioning effectively. These findings align with those of Shaukat Malik et al. (2025). In the context of corporate governance in developing countries, independent directors often lack strong supervisory authority and face limitations in obtaining relevant internal information to assess complex management decisions, including tax strategies and profit shifting. Additionally, some independent directors only meet the formal requirements, lacking the substantive independence necessary to fulfill their monitoring function. The limited competence in understanding tax structures, litigation risks, and transfer pricing schemes further weakens their ability to distinguish whether efficiency goals drive the policies implemented by management or if these are driven by opportunism.

Board Independence Moderates the Effect of Debt Covenant on Transfer Pricing

The test results in Model 3 (Table 5) indicate that board independence does not influence the relationship between debt covenants and transfer pricing practices. According to the debt covenant hypothesis, when a company is close to breaching a debt agreement, managers tend to adopt accounting policies to minimize the potential negative consequences of the breach. In this context, companies near the covenant violation limit may use transfer pricing to shift profits between entities, thereby helping the company meet the covenant requirements (Hidayah et al., 2025). In theory, the existence of corporate governance mechanisms, such as independent directors, is expected to strengthen supervision and prevent opportunistic behavior by managers. However, the findings in this study indicate that the board's independence is not sufficiently effective in reducing transfer pricing when the company is under covenant pressure. This is possible because, in the context of governance in developing countries, independent directors often lack full access to detailed information on transactions between entities, making it difficult for them to detect indications of gradual and covert profit shifting (Shaukat Malik et al., 2025).

Board Independence Moderates the Effect of Ownership Structure on Transfer Pricing

The test results in Model 3 (Table 5). The findings indicate that board independence does not effectively moderate the influence of foreign or institutional ownership on transfer pricing. The differing interests between managers and shareholders, coupled with information asymmetry, can be exploited by managers to implement transfer pricing practices that benefit themselves at the expense of the principals. Nonetheless, the presence of foreign and institutional shareholders may suppress managers' behaviour because they can enhance monitoring. An independent board should also improve the oversight mechanism by providing an objective assessment and more rigorous monitoring. According to Shaukat Malik et al. (2025), in developing countries, formal governance mechanisms, such as board independence, often face institutional obstacles, including bureaucracy, a lack of investor protection, or majority shareholder dominance. With these conditions, as well as the combination of the low power of foreign/institutional investors and the weak effectiveness of independent boards, there is no significant moderation effect.

CONCLUSION

This study provides empirical insights into how tax, debt covenant, and ownership structure influence transfer pricing behaviour in public companies in Indonesia, while also highlighting the moderating role of board independence. The findings indicate that taxes and debt covenants have a positive and significant impact on transfer pricing behaviour, suggesting that high tax burdens, as well as pressure to meet debt agreements, are associated with increased transfer pricing behaviour. On the other hand, foreign and institutional ownership have a negative influence on transfer pricing, suggesting that they can serve as a monitoring function to prevent opportunistic behaviour by managers. Overall, board independence did not have a significant effect on moderating the relationship between taxes, debt covenants, and ownership structures on transfer pricing.

These results have important implications for stakeholders, including governments, investors, and corporate management. For regulators, these findings underscore the need for stricter scrutiny of companies with high tax burdens and leverage ratios, as these entities are likely to engage in aggressive transfer pricing. For investors, this study highlights the importance of considering ownership structures when evaluating transfer pricing risk. For management, the existence of an

independent board requires further involvement in the company's supervision to mitigate transfer pricing behaviour, which can pose long-term risks to the company.

This study has several limitations that need to be considered. First, this analysis is limited to public companies in Indonesia, so it may not be generalized to other countries. Second, this study only uses related-party receivables to measure transaction pricing, which may not fully reflect the complexity of transaction pricing practices. Third, factors such as changes in tax regulations were not considered in this study, which may affect transfer pricing behaviour. Further research is expected to expand its scope by including other countries. Additionally, further research can employ other methods to measure transfer pricing, such as sales to related parties, to provide deeper insights. Finally, further studies can discuss the impact of regulatory changes on transfer pricing.

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