

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Many sectors in the country are experiencing rapid progress due to globalization. In the economy sectors many companies have decided to strengthen their global base by establishing subsidiaries or branches and business representatives in various countries that help to grow the market share of export and import activities. Indonesia is one of the countries that is rich in its natural resources especially in its mining materials such as gold, silver, petroleum, copper, coal, nickel and others. Therefore, mining industry tends to attract the attention of local and foreign investors to set up their companies (Hidayat, 2018).

Table 1.1 Taxation, Intangible Assets, Bonus Mechanism, and Transfer Pricing Decisions in Year 2016 – 2019

Company Code	Period	Current Tax Expense	Intangible Assets	Net Income in Year	Receivables From Related Parties
BSSR	2016	109,781,229,608	1,743,984,953,376	368,436,308,572	131,733,611,336
	2017	1,513,190,163,934	1,778,410,310,256	1,122,028,573,364	349,290,783,204
	2018	351,747,523,892	2,239,227,671,590	1,000,046,206,198	231,398,349,262
	2019	150,822,633,116	2,407,103,878,771	423,570,930,071	92,850,347,529
MBAP	2016	121,768,548,387	535,349,879,032	364,431,922,043	61,149,852,151
	2017	272,140,816,584	707,536,306,680	794,396,463,600	54,105,265,704
	2018	246,606,978,552	935,297,823,544	916,133,562,072	18,216,303,216
	2019	186,035,559,622	854,935,761,658	685,213,340,944	56,637,132,376
MYOH	2016	110,095,511,084	849,101,361,948	285,633,948,908	225,812,134,000
	2017	63,815,361,168	678,818,475,600	166,726,511,088	208,790,449,872
	2018	152,323,684,065	704,812,527,297	447,877,983,384	308,617,551,495
	2019	122,699,720,383	643,307,044,453	362,794,261,529	488,357,991,041

Source: Prepared by the Writer (2021)

As we can see from the table above, the researcher uses three independent variables (X) namely Taxation (X_1), Intangible Assets (X_2) and Bonus Mechanism (X_3) with one dependent variable (Y) namely Transfer Pricing (Y). Each independent variables is proxied by current tax expense (X_1), intangible assets (X_2), net income in year t (X_3) and for the independent variable (Y) the transfer

pricing decision is proxied by receivables from related parties. With the information stated, the researcher is able to determine the phenomena table from three mining companies that are represented by BSSR (PT. Baramulti Suksessarana Tbk), MBAP (PT. Mitrabara Adiperdana Tbk) and MYOH (PT. Samindo Resources Tbk).

As we can see from the table, current tax expense for BSSR (PT. Baramulti Suksessarana Tbk) from year 2017 – 2018 decreased along with the receivables from related parties. It is company's effort in minimizing the tax burden by increasing the purchase price and decreasing the selling price between companies in the same group. The profit earned will be transferred to other companies that are operating in countries with lower tax rates.

In year 2016 – 2018, as we can see from MBAP (PT. Mitrabara Adiperdana Tbk), the intangible assets increased while the receivables from related parties decreased. The high royalty fees paid by the company to other affiliated companies leads an increase in company's expenses which results a decrease in profits or loss, so that the tax burden imposed is lower or even not paying taxes at all.

In year 2016 – 2018, as we can see from MYOH (PT. Samindo Resources Tbk), the net income in year t decreased along with receivables from related parties. Company's management will increase the sale of affiliated parties because the bonus mechanism is based on the overall profits of the company. Company's management is triggered to do transfer pricing more in order to maximize the overall profits on affiliated company's.

The mining industry is an industry that utilizes the natural resources to be processed in order to obtain the value and profits desired by the company management. To accelerate the business growth the companies will choose to expand their business in large scale which led to conglomerates. Conglomeration dominates in national economy on contributing greatly on the national economy crisis (Hidayat, 2018). In 2019, Indonesia was one of the largest mining exporters with volume more than 467 million tons (Putri, 2019).

However based on the data provided by Ministry of Finance, the tax ratio on 2016 contributed by mining and coal mining sector were decreased to 3,8% (Sulmaihati, 2019). Low tax ratio cannot be separated from tax avoidance that have been done by the company in order to maximize profits. Tax avoidance can be done in form of transfer pricing. Multinational companies take advantage from difference tax rates between their subsidiaries and choose to do transfer pricing in order to maximize the profits and minimize the tax burden of a company. Higher tax burden will triggered the company to apply transfer pricing more in order to reduce the amount of the tax burden (Novira et al., 2020). The transactions happened between affiliated parties can cause agency problems (agency theory) which result in information asymmetry between company management and shareholders. Transfer pricing can be done by increasing the purchase price and reducing the selling price between divisions and for the profits obtained will be transferred to other groups domiciled in country with lower tax rates, thus their earning after tax will increase.

Intangible assets are one of the factors that affect transactions with related entities for multinational companies. Internal transfer pricing can be done while company take advantage of the affiliation relationship to regulate expenses that will be deduct from earnings before tax such as royalty fees for using intangible assets to increase the amount of earnings after tax. These intangible assets have level of uncertainty that makes it difficult to detect and measure their fair value. Usually the intangible assets will be distributed by entities in higher tax rate country to entities with lower tax rates in different country. The company's management will pay royalties fee with higher value to affiliated companies that have lower tax rates in order to increase the burden of the company which result in decreasing profits or losses so that the tax burden will be decreased.

Another factor that causes transfer pricing is when company's profit is obtained maximally that will increase the company's management benefits in the form of bonus mechanism. Bonus mechanism is one of the additional compensation offered by the company as appreciation to directors or management by looking at the company's overall profit. According to positive accounting theory, bonus plan hypothesis explains that company's management can choose proper accounting method to maximize the profits to reach the target of bonus that will be given by the company (Novira et al., 2020).

Based on the information above, the writer is interested in doing research with title **“The Impact of Taxation, Intangible Assets and Bonus Mechanisms on Transfer Pricing Decisions of Mining Sector Companies listed in Indonesia Stock Exchange”**.

1.2 Problem Limitation

Limitation problem is extremely needed with an aim to have a more focus and specific research. In this research, writer focuses on the impact of taxation, intangible assets and bonus mechanism on transfer pricing decisions of mining sector companies that are listed in IDX for the period from 2016 until 2019.

1.3 Problem Formulation

Based on the background research, the problem formulations of this research are:

1. Does tax have significant effect on transfer pricing decisions made by the mining companies?
2. Does intangible assets have significant effect on transfer pricing decisions made by the mining companies?
3. Does bonus mechanism have significant effect on transfer pricing decisions made by the mining companies?
4. Does tax, intangible assets and bonus mechanism have significant effect on transfer pricing decisions made by the mining companies?

1.4 Objective of the Research

Based on the problem formulation, the objectives of this research are:

1. To analyze the effect of taxation towards transfer pricing decisions of mining companies listed on IDX.
2. To analyze the effect of intangible assets towards transfer pricing decisions of mining companies listed in IDX.

3. To analyze the effect of bonus mechanism towards transfer pricing decisions of mining companies listed in IDX.
4. To analyze the effect of tax, intangible assets and bonus mechanism towards transfer pricing decisions of mining companies listed in IDX.

1.5 Benefit of the Research

This research is expected in providing additional knowledge for other researchers and writers in the future. The benefits from conducting this research are as follows:

1.5.1 Theoretical Benefit

Based on the objectives of research, theoretically, the research is expected to add information and knowledge about how tax, intangible assets, and bonus mechanism can affect the transfer pricing decisions made by companies.

1.5.2 Practical Benefit

Based on the research objective, the research is expected to generate practical benefits as follows:

1. For Researcher

The research is expected to be useful for the researcher in adding knowledge and information about how tax, intangible assets and bonus mechanism affect on the transfer pricing decisions that made by the mining companies.

2. For Reader

The research is expected to be used as a reference for further research about how tax, intangible assets and bonus mechanism affect on the transfer pricing decisions that made by the mining companies.

