

Ownership Concentration and Transfer Pricing Decisions: Evidence from Indonesian Consumer Non-Cyclical Firms

Heliani¹, Dina Amalia²

^{1,2}Nusa Putra University

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ABSTRACT

Globalization has had a significant impact on the dynamics of the global economy, including the international business practices carried out by multinational companies. One of the consequences of this phenomenon is the increasing flow of transactions between related entities, known as Transfer Pricing. Transfer pricing refers to a company's policy in determining the transfer price of transactions involving goods, services, intangible assets, or financial transactions between affiliated companies. Multinational companies often utilize transfer pricing by manipulating transfer prices to reduce the amount of tax payable to the state in order to maximize profits. The purpose of this study is to examine the effect of Intangible Assets and Tunneling Incentive on the decision of companies to engage in Transfer Pricing. The observation period of this study covers the years 2020 to 2024. The research sample consists of consumer non-cyclical sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. The sampling method employed was purposive sampling, resulting in a total of 115 observations. Data were processed using E-Views with panel data regression analysis under the Random Effect Model (REM). Transfer Pricing was measured using the ratio of related-party receivables to total receivables, Intangible Assets were measured using the ratio of intangible assets to total assets, and Tunneling Incentive was measured using the ratio of the largest shareholding to total outstanding shares. The results indicate that Intangible Assets have no significant effect on the decision to engage in Transfer Pricing, whereas Tunneling Incentive has a significant effect, suggesting that the proportion of share ownership influences a company's tendency to conduct Transfer Pricing. Furthermore, the study finds no simultaneous effect of Intangible Assets and Tunneling Incentive on the decision to engage in Transfer Pricing.

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Corresponding Author:

Name: Heliani

Institution: Nusa Putra University

E-mail: heliani@nusaputra.ac.id

1. INTRODUCTION

Globalization has had a significant impact on the dynamics of the world economy, including on the international business practices of multinational

corporations. Globalization has opened up increasingly open and rapid flows of goods, services, capital, and human resources across countries. One impact of this phenomenon is the growth of intragroup transactions, which

are increasingly prevalent along with the emergence of conglomerates and corporate divisions, where a single business group has multiple entities or divisions spread across various jurisdictions. To regulate these transactions, companies implement a pricing policy known as Transfer Pricing [1].

Transfer pricing is a company policy for determining the transfer price for a transaction, whether for goods, services, intangible assets, or financial transactions between related companies. Transfer pricing is a tax avoidance technique used to minimize the tax burden. This transfer pricing activity can result in a decrease in state revenue due to reduced tax receipts. Taxes account for 82.4% of state revenue, while revenue from natural resources, including mining, oil, gas, and renewable energy, contributes 7.4% of total state revenue (BPS, 2024).

In Indonesia, the phenomenon of Transfer Pricing has become a serious concern for tax authorities, considering that this practice occurs in various sectors, one of which is the Consumer Non-Cyclicals sector. This Consumer Non-Cyclicals sector is one of the sectors vulnerable to Transfer Pricing practices. This sector is characterized by strong trademark ownership, royalty activities, and a multinational group structure that makes it vulnerable to Transfer Pricing practices. One case that has come to the spotlight in this Consumer Non-Cyclicals sector is the alleged tax evasion case through the Transfer Pricing mechanism carried out by PT. Bentoel Internasional Investama Tbk.

Considering the problems and phenomena mentioned above, it is crucial to conduct research on the factors influencing companies' transfer pricing decisions. One such factor is Intangible Assets and Tunneling Incentives, which are considered to have the potential to encourage companies to conduct transfer pricing to achieve specific goals that are not always in line with the interests of shareholders as a whole. This transfer pricing practice can also be explained through an agency theory perspective, where there is a conflict of interest between management (agent) and shareholders (principal) due to information asymmetry. Based on this

description, researchers are interested in conducting a study entitled "The Effect of Intangible Assets and Tunneling Incentives on Companies' Transfer Pricing Decisions (An Empirical Study of Consumer Non-Cyclical Companies Listed on the IDX 2020-2024).

2. LITERATURE REVIEW

2.1 Agency Theory

Agency theory was first proposed by [2], describing the contractual relationship between principals (capital owners) and agents (company managers) who are motivated by their own interests [3]. An agency relationship arises when the capital owner assigns responsibility to the manager to run the company's operations, along with the delegation of decision-making authority [4]. In this relationship there is a potential conflict of interest due to differences in goals between the principal and agent, resulting in information asymmetry that allows the agent to act opportunistically [2].

2.2 Transfer Pricing

Transfer Pricing is a policy for determining transfer prices for transactions of goods, services, intangible assets and financial transactions between related companies [5]. This practice is often used to shift profits to countries with lower tax rates [6]. The OECD defines Transfer Pricing as the price determined in transactions between members of a multinational corporate group that may deviate from the market price as long as it benefits the group.

2.3 Intangible Assets

OECD (2014) defines an intangible asset as something that is neither a physical nor a

financial asset but can be owned or controlled for commercial purposes. PSAK 19 states that an intangible asset is an identifiable asset without physical form and is used in a company's operational activities. These assets are classified as identifiable intangible assets such as patents and trademarks and unidentifiable intangible assets such as goodwill [4].

2.4 Tunneling Incentive

Tunneling Incentive is the transfer of company resources for the benefit of controlling shareholders [8]. Concentration of share ownership provides an opportunity for majority shareholders to transfer assets

through related transactions, including Transfer Pricing [9]. Tunneling practices can occur through asset sales, excessive compensation, or unfair transfer pricing contracts [10].

2.5 Framework

This study examines the influence of Intangible Assets (X1) and Tunneling Incentives (X2) on companies' decisions to conduct Transfer Pricing (Y). The Consumer Non-Cyclicals sector was chosen because it has the characteristics of trademark ownership, royalty activities, and a complex multinational group structure that makes it vulnerable to Transfer Pricing practices.

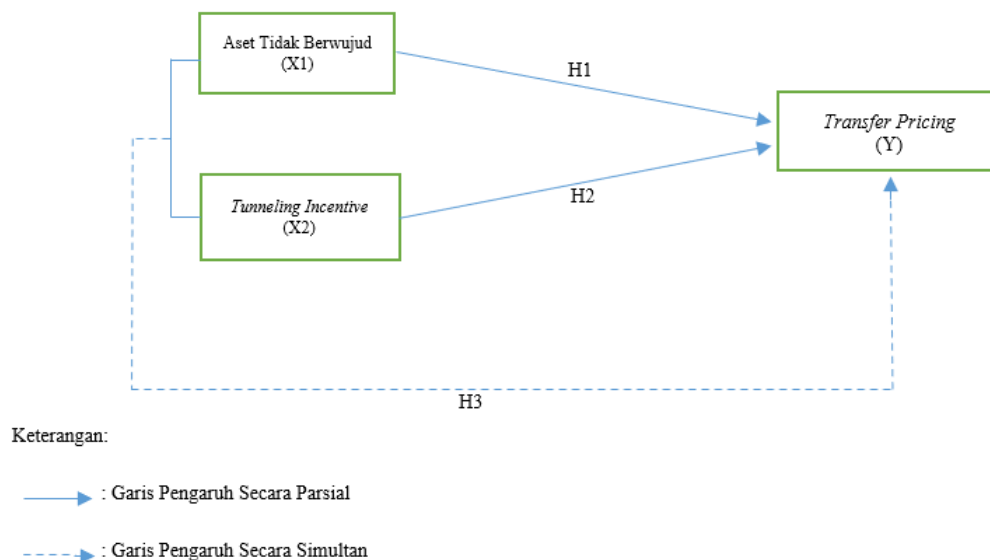


Figure 1. Framework of Thought

2.6 Hypothesis Development

2.6.1 The Influence of Intangible Assets on Companies' Decisions to Conduct Transfer Pricing

Intangible assets have the potential to influence Transfer Pricing through royalty payments whose fair value is difficult to measure, so they can

be used as a tax avoidance strategy [4].

H0: Intangible Assets Do Not Influence the Company's Decision to Conduct Transfer Pricing.

H1: Intangible Assets Influence Companies' Decisions to Conduct Transfer Pricing.

2.6.2 The Influence of Tunneling Incentives on Companies' Decisions to Conduct Transfer Pricing

Concentrated share ownership provides significant control for majority shareholders to encourage Transfer Pricing practices through related transactions [10], [11].

H0: Tunneling Incentives Have No Effect on Companies' Decisions to Conduct Transfer Pricing.

H2: Tunneling Incentives Influence Companies' Decisions to Conduct Transfer Pricing.

2.6.3 The Influence of Tunneling Incentives on Companies' Decisions to Conduct Transfer Pricing

These two variables together have the potential to influence a company's decision to carry out Transfer Pricing through royalty payments and share ownership structures.

H0: Tunneling Incentives Have No Effect on Companies' Decisions to Conduct Transfer Pricing.

H2: Tunneling Incentives Influence Companies' Decisions to Conduct Transfer Pricing.

2.6.4 The Simultaneous Effect of Intangible Assets and Tunneling Incentives on Corporate Decisions in Transfer Pricing

Globalization increases transactions between affiliated entities, so corporate transfer pricing decisions are influenced by various factors, including intangible assets and tunneling incentives. Intangible assets have the potential to drive transfer pricing through royalty payments, the fair value of which is difficult to measure, while tunneling incentives arise from

the concentration of share ownership, which allows controlling shareholders to influence corporate policy. The combination of these two variables is considered to simultaneously influence transfer pricing decisions.

H0: Intangible Assets and Tunneling Incentives simultaneously have no effect on Transfer Pricing decisions.

H3: Intangible Assets and Tunneling Incentives simultaneously influence Transfer Pricing decisions.

3. METHODS

3.1 Types and Approaches of Research

This study uses a quantitative descriptive research method with a causal associative approach. The quantitative research method is based on the philosophy of positivism, which emphasizes numerical data processing and statistical analysis to test previously formulated hypotheses [12]. This approach is used to determine the effect of Intangible Assets (X1) and Tunneling Incentives (X2) on a company's decision to implement Transfer Pricing (Y).

3.2 Population and Research Sample

1. Population

The study population comprised companies in the Consumer Non-Cyclicals sector listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 observation period. This population was selected because this sector is characterized by royalty activities, trademark ownership, and a complex multinational group structure, making it potentially susceptible to transfer pricing practices.

2. Sample

The sampling technique used purposive sampling with specific criteria in accordance with the research objectives. The

sample obtained consisted of 115 company observations during the research period.

3.3 Research Object

The research subjects were Consumer Non-Cyclicals companies listed on the Indonesia Stock Exchange (IDX) during 2020–2024. The study focused on Intangible Assets and Tunneling Incentives as factors influencing companies' transfer pricing decisions.

3.4 Data Types and Sources

The type of data used is secondary data obtained from company financial reports published on the Indonesia Stock Exchange. The data includes information on related party transactions, intangible assets, share ownership structure, and total company assets.

3.5 Data collection technique

Data collection was conducted through documentation, collecting annual reports and financial statements from the companies used in the research sample. The data was then processed and analyzed using E-Views software for panel data regression testing.

3.6 Operational Definition of Variables

This study uses three main variables, namely:

1. Transfer Pricing (Y)

Measured using the ratio of related party receivables to the company's total receivables as a proxy for related party transactions (Related Party Transaction/RPT).

2. Intangible Assets (X1)

Measured using the ratio of intangible assets to total assets of the company.

3. Tunneling Incentive (X2)

Measured using the ratio of the largest share ownership to the number of shares outstanding.

The measurement of these variables refers to previous research relevant to Transfer Pricing practices.

3.7 Data Analysis Techniques

Data analysis was performed using panel data regression with the help of the E-Views application. The models used included the Common Effects Model (CEM), the Fixed Effects Model (FEM), and the Random Effects Model (REM) to determine the best model using the Chow test, the Hausman test, and the Lagrange Multiplier test. Additionally, classical assumption tests, such as multicollinearity and heteroscedasticity tests, were conducted to ensure the validity of the research model.

4. RESULTS AND DISCUSSION

4.1 Research Result

This study uses data from Consumer Non-Cyclical companies listed on the Indonesia Stock Exchange for the 2020–2024 period, with a sample size of 115 observations. The analysis was conducted using panel data regression with the aid of E-Views software.

4.1.1 Descriptive Statistical Analysis

Descriptive statistics show that the Transfer Pricing variable, proxied by the ratio of related party receivables to total receivables, has varying values reflecting the intensity of transactions between affiliated entities. The Intangible Assets variable indicates the proportion of the company's non-physical assets, while the Tunneling Incentive variable describes the level of concentration of the largest share ownership.

4.1.2 Panel Data Regression Model Selection

Model testing is carried out in several stages, namely:

- a. Chow test to determine CEM or FEM model.
- b. Hausman test to determine FEM or REM.
- c. Lagrange Multiplier test to determine CEM or REM.

Based on the test results, the most appropriate model to use in this study is the Random Effect Model (REM).

4.1.3 Classical Assumption Test

The results of the multicollinearity test indicate no significant correlation between the independent variables. Furthermore, the heteroscedasticity test indicates that the research model meets the classical assumptions and is therefore suitable for use in panel data regression analysis.

4.1.4 Random Effect Model (REM) Regression Test Results

Based on the results of panel data regression testing using REM, the following findings were obtained:

- a. Intangible Assets do not have a significant influence on the company's decision to carry out Transfer Pricing.
- b. Tunneling Incentive has a significant influence on a company's decision to carry out Transfer Pricing.
- c. Simultaneously, Intangible Assets and Tunneling Incentives do not show a significant influence on Transfer Pricing.

4.1.5 Hypothesis Testing

- a. Partial Test (t-Test) shows that the Intangible Assets variable is not significant, while Tunneling Incentive is significant on Transfer Pricing.
- b. The Simultaneous Test (F Test) shows that the two independent variables together do not have a significant effect.
- c. The coefficient of determination shows the model's ability to explain the dependent variable at a certain level according to the results of the regression calculations.

4.2 Discussion

4.2.1 The Influence of Intangible Assets on Companies' Decisions to Conduct Transfer Pricing

The first hypothesis proposed in this study is that Intangible Assets influence a

company's decision to conduct Transfer Pricing. Based on the results of the partial test (T-Test) the results of the test between the Intangible Assets variable and Transfer Pricing (TP) state that Intangible Assets have a calculated t value of $0.929472 < t_{table} 1.981$ and a probability value of $0.3546 > 0.05$. Therefore, in this study the first hypothesis is rejected and it can be concluded that Intangible Assets do not influence a company's decision to conduct Transfer Pricing. In other words, the size of the proportion of Intangible Assets to total assets is not a factor that influences a company's tendency to practice transfer pricing.

The results of this study are inconsistent with agency theory, where the information gap between agents (management) and principals (investors) can create the risk that agents will act opportunistically to fulfill their own interests by engaging in Transfer Pricing practices through the payment of Intangible Assets such as royalties with higher values to affiliated companies operating in countries with much lower tax rates. However, the findings in this study indicate that this mechanism does not occur in companies in the Consumer Non-Cyclicals sector.

This can be seen from the results of the descriptive analysis, where the average value of Intangible Assets is only 7.6% of total assets and the median value is only 2.28%. This indicates that most companies in the sample have a very small proportion of Intangible Assets, making it insignificant enough to be used as an instrument for transfer price manipulation. Furthermore, based on recorded data, Transfer Pricing has a low value even though the value of Intangible Assets is higher. This indicates that companies in the Consumer Non-Cyclicals sector strongly avoid irregular activities that could harm the company itself. This sector is a sector that is very sensitive to the company's image and reputation. Companies in this sector tend to maintain public trust and avoid aggressive actions such as transfer price manipulation that can damage the company's reputation because the risk of decreasing the company's value due to loss of consumer trust

is much greater than the potential tax savings. Therefore, the results of this study conclude that the high or low value of Intangible Assets owned by a company does not influence the company's transfer pricing.

The results of this study are in line with research conducted by [5],[13],[14] which states that Intangible Assets do not influence a company's decision to conduct Transfer Pricing, meaning that the value of Intangible Assets cannot be used as a benchmark for a company in conducting Transfer Pricing. The manager's goal in conducting Transfer Pricing is to minimize the company's tax burden in order to increase the company's potential profits. Intangible Assets are not part of the operational components that impact the company's profits [15].

4.2.2 The Influence of Tunneling Incentives on Companies' Decisions to Conduct Transfer Pricing

The second hypothesis proposed in this study is that Tunneling Incentives influence a company's decision to conduct Transfer Pricing. Based on the results of the partial test (T-Test), the results of the test between the Tunneling Incentive and Transfer Pricing (TP) variables state that Tunneling Incentives have a calculated t-value of $1.985979 > t\text{-table } 1.981$ and a probability value of $0.0495 < 0.05$. Therefore, in this study the second hypothesis is accepted and it can be concluded that Tunneling Incentives influence a company's decision to conduct Transfer Pricing. In other words, the size of the proportion of share ownership is a factor that influences the tendency of companies to conduct Transfer Pricing through Tunneling practices. Tunneling Incentives, which are proxied by the number of large share ownerships, indicate that the size of share ownership owned by one party can influence management in making transfer pricing decisions.

This aligns with agency theory, which argues that in a concentrated ownership structure, a conflict of interest arises between majority and minority shareholders. Majority shareholders, who have significant control

over company policy, have greater access to and influence over information and the direction of company management compared to minority shareholders, whose involvement is limited. This information asymmetry between majority and minority shareholders can create the risk that the majority shareholder will conceal or exploit certain information for personal gain. This situation opens up opportunities for majority shareholders to engage in opportunistic activities, such as tunneling through affiliated transactions that are unfavorable to minority shareholders, namely transfer pricing.

Transactions with related parties can be opportunistically exploited by controlling shareholders to conduct tunneling. These related party transactions can take the form of sales or purchases used to transfer cash or assets out of the company through unfair transfer pricing for the personal benefit of the controlling shareholder. Therefore, this study concludes that companies with concentrated ownership in a single party are more likely to manipulate transfer prices through tunneling practices.

The results of this study are in line with research conducted by [10], [11], [16]. Companies with concentrated ownership that are centrally owned by one party have a tendency to do so *Tunneling* through transfer pricing practices. Large shareholders have significant control over a company, so companies tend to use related party transactions to divert assets and profits out of the company.

4.2.3 The Simultaneous Effect of Intangible Assets and Tunneling Incentives

Based on the results of the Simultaneous Test (F Test), a probability value of $0.106881 > 0.05$ was obtained. It can be concluded that the Intangible Assets and Tunneling Incentive variables together do not influence Transfer Pricing decisions. The results of this study are in line with research conducted by [17] which states that Intangible Assets and Tunneling Incentives jointly have no effect on a company's decision to implement transfer pricing. This can be

explained by the characteristics of the Consumer Non-Cyclicals sector, which tends to be stable and orderly, so the incentive to utilize aggressive strategies such as transfer pricing is relatively lower. Furthermore, although Intangible Assets are important in shaping brand image in this sector, they are not used as a basis for transaction manipulation. On the other hand, concentrated ownership structures do not always reflect tunneling practices, given that many companies in this sector have strong governance. Thus, these two variables are not able to simultaneously explain the tendency of companies to implement transfer pricing.

5. CONCLUSION

This study aims to determine the influence of intangible assets on companies' transfer pricing decisions and the influence of tunneling incentives on companies' transfer pricing decisions. The results of the study provide the following conclusions:

- a. Intangible Assets do not influence the company's decision to conduct Transfer Pricing, this is in accordance with the test results where the probability value is > 0.05 , namely 0.3546. This result indicates that the large proportion of Intangible Assets to total assets does not significantly influence the company's decision to conduct Transfer Pricing. This finding indicates that the companies in

the sample do not utilize Intangible Assets as a means of transferring profits between affiliated entities, which may be due to the transparency of financial reports and the implementation of good corporate governance principles.

- b. *Tunneling Incentive* influence the company's decision to conduct transfer pricing, this is in accordance with the test results where the probability value is < 0.05 , namely 0.0495. This indicates that the higher the share ownership by the controlling shareholder, the greater the company's tendency to conduct transfer pricing. This finding supports the hypothesis that controlling shareholders have an incentive to transfer wealth through affiliate transactions, as explained in agency theory.

Intangible Assets and Tunneling Incentives jointly have no effect on a company's decision to conduct Transfer Pricing, this is in accordance with the test results where the probability value is > 0.05 , namely 0.106881. This can be explained by the characteristics of the Consumer Non-Cyclicals sector which tends to be more stable and regular so that the incentive to utilize aggressive strategies such as transfer pricing is relatively lower.

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