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Optimizing tunneling incentive and bonus mechanism: Transfer pricing and tax minimization strategy for corporate sustainability

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Abstract

Transfer pricing is still a significant strategic issue, especially in the natural resources sector in Indonesia, which has an impact on state tax revenues and global economic stability. This research aims to analyze the influence of bonus and tunneling incentive mechanisms on transfer pricing decisions, with tax minimization as a moderating variable. The data used is secondary data from natural resource sector companies listed on the Indonesia Stock Exchange (BEI) for the 2020-2022 period, with a total of 166 sample data selected using a purposive sampling technique. Analysis was carried out using WarpPLS 8.0. The research results show that the bonus and tunneling incentive mechanisms do not have a significant effect on transfer pricing decisions, while Tax Minimization can moderate the influence of the bonus and tunneling incentive mechanisms on transfer pricing. The implications of this research emphasize that companies need to pay attention to tax minimization strategies that are in accordance with applicable regulations to avoid prolonged tax conflicts and disputes. In this case, the Tax Authority is also expected to carry out regular regulatory reviews to monitor opportunities for manipulation that can be carried out.

Keywords: Transfer Pricing, Bonus Mechanism, Tunneling Incentive, Tax Minimization,Sustainability

INTRODUCTION

Tunneling Incentive and Bonus Mechanism strategies can affect company sustainability when combined with transfer pricing and tax minimization practices.Transfer pricing has become an urgent strategic issue to be reviewed regularly, given its significant impact on fiscal stability and economic sustainability. In Indonesia itself, the Natural Resources industry sector such as mining and energy, the practice of profit shifting through transfer pricing is not just an administrative challenge, but a real threat to the country's economic sovereignty (DDTCNews, 2024). The sector's reliance on cross-border transactions increases opportunities for price manipulation between affiliated companies, which reduces the country's tax revenue and also weakens the sector's competitive position at the global level. The OECD's Base Erosion and Profit Shifting (BEPS) initiative addresses the urgency of this issue on an international scale (OECD, 2024). However, the adoption of this global framework in Indonesia needs to take into account local capacity, especially in tax supervision and reporting, which are binding and continuously reviewed in line with business development. Companies that engage in these manipulative practices not only risk facing financial penalties but also reputational damage, impacting the sustainability of their business. The Minister of Finance Regulation (PMK) Number 172 of 2023 provides a significant update to the transfer pricing regulation in Indonesia, in this regulation, emphasizing the importance of applying the arm's length principle in related party transactions (Mentri Keuangan Republik Indonesia, 2023). This regulation integrates various previous regulations covering transfer pricing documentation, mutual agreement procedures (MAP), and transfer pricing agreements (APA) into one unified regulatory framework (Desiana & Wardiyana, 2021). This step aims to create fairness, legal certainty, and convenience for taxpayers in fulfilling their obligations.

In the last few decades in Indonesia itself, there have been several cases of transfer pricing from several sectors, including PT Adaro Indonesia, which was indicated to be involved in transfer

pricing practices by selling coal products to its subsidiary in Singapore, which resulted in tax losses in Indonesia. Based on the investigation report, PT Adaro is suspected of shifting most of its profits to countries with lower tax rates to minimize domestic tax liabilities. In 2017, Adaro reported having revenues of around USD 3.26 billion from coal exports (Liputan6, 2019). However, the profits reported in Indonesia were much lower than the profits recorded by the subsidiary in Singapore, resulting in tax losses estimated to reach trillions of rupiah. Transfer pricing in this case is suspected of contributing to tax avoidance by shifting significant profits from Indonesia to countries with lower tax rates (Singapore). A similar case also occurred in Bentoel, a subsidiary of British American Tobacco (BAT) which was indicated to have utilized transfer pricing to reduce its tax burden through the sale and distribution of its products. In 2015, Bentoel was reported to have experienced a significant decline in revenue, but the burden of licensing fees and royalties actually increased sharply, where the royalty fees paid to the parent company abroad reached more than IDR 1 trillion (KONTAN, 2019). Through the imposition of large royalty fees, Bentoel is suspected of transferring most of its profits to British American Tobacco as a parent company based in a country with a lower tax rate. This has resulted in tax losses for Indonesia, estimated to reach hundreds of billions of rupiah per year, and has become a concern for the government regarding the validity of costs between affiliated companies in a multinational corporate structure. In another sector, PT Tiga Pilar Sejahtera Food Tbk, which operates in the food sector, has also been in the spotlight for alleged transfer pricing manipulation in financial reporting and taxation. In 2017, the company was reported to have transferred assets worth more than IDR 1 trillion to an affiliate registered in a country with a lower tax rate (CNBC, 2019). As a result of this asset transfer, the profits reported in Indonesia decreased, while the burden charged increased. The decline in taxable income and increase in expenses recorded in Indonesia indicate profit shifting through transfer pricing strategies, which triggers an in-depth audit by the tax authorities.

In practice, transfer pricing schemes can be done through tunneling incentives. Tunneling Incentive is a strategy in which controlling shareholders or company management utilize internal inter-company transactions (usually subsidiaries or affiliated companies) for personal or parent company interests. In the context of corporate sustainability, tunneling usually involves the use of transfer pricing to move profits between entities so as to reduce the tax burden, optimize internal cash flow to increase liquidity, manage tax risks for the long term.Tunneling Incentive refers to the encouragement of companies to move resources, such as profits or assets, from one entity to another within a business group for the benefit of the majority controlling party. This incentive is one of the main motivations behind cross-jurisdictional profit shifting. This tunneling is done through selling prices that are not in accordance with the principles of fairness or the imposition of costs such as disproportionate royalties to affiliated companies abroad. As a result, taxable income in Indonesia decreases, while entities in low-tax jurisdictions record greater profits. Research by Apriani et al., 2021; Azhar & Setiawan, 2021; Darma, 2020; Herlina & Murniati, 2023; Jannah et al., 2022; Lutfia & Sukirman, 2021 explains that tunneling incentive has a significant effect on transfer pricing, while research by Aryati & Harahap, 2021; Fazwa & Islahuddin, 2022; Fuadah & Nazihah, 2019; Rifqiyati et al., 2021; Sari, 2021 explains otherwise.

In the context of corporate sustainability, Bonus Mechanism can influence policies such as favorable transfer pricing policies to increase net income and tax minimization policies to increase profits. Similarly, the Bonus Mechanism relates to the provision of financial incentives to management based on company performance. In transfer pricing, this can be an additional impetus for management to manipulate profits through transfers to affiliated entities. For example, if bonuses are based on reported net income, managers may be tempted to reduce their corporate tax burden by utilizing transfer pricing regulatory loopholes. Thus, they can increase their net profit after tax, which in turn increases their bonus. In line with research by Fitri et al., 2019; Ginting et al., 2021; Ramdhany & Andriana, 2022; Riska & Anwar, 2021; Rosmawati & Ginting, 2022; Sulistyowati & Kananto, 2019; Zuliana et al., 2024 which explains that bonus mechanism has a significant influence on transfer pricing practices. On the other hand, bonus mechanism does not have a significant influence on research by Badri et al., 2021; Farkhah Elfa et al., 2022; Maulina et al., 2021; Mineri & Paramitha, 2021; Prayudiawan & Pamungkas, 2020; Putra & Rizkillah, 2022; D. A. M. Sari & Djohar, 2022; Sujana et al., 2022.

Tunneling incentives and bonus mechanisms play an important role in transfer pricing practices, especially in the transfer of profits between affiliated entities (Priyanti & Suryarini, 2021). These two factors strengthen the impetus for manipulation, leading to a reduction in domestic tax liabilities and the risk of tax disputes. The reform of PMK 172 Year 2023 aims to mitigate these risks through strict supervision and the application of the fairness principle, but its effectiveness is highly dependent on the government's ability to oversee the implementation of the rules as well as the transparency of multinational companies.

In this study, researchers integrate tax minimization as a moderating variable in testing the indirect effect of the relationship between tunneling incentives and bonus mechanism with transfer pricing, on Natural Resources Sector companies operating in Indonesia. With the main objective of reducing tax liabilities, tax minimization creates additional incentives for companies to take advantage of regulatory loopholes through transfer pricing practices. In this case, the relationship between tax minimization itself has a significant effect on transfer pricing which is in line with research Devi & Suryarini, 2020; Fatmi & Amin, 2023; Klassen et al., 2013; Makhmudah & Djohar, 2022; Megadiana, 2023; Putri & Lindawati, 2023.

This study aims to explore whether and how tax minimization can motivate companies to use transfer pricing as a tool to optimize net income or shift profits to jurisdictions with lower tax rates, which has an impact on long-term risks related to reputation and regulatory compliance that will disrupt the company's operations.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Literature Review

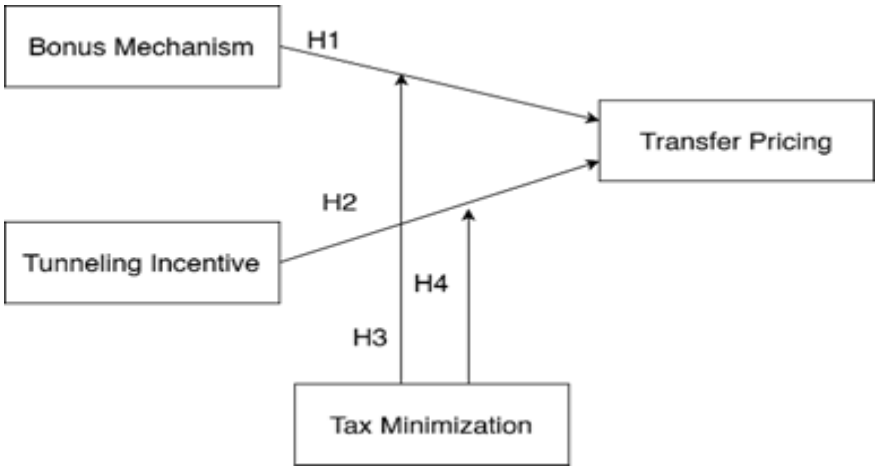

Figure 1. Conceptual framework
Source: Data processing for research, 2024.

Regulatory Arbitrage Theory

Regulatory Arbitrage Theory refers to a strategy in which companies or individuals take advantage of differences in regulations between countries or jurisdictions to gain greater profits (SOLNIK, 1983), where in this study it plays a role in explaining how tax minimization acts as a motivator for companies in using transfer pricing to move profits from countries with high tax rates to countries with low tax rates. In this case, companies take advantage of regulatory inconsistencies between countries to reduce their total global tax liabilities. Regulatory arbitrage theory helps explain this dynamic by exploiting differences in tax rules between countries to maximize their profits, although this strategy can pose legal, reputational, and financial risks in the long run (Fleischer, 2010). Therefore, in this study, regulatory arbitrage theory analyzes how tax minimization as a moderating variable interacts with tunneling incentives and bonus mechanisms to influence transfer pricing practices, as well as their impact on corporate sustainability.

Transfer Pricing

Transfer pricing is a pricing mechanism in transactions between affiliated companies, where the price of goods, services, or assets exchanged between a subsidiary and a parent company is determined internally. Although the principle is to reflect market value, transfer pricing practices are still used as a tool to reduce tax liabilities by shifting profits between countries that have different tax rates (especially to countries with lower rates than Indonesia) (Bălăşoiu, 2021; Tsyganova, 2023). The Transfer Pricing scheme results in a reduction in reported profits in the country of origin that has high taxes. In addition, companies also take steps to utilize related party receivables in transfer pricing practices to optimize their tax position (Shakhov et al., 2019). Related party receivables refer to payment claims that a company has against an affiliated entity, which involves international transactions between affiliates. By arranging payment terms that are more favorable to the parent company, such as providing longer credit or lower interest to affiliates in low-tax countries, companies can effectively shift profits to countries with lower tax rates.

Transfer Pricing for Sustainability

Transfer pricing is the pricing of transactions between companies that are in the same business group, such as between parent companies and subsidiaries. This practice is not only a strategic instrument in corporate financial management but also contributes to the achievement of sustainability goals. One of the main benefits of transfer pricing is the efficient allocation of resources. By moving profits or costs between entities, companies can balance capital requirements across business units, maintain financial stability, and support overall operational growth. In practice, profits generated by entities in a particular country can be allocated to support entities in other countries that require additional capital for development. In addition, transfer pricing also enables tax optimisation through strategic allocation of profits to jurisdictions with lower tax rates. This not only reduces the overall tax burden but also allows the company to retain more funds for long-term investment. The company allocates income from intellectual property to entities in countries with lower tax rates, thus creating room for investment in research and development or sustainable projects. Thus, transfer pricing, if applied legally and according to regulations, becomes an effective tool to integrate financial strategies with corporate sustainability goals.

Tax Minimization for Sustainability

Tax minimisation is a strategy that aims to reduce tax liabilities legally, so that companies can maintain greater profits. This strategy is not only relevant in financial optimisation, but also contributes significantly to corporate sustainability. One of the main benefits is the increase in net income that can be allocated for reinvestment. In reality, companies utilise tax incentives aimed at investing in green technology or sustainable infrastructure development. The savings from tax minimisation allow companies to expand their business, conduct research and development, or improve overall operational efficiency. In addition, this strategy also supports companies in maintaining a competitive advantage. With lower tax expenditure, companies have more resources to invest in product innovation or more efficient and sustainable production processes. This not only increases competitiveness in the market, but also strengthens the company's position as a socially and environmentally responsible entity. Thus, tax minimisation that is done ethically and in accordance with laws and regulations becomes a strategic tool to support the sustainability and growth of the company in the long run.

Hypothesis Development

Bonus mechanisms in companies are related to reported performance and are measured by net income or other financial metrics. Managers or executives who have incentive rights tend to manipulate elements of financial statements to achieve profitable targets (Rozi & Munari, 2024). In this case, transfer pricing is used as a tool to increase the company's reported profits so that managers can get higher bonuses. Regulatory Arbitrage Theory explains this motivation by suggesting that companies can take advantage of inconsistencies in tax regulations between countries to shift profits to low-tax

countries, while manipulating transfer prices to increase recorded profits. This shows how bonus mechanisms play a role in encouraging decisions that do not always prioritize the company's long-term sustainability, but rather focus on achieving short-term financial targets. The significant influence of bonus mechanisms on transfer pricing is in line with research by Fuadah & Nazihah, 2019; Herman et al., 2023; Istiqomah & Fanani, 2020; Lingga et al., 2022; Novira et al., 2020; Purnomo et al., 2021.

H1: Bonus mechanism influences transfer pricing decisions

Tunneling incentives are the motivation of majority shareholders to transfer resources or profits from subsidiaries to parent companies or related parties (Thibault Landry et al., 2017). In transfer pricing practices, tunneling incentives function as an incentive to transfer profits through unfair transfer prices, either by selling products at too low a price to affiliates, or by charging unrealistic costs to reduce reported profits. In the perspective of Regulatory Arbitrage Theory, companies use differences in tax regulations between countries where the company is located to minimize taxes and maximize profits commercially. Therefore, tunneling incentives encourage transfer pricing decisions that benefit controlling shareholders, even though they have a negative impact on the country's tax obligations and the company's long-term sustainability. This is in line with research from Maulani et al., 2021; Nuzul & Muhammad Nuryatno Amin, 2023; Putri & Lindawati, 2023; Tania & Kurniawan, 2019; Widiastuti et al., 2023 who found that tunneling incentives have a significant effect on transfer pricing practices.

H2: Tunneling Incentives have an effect on transfer pricing decisions

Tax minimization functions as a moderating variable that strengthens the relationship between bonus mechanisms and transfer pricing decisions (Mardiana & Badjuri, 2023). In this case, companies that plan to reduce their global tax liabilities will be increasingly encouraged to optimize the use of transfer pricing as a tool to transfer profits to countries with low tax rates. Regulatory Arbitrage Theory explains that companies take advantage of differences in tax rules between countries to gain greater commercial benefits. For managers who are oriented towards additional bonuses, they have alternative steps in shifting profits with transfer prices to achieve financial performance targets that lead to larger bonuses (Hope & Fraser, 2003). Tax minimization is a key factor that moderates this relationship, because the greater the incentive to reduce taxes, the greater the tendency of companies to use transfer pricing aggressively.

H3: Tax Minimization Moderates the Relationship between Bonus Mechanism and Transfer Pricing

Tax minimization acts as a moderating variable that strengthens the relationship between tunneling incentives and transfer pricing. Majority shareholders who have the authority to conduct tunneling incentives seek to shift commercial profits or resources from subsidiaries to parent companies (Pramita & Susanti, 2023; Yohana et al., 2022), and tax minimization becomes an extra incentive to utilize transfer pricing as a tool to transfer these profits. Regulatory Arbitrage Theory suggests that companies can rationally take advantage of differences in tax rates between countries to reduce overall tax liabilities. In this case, significant tax reductions by using transfer pricing to transfer profits between affiliates become more attractive to companies that have tunneling incentives, with the aim of maximizing shareholder or controlling profits, while minimizing taxes to be paid. This is in line with research (Azzuhriyyah & Kurnia, 2023) which found that tax minimization can moderate the relationship between tunneling incentives and transfer pricing.

H4: Tax Minimization moderates the relationship between Tunneling Incentive and transfer pricing.

METHODS

This study adopts a quantitative approach to test hypotheses related to the influence of bonus mechanisms and tunneling incentives on transfer pricing decisions, with tax minimization serving as a moderating variable. Secondary data used in this study were obtained from the Indonesia Stock

Exchange (IDX) website and the websites of each listed company. The population used as the object of the study were natural resource sector companies listed on the IDX in the 2020-2022 period. Sample selection was carried out using a purposive sampling technique, with inclusion criteria in the form of companies engaged in the Natural Resources sector and having open access to financial reports, either through the IDX or the company's official website. Selected companies must report profits during the observation period and have affiliated or other special relationships. Data analysis was carried out using WarpPLS 8.0, with more detailed variable measurements can be seen in table 1.

Table 1. Operational Definition and Measurement of Variables

Dependent Variable (Y)	**Measurement**	**Source**
Transfer Pricing	$\frac{Related\ Party\ Receivables}{Total\ Receivable}$	(Suhartono et al., 2022)
Independen Variabel (X)		
Tunnelling Incentive	$\frac{Amount\ of\ most\ significant\ shareholding}{Total\ Shares\ Outstanding}\ X\ 100\ \%$	(Ubaidillah, 2023)
Bonus Mechanism	$\frac{Net\ profit\ in\ year\ y}{Net\ profit\ in\ year\ y-1}\ X\ 100\ \%$	(Ginting et al., 2021)
Moderating Variabel (Z)		
Tax Minimization	$\frac{(Tax\ expense\ -\ Deferred\ tax\ expense)}{Earnings\ Before\ Tax}\ X\ 100\ \%$	(Bernard et al., 2006)

The Purposive Sampling method was applied to select companies that were sampled in the period 2020-2022. Based on the established criteria, the number of samples successfully collected was 166 data, according to the sample conditions described in the following table 2.

Table 2. Purposive Sampling

No	**Criteria**	**Total**
1	Natural resource sector companies listed on the IDX	185
2	Companies that did not publish annual reports in 2020-2022	(9)
3	Companies that have incurred losses in 2020-2022	(99)
4	Companies that had no balance of related party receivable transactions	(18)
Total Sampling		59
Observation 2020-2022		3
Total observation (59*3)		177
Outlier		(11)
TOTAL		**166**

Source: Results of data obtained from IDX, 2024

This study uses multiple linear regression data analysis methods, which include the principle of moderation known as Moderating Regression Analysis (MRA), supported by WarpPLS 8.0 software. The Moderated Regression Analysis (MRA) technique is applied to test and analyze how the existence of moderating variables affects or changes the relationship between independent variables and dependent variables. This modeling technique facilitates the explanation of how tax minimization functions by examining the relationship between bonus mechanisms and tunneling incentives in influencing Transfer Pricing practices in companies in the natural resource sector in Indonesia.

RESULT AND DISCUSSION

Table 3. Results of descriptive statistics

	N	Min	Max	Mean	Std. Deviation
Transfer Pricing (Y)	166	0.00	1.83	0.2557	0.32806
Bonus Mechanism (X1)	166	0.02	93.98	2.5892	7.78312
Tunneling Incentive (X2)	166	0.03	0.90	0.5097	0.17337
Tax Minimization (Z)	166	-1.93	4.26	0.2445	0.39520
Valid N (listwise)	166				

Source: Results of secondary data processing, 2024

The table presented shows descriptive statistics for the four main variables in this study, namely Transfer Pricing (Y), Bonus Mechanism (X1), Tunneling Incentive (X2), and Tax Minimization (Z) with a sample size of 166 observations. Based on the data presented, the Transfer Pricing variable shows a minimum value of 0.00 and a maximum of 1.83 with an average (mean) of 0.2557 and a standard deviation of 0.32806. This shows that in general, the level of transfer pricing applied in this data tends to be low, but there is quite significant variation between the companies or entities observed. Meanwhile, the Bonus Mechanism (X1) minimum value recorded is 0.02 and a maximum value of 93.98 with an average of 2.5892 and a relatively high standard deviation of 7.78312. This indicates that although the majority of companies use bonus mechanisms in a relatively small form, there are some companies that provide bonuses in very large amounts, which creates large variations in this data. The Tunneling Incentive (X2) variable recorded a minimum value of 0.03 and a maximum of 0.90, with a mean of 0.5097 and a standard deviation of 0.17337. This indicates that although the majority of firms have moderate levels of tunneling incentives, there is considerable variation in how these incentives are implemented, with some firms possibly having higher incentives than others. Finally, the Tax Minimization (Z) variable showed a relatively low minimum value (-1.93) and a higher maximum value (4.26), with a mean of 0.2445 and a standard deviation of 0.39520. This indicates that many firms may be attempting to minimize taxes, but there is considerable variation in how effectively these efforts are carried out across the firms observed. Overall, these descriptive statistics provide an overview of the distribution and variation of the data for each variable examined in this table 4.

Table 4. Model Fit Test

Model Fit and Quality Index	**Index**	**Criteria**	**Result**
Average path coefficient (APC)	0.099	P> 0.049	Fit Models
Average R-squared (ARS)	0.002	P<0.245	Fit Models
Average adjusted R-squared (AARS)	0.023	P<0.192	Fit Models
Average block VIF (AVIF)	1.166	if <= 5, ideally <= 3.3	Fit Models
Average full collinearity VIF (AFVIF)	1.596	if <= 5, ideally <= 3.4	Fit Models
Tenenhaus GoF (GoF)	0.045	small >= 0.1, medium >= 0.25, large >= 0.36	Small
Simpson's paradox ratio (SPR)	0.500	acceptable if >= 0.7, ideally = 1	Unwell
R-squared contribution ratio (RSCR)	0.515	acceptable if >= 0.9, ideally = 1	Unwell
Statistical suppression ratio (SSR)	1.000	acceptable if >= 0.7, ideally = 1	Fit Models
Nonlinear bivariate causality direction ratio (NLBCDR)	0.750	acceptable if >= 0.7, ideally = 1	Fit Models

Source: Results of secondary data processing, 2024

The table below presents various indices used to evaluate the fit and quality of a statistical model, particularly in the context of path analysis or structural equation modeling. The results of several indices indicate that the model has some strengths, but also areas for improvement. For example, the Average Path Coefficient (APC) indicates that the relationships among the variables in the model are statistically significant (p-value < 0.05), indicating that there are meaningful relationships between the variables. However, the very low Average R-squared (ARS) and Average Adjusted R-squared (AARS) values (with p-values > 0.05) indicate that the model is unable to explain much variation in the dependent variable, indicating limitations in the model's explanatory power. In addition, although the Average Block VIF (AVIF) and Average Full Collinearity VIF (AFVIF) values are within the ideal limits, which are far below the multicollinearity threshold, indicating that there are no significant problems related to multicollinearity between predictors, the small Tenenhaus GoF value (0.045) indicates that the model only explains a little variance in the data, far from the ideal category. On the other hand, the low Simpson's Paradox Ratio (SPR) (0.500) indicates a problem in the direction of causality in the model, which may reflect model specification errors. The R-squared Contribution Ratio (RSCR) value of only 0.515 also indicates that the model's contribution in explaining variance is still less than optimal, far from the desired value (1). Nevertheless, indices such as the ideal Statistical Suppression Ratio (SSR) (1.000) and the fairly good Nonlinear Bivariate Causality Direction Ratio (NLBCDR) (0.750) indicate that this model can handle the suppressor effect and capture the direction of nonlinear relationships between variables quite well. Overall, although this model shows some good elements, especially in avoiding multicollinearity problems and handling some nonlinear relationships, this model still needs improvement, especially in terms of variance explanation power and causality direction.

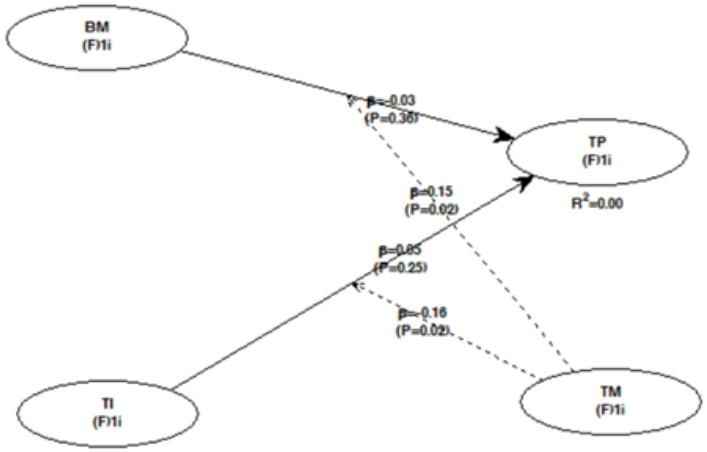

Figure 2. Results of Configuration Model
Source: Results of secondary data processing, 2024

Table 5. Hypotesis Summary

Hypothesis		Criteria	Sign	Summary
H1 :	Bonus mekanisme berpengaruh terhadap keputusan transfer pricing	<0.05	0.357	Rejected
H2 :	Tunneling incentive berpengaruh terhadap keputusan transfer pricing	<0.05	0.247	Rejected
H3 :	Tax Minimization memoderasi hubungan antara Bonus mekanisme dengan transfer pricing	<0.05	0.016	Accepted
H4 :	Tax Minimization memoderasi hubungan antara Tunneling Incentive dengan transfer pricing	<0.05	0.022	Accepted

Source: Results of secondary data processing, 2024

Bonus mechanism has no effect on transfer pricing decisions

Based on the SEM Model and Summary Hypothesis shown in Figure 2 and Table 5, it shows that the relationship between the bonus mechanism and transfer pricing with a p value of 0.357 is greater than 0.05. This means that the bonus mechanism has no effect on transfer pricing decisions, which is in line with research by Hafifah & Djohar, 2023; Handayani, 2021; Jannah et al., 2022; Khasanah & Suryarini, 2020; Lutfia & Sukirman, 2021; Maryanti & Agus Munandar, 2024. In practice, the bonus mechanism as an incentive given to management is more focused on financial performance, on net profit or current year income, not on specific decisions such as transfer pricing (Matejka & Ray, 2017). In the natural resources sector, this incentive structure is oriented towards production and operational efficiency, which are the characteristics of the commodity-based industry. Thus, transfer pricing decisions are governed more by the company's strategic needs, such as tax management, than by direct incentives for management.

Regulatory Arbitrage Theory explains that companies exploit differences or loopholes in regulations to achieve strategic goals. In the bonus mechanism itself, Indonesian tax and accounting regulations limit the ability of companies to directly link management bonus schemes to transfer pricing practices. These regulations include provisions regarding the arm's length principle, transfer pricing documentation, and strict supervision by tax authorities. The company's main focus shifts to ensuring overall tax efficiency, rather than fulfilling bonus incentives. Companies must not only consider the financial impact of their strategies but also ensure that these actions do not violate existing regulations (Judijanto & Hernat, 2024). By utilizing the Regulatory Arbitrage theory, companies can evaluate strategies that allow them to maximize benefits while still complying with the rules that apply in various jurisdictions.

Tunneling incentives have no effect on transfer pricing decisions

The research results in the SEM Model and Hypothesis Summary in Figure 2 and Table 5 show that Tunneling Incentives have no effect on transfer pricing practices with a p value of 0.247 which is greater than 0.05. This is in line with research by Isnain et al., 2022; Jayanti & Supadmi, 2023; Khoirunisa & Wahyudin, 2022; Liza, 2020; Pambudi & Suparman, 2023. Tunneling incentives are indeed an alternative for companies that have affiliates outside the country with lower tax rates and aim to transfer economic resources from companies with minority ownership to majority entities. Regulatory Arbitrage Theory shows that local regulations governing arm's length principle transfer pricing and intensive supervision by tax authorities limit the company's room to arbitrage (Suryana, 2021). Through strict government regulations in the form of a ban on the export of raw materials or the obligation to build smelters and downstreaming, it can limit the company's ability to tunnel effectively through transfer pricing. In other words, local regulations can minimize the impact of tunneling on transfer pricing decisions.

Tax Minimization Moderates the Relationship between Bonus Mechanism and Transfer Pricing

The results shown in Table 5 show that tax minimization moderates the relationship between bonus mechanisms and transfer pricing as indicated by a P Value of 0.016 less than 0.05. In practice, companies in the natural resources sector use a transfer pricing strategy to reduce tax burdens, thereby increasing net income. This can then provide a greater basis for calculating management bonuses. Tax minimization is a catalyst that makes transfer pricing decisions relevant to bonus mechanisms (Ayem & Ningsih, 2022), especially when companies operate in a complex tax environment such as natural resource companies that have large transaction values.

Regulatory Arbitrage Theory helps explain that company management takes advantage of differences in tax regulations to optimize tax minimization as a corporate strategy. Differences in tax rates between jurisdictions or loopholes in domestic regulations can be exploited to achieve tax efficiency, which ultimately impacts the management incentive structure (Ayu et al., 2022; Rossa et al., 2023). This strategy not only reduces the overall tax burden but also supports the management incentive structure by increasing the company's commercial net profit. Thus, the management of

companies in the natural resources sector not only acts to maximize profits but also manages tax strategies strategically to ensure fiscal efficiency in line with their performance-based incentives.

Tax Minimization moderates the relationship between Tunneling Incentives and transfer pricing.

In the Research Results in the SEM Model and Hypothesis Summary, it shows that the P Value of 0.022 is less than 0.05, meaning that tax minimization is able to moderate the relationship between tunneling incentives and transfer pricing. In this scheme, companies that have incentives to tunnel can use tax minimization as a reason or justification. Transfer pricing carried out for tax efficiency can be disguised as an effort to increase overall group profits (Sutanto & Lasar, 2023), even though the goal is to transfer wealth to certain entities within the business group.

In this case, the Regulatory Arbitrage theory explains that tax minimization is often used as a justification or tool to carry out tunneling practices through transfer pricing. Companies take advantage of differences in tax rates between countries or certain regulatory relaxations to shift profits to entities with majority ownership (Suprihatin & Mahardini, 2023). In other words, companies can still use tax minimization strategies as a way to legitimize transfer pricing decisions that appear strategic but actually support tunneling objectives. This process is often framed as part of a tax efficiency strategy, although the main motivation is the benefit for the majority owner through the draining of company resources (tunneling). Although it appears legitimate on the surface, this type of practice has the potential to create conflicts of interest and harm minority shareholders, as well as raise legal risks if the tax authorities identify abuse in the transfer pricing practice.

CONCLUSION

The results of the study indicate that the bonus mechanism does not have a significant effect on transfer pricing decisions because management incentives are more focused on achieving net profit and operational efficiency, not on strategic decisions such as transfer pricing. Likewise, tunneling incentives do not have a significant effect because strict regulations, such as the principle of fair transfer pricing and downstream policies, limit the company's room to conduct regulatory arbitrage. However, tax minimization is proven to moderate the relationship between the bonus mechanism and transfer pricing and between tunneling incentives and transfer pricing. In practice, tax minimization becomes a catalyst that increases the relevance of transfer pricing to management incentives and makes it easier for companies to justify tunneling practices on the grounds of tax efficiency.

The limitation of this study is the low R-Square value, which indicates that the independent variables in the model are only able to explain a small part of the variation in transfer pricing decisions. This indicates that there are other factors outside the model that may be more influential but have not been included in this study. Further research is expected to use a research model with more complex independent variables.

The practical implications of this study confirm that incentive schemes for both management and majority shareholders are more focused on the company's operational activities to generate profit and income. Tax minimization strategies can be implemented by complying with applicable regulations, so that it will not cause prolonged tax conflicts and disputes. The Tax Authority is expected to continue to review Transfer pricing, so that the opportunity for manipulation is less and more controlled. The implementation of Tunneling Incentive and Bonus Mechanism combined with transfer pricing and tax minimization can support the sustainability of the company, but must be done carefully to avoid violations of the law or negative impacts on the company's reputation. These strategies can increase profits which are then used for investment, innovation, and sustainable business expansion.

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