



ANALYSIS OF TAXES PAYMENT, AUDIT QUALITY AND FIRM SIZE TO THE TRANSFER PRICING POLICY IN MANUFACTURING FIRM IN INDONESIA STOCK EXCHANGE

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ABSTRACT

This research is aimed to analyze the effect of tax, audit quality and firm size to an indication of transfer pricing in the manufacturing firm that listed in Indonesia Stock Exchange during the period 2010-2016. Independent variable in this research was tax payment, audit quality and firm size and dependent variable used is transfer pricing policy. This research used secondary data analysis of financial statements or annual reports of firms in Indonesia Stock Exchange. The population of this research is a manufacturing firm in the period 2010-2016. The research using purposive sampling method, the total amount of samples was 133 firms. This research used logistic regression analysis as an analytical method. The results of the analysis in the research showed that tax-effected and significant to an indication of transfer pricing. While auditing quality and firm size not significantly on an indication transfer pricing.

1. Introduction

The era of globalization accompanied by the development of information and communication systems has an impact on the ease of entrepreneurs in managing their business, including for multinational companies in managing their business in countries around the world. Due to the advancement of information systems, multinational companies can increase the number of transactions between branches of companies located in various countries with the existence of integrated business processes. Furthermore, in multinational companies, there are also transactions involving affiliates who are under different regulations because the location of operations of multinational companies is located in various countries. Therefore, this difference can cause problems, one of which is the different tax rates of each country that trigger multinational companies to try to minimize or avoid high taxes and double taxation. Activities minimize the amount of tax can be done by transfer pricing action, which is lower sales price (under invoice) or increase the purchase price (over invoice) (Bartelsman & Beetsma, 2003; Bernard et al., 2006; Ilyas & Suhartono, 2009). It is used to transfer profits to a country with low-cost taxes by increasing the cost that finally reduces the company's revenue (Pramana & Laksito, 2014; Klassen et al., 2017). Transfer pricing is a policy that a company undertakes in determining the transfer price of the transaction whether it is goods, services, intangible assets, or any financial transactions conducted by the company.

Transfer pricing is classified into two, namely the pricing of transfers between divisions that are still in one company and the determination of the transfer price of transactions between companies that have a special relationship. The method of transfer pricing for transactions conducted between divisions still in the same company is called intra-company transfer pricing. The method of transfer pricing between companies that have a special relationship is called inter-company transfer pricing. Inter-company transfer pricing itself can be classified into domestic transfer pricing and international transfer pricing. Domestic transfer pricing is done between companies located in the same country while international transfer pricing is done between companies domiciled in different countries (Setiawan, 2014; Emmanuel, 2000; Elliott & Emmanuel, 2002). Within the scope of multinational corporations, there will be associated with parties' transactions where intercompany transactions take place within a group (intra-group transactions). This is indicated can lead to the practice of transfer pricing for tax avoidance, because it is done with the privileged then the sale price can occur unnaturally because the market power does not apply as it is. The practice of transfer pricing itself is a step to avoid tax (tax avoidance) due to transfer pricing is believed to lead to loss of potential or reduced tax revenue of a country (Silalahi et al., 2018). This is because multinational companies will prefer to transfer their tax obligations from high-tax countries to countries that set lower tax rates (Lingga, 2015).

Transfer pricing practices have been done in several multinational companies in the UK, for example, Starbucks in 2011 did not pay any taxes at all and admitted to losses since 2008, when it has managed to print sales. Starbucks profits have primarily been transferred in the form of royalties from the UK to a branch company in the Netherlands (Barford et al., 2013; Zucman, 2014). Multinational companies have some motivation in transfer pricing, one of which is tax reasons. According to Yuniasih et al., (2012), the purpose of transfer pricing is to reduce the tax to be paid. The role of taxes has a considerable impact on net income and cash flow of the firm so that the impact of foreign investment decisions, financial structure and capital cost determination (MacKie-Mason, 1990; Dechow, 1994; Eiteman et al., 2012). This proves that tax motivation has a significant role in influencing a company's decision to practice transfer pricing. Another factor that can affect the company to transfer pricing is audit quality. Audit quality is the auditor's decision when auditing the client's financial statements and finding fault or violation is then reported in the audit financial report (Dewi & Jati, 2014; Nugroho et al., 2018). In auditing financial statements, the important thing in the implementation is transparency which is one of the elements of Good Corporate Governance (Utami, 2015; Ferial & Handayani, 2016). Shareholders can be said to be transparent when reporting all matters related to taxation in the capital market, but it can also be done through a general meeting of shareholders of the company. Currently, shareholder transparency is a priority of public authorities, especially in the taxation sector (Samuel & Ranti, 2013; Silalahi et al., 2018).

Regarding Eksandy (2017) finds that audit quality has a positive influence on tax evasion. If a company is audited by the Big Four Audit Firm (KAP), then it will be increasingly difficult to enforce aggressive tax policies. The Big Four (Large Four) is an international professional services provider engaged in accounting and other services of audit and taxation. Based on the most significant revenue order, the four networks are Pricewaterhouse-Coopers (PwC), Deloitte Touche Tohmatsu Limited (Deloitte), Ernst & Young (EY), and KPMG. Eksandy (2017) finds that audit quality has a positive influence on tax evasion. If the Big Four Audit Firm audits a company, then it will be increasingly difficult to enforce aggressive tax policies. The Big Four (Large Four) is an international professional services provider engaged in accounting and other services of audit and taxation. Based on the most significant revenue order, the four networks are Pricewaterhouse-Coopers (PwC), Deloitte Touche Tohmatsu Limited (Deloitte), Ernst & Young (EY), and KPMG. Another study stated by Sunarsih & Oktaviani (2016) also found that audit quality has an influence on tax avoidance, but according to Noviasitika et al. (2016) also conducted a similar study using auditor quality as with other conclusions that indicate audit quality no significant effect on the indication of transfer pricing. This is because corporate governance does not affect companies to transfer pricing or not, where audit quality is a proxy of governance.

Further, according to Wibawa & Abdillah (2016) also states that auditor quality has no significant effect on tax avoidance. Researchers suspect that not only the Big Four Audit Firm has high credibility, but all Audit Firm is under guidelines and regulations that apply and manage, as well as the purpose of the external audit that is to identify the essential factors in auditing the company's financial statements. The size of the firm is also another factor influencing the transfer pricing (Grubert & Mutti, 1991; Lakhali, 2006). Company size is defined as the value that shows the size of the company that can be known from the total assets owned by the company. It reflects when firms that have tremendous assets and are better able to generate profits than firms with smaller total asset ownership. Large-scale companies have higher or more complex operational activities than small-scale firms, so more profit management practices are possible. Also, large-scale companies tend to be the public spotlight, especially the government, so the tendency for corporate managers to act in compliance with regulations (Kurniasih & Sari, 2013).

Richardson et al., (2013) states research on the firm size that firm size has influence and positive to company decision to transfer pricing. Marisa & Wuryani, (2017) found the same thing that is the size of the company has a positive effect on transfer pricing. Large-scale firms will tend to want big profits with small taxes so that large-scale firms will set up branches or subsidiaries to shift their profits so that their taxes are small; even big business owners can build branches of companies in other countries with low tax rates to transfer pricing to avoid taxes in his country. In contrast to Kiswanto (2014) which states the size of the company significantly negatively affect the transfer pricing. Large-scale firms lack the desire to manage earnings by transfer pricing, compared to small firms. The same with Refgia & Ratnawati (2017) found that firm size did not affect transfer pricing. Large companies will be more cautious and transparent in reporting their financial condition. While smaller companies tend to transfer pricing to show satisfactory performance.

According to the description, this research aim is to examine the effect of tax payment, audit quality, and firm size on the indication of transfer pricing policy at a manufacturing company. The reason selection of companies in the manufacturing sector because this sector has a high potential in the evidence of transfer pricing practices (Lall, 1983; Uyar, 2010). Also, investments made in companies in manufacturing have the substantial relationship with the parent company (Pramana & Laksito, 2014; Wafiroh, 2015).

2. Literature Review

2.1 Agency Theory

Jensen and Meckling (1967) first explained the relationship between corporate management (agents) and shareholders (principals) in agency theory. A relationship that is accompanied by a contract between one party with another to perform services in the interests of the principal then there is the agency relationship (Lin, 2010). The purpose of the separation of management from the ownership of an enterprise is to make the shareholders gain the maximum profit and cost as efficiently as possible with the management of the company by professionals (Permata et al., 2012; Dhar & Hoque, 2015;

Nugroho et al., 2018). The transfer of authority by the principal to the agent has an asymmetric information effect between the principal party as the shareholder and the agent as the manager of the company. The nature of the shareholding structure within an enterprise allows it to affect complex agency issues and allow for conflicts between shareholders and managers (Jensen & Meckling, 1967). Conflicts arise due to the incompatibility of information obtained, resulting in managers having more information than shareholders. While when one party has control over the company or ownership structure is more concentrated, then there is a different agency problem. The problem occurs where managers with shareholders turn into majority shareholders with minority shareholders (Ross, 1973; Laffont & Martimort, 2009). The principle of agency theory is the presence of two parties namely the owner (principal) and the management (agent) in managing an organization or company (Jensen & Meckling, 1976; Jensen & Meckling, 1986; Ang et al., 2000). The separation of this function is to maintain the occurrence of the conflict of interest when the owner of the company manages its own business. Therefore it is necessary management to manage the company to prevent the occurrence of a conflict of interest among the owners. The consequence is that in running the company, the management/board of directors must be by the direction and wishes of the owners/shareholders (Silalahi et al., 2018).

2.2 Tax

The definition of Tax is the contribution of the people to the treasury and state finances that have legal legitimacy so that imposition can be imposed without the existence of reciprocal or direct repayment services and is used to pay the cost or expenditure of the state (Rochmat, 1992; Octovido, 2014; Silalahi et al., 2018). Meanwhile, according to Adriani (2005), taxes are public dues to the state (which can be enforced) owed by those who are obliged to pay according to general regulations (law) by not obtaining direct achievement which can be appointed and the purpose is to finance the expenditure - public expenditures due to state duty to administer government. Some definitions contained in the definition of tax according to Sumarsan (2013) are:

- Taxes are collected by the state either by the central government or by the local government based on the law.
- Tax collection indicates the transfer of funds (resources) from the private sector (must pay taxes) to the state sector (tax collector/tax administrators).
- Tax collection is intended for general government financing purposes to carry out government functions, both routine, and development.
- There can be no individual government rewards for tax payments made by taxpayers.
- In addition to the budget, the function is the function of filling the State Treasury / State Budget required to cover the financing of government administration, the tax also serves as a tool to measure or implement state policy on economic and social (regulative).

While the tax functions according to Mardiasmo (2016) are as follows:

- Function for acceptance (budgetary). Taxes serve as a source of funds intended for financing government expenditures. For example the inclusion of taxes in the government budgeting as domestic revenue.
- Function to set (regulated). Taxes serve as a tool for organizing or implementing social and economic policies. For example a higher tax on luxury goods.

2.3 Effect of Taxes on the Indication of Transfer Pricing

Multinational companies do tax planning in various ways. Tax planning often used by multinational companies include transfer pricing, thin capitalization, capital repatriation, foreign-exchange control, international double taxation and foreign tax credit, tax treaty protection/facilities, the establishment of representative, branch or subsidiary (Overesch & Wamser, 2010; Marfuah & Azizah, 2014). Multinational companies do transfer pricing by selling at a price below the market price or a set fair price and buying at a price above the market price to minimize the tax burden. Regarding Clausing (2003) and Noviasatika (2016) showed a significant effect by explaining that tax motivation is one of the reasons of manufacturing companies doing transfer pricing by making transactions to affiliated companies.

2.4 Audit Quality

The financial statements and audits are closely related because the audit serves to provide an independent opinion of the financial statements, whether the financial statements of an entity or organization provide reasonable operating results and whether the financial information is presented in a form consistent with the criteria or rules that have been established thus ensuring the accountability and integrity of the financial statements (Rezaee, 2005; Hardiningsih, 2010; Nicolin & Sabeni, 2013). Audit quality will affect the audit report issued by the auditor. Therefore, the quality of audit becomes the important and main thing to guarantee the accuracy of examination of the financial statement. The audit report serves as an intermediary between the manufacturer or the management company with the users of the audit report. The goal is for users of financial statements to make decisions by their respective interests. Therefore a quality audit is required so that the quality of the financial reporting tasks of management can be accounted for (Dopuch & Simunic, 1982; Watts & Zimmerman, 1990; Klein, 2002; Kothari et al., 2005). The increasing quality of financial reporting has an impact on the increase in benefits and value of financial reports used by investors to estimate the value of stock prices in investment

transactions. Also, the audit is an important element in Corporate Governance which is closely related to one of the principles of Corporate Governance that is transparency. Public companies are increasingly demanding transparency in financial statements (Kirkos et al., 2007; Winata, 2014; Hidayah, 2015; Nugroho et al., 2018). High-quality audits are expected to suppress and perhaps even prevent actions that benefit certain parties. High-quality auditors are assumed to be able to prevent and mitigate misdemeanor practices as well as violations of questionable accounting as well as materially irregularities compared with lower quality auditors (DeAngelo, 1981; Ball & Shivakumar, 2005; Nastiti & Gumanti, 2011). The importance of an audit is to ensure that the financial statements fit the actual conditions.

2.5 Effect of Audit Quality on the Indication of Transfer Pricing

Audit quality is any possibility that may occur when the auditor audits the client's financial statements and finds a violation or error occurring and reports it in the audited financial statements (Myers et al., 2003; Dewi & Jati, 2014). The more qualified the audit of a company, the company tends not to do profit manipulation for the benefit of taxation (Cai & Liu, 2009; Annisa & Kurniasih, 2012). Eksandy (2017) found a company audited by Audit Firm The big four will be more challenging to make an aggressive tax policy.

2.6 Firm Size

Firm size is defined as the value that shows the size of the company that can be known from the total assets owned by the company. Large companies have operational activities performed more complex than small companies, making it more possible to make earnings management. Also, companies that have large scale will be the public spotlight, especially the government, so the tendency that arises for the managers of the company to apply aggressive or obedient (Kurniasih & Sari, 2013).

2.7 Effect of Firm Size on the Indication of Transfer Pricing

The size of a company can determine how much transfer pricing practices at a company are. In a company with relatively larger sizes will be seen from its performance by the community so that the company is more cautious and transparent in reporting its financial conditions. A large company will tend to want big profits with small taxes so that a large company will set up branches to divide their profits so that the tax amount is small (Hines Jr & Rice, 1994; Marisa & Wuryani, 2017).

2.8 Transfer Pricing

According to Martin & Sayrak, 2003 and Lingga (2015) defines the transfer pricing as the imposition of the price if a segment of the company provides goods or services to other segments from the same enterprise. If viewed from taxation perception, the definition of transfer pricing as the imposition of a price made by a company on goods, services, intangible prices to a company with the special relationship (Bernard et al., 2006). A particular transaction is a transfer of resources, services or liabilities between related parties regardless of the price charged (Sumarsan, 2013; Di Carlo, 2014). Measurement of Transfer Pricing is proxied by the presence or absence of sales to related parties. A transfer pricing indicates sales to the relevant relationship. The price determined by the sale of associated parties is shown using an unreasonable price in the sense that the price may be raised or lowered.

3. Research Model, Hypotheses, and Methodology

The concept describes an abstract phenomenon that is shaped by making generalizations about something unique that makes it easier to communicate the rationale to others to be easily understood by others (Sfard, 1991; Nardi, 1996). Based on the theories that have been described in the literature review, the framework of thinking in this study which aims to facilitate the analysis with a conceptual framework. The conceptual framework in this study can be illustrated in the following figure.

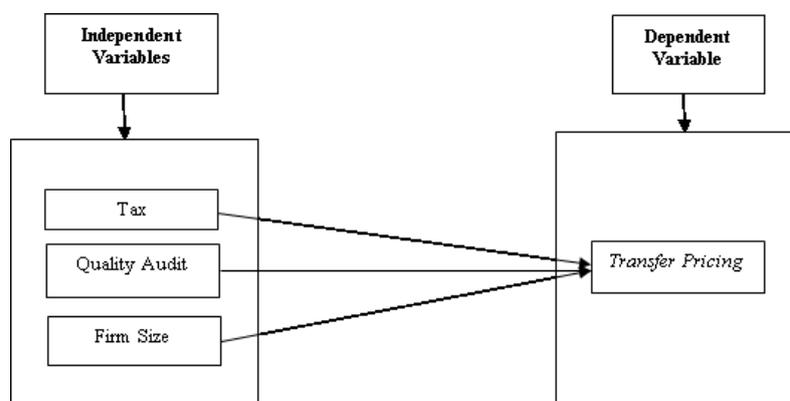


Fig 1. Research Conceptual Model

According to Fig 1., the hypothesis in this research as follows:

- H₁: Tax has a significant effect on the indication of transfer pricing.
- H₂: Audit quality has a significant effect on the indication of transfer pricing.
- H₃: Company size has a significant effect on the indication of transfer pricing.

3.1 Dependent Variable

3.1.2 Transfer Pricing

The dichotomous approach calculates transfer pricing by looking at the existence of sales to a related party (Yuniasih et al., 2012). The calculation using the dummy variable as follows:

- Score 1: A company that sells to a related party.
- Score 0: A company that does not sell to a related party.

3.2 Independent Variable

3.2.1 Tax

The taxes in this study were measured by the Effective Tax Rate (ETR). Effective Tax Rate is the percentage of the tax rate paid by the company. Effective Tax Rate (ETR) is derived from financial information on the financial statements generated by the company so Effective Tax Rate (ETR) is the calculation of the tax rate at the company (Noviastika et al., 2016). Effective Tax Rate is proxied by the formula:

$$ETR = \frac{\text{Tax Expenses} - \text{Deferred Tax Expense}}{\text{Pretax Income}} \quad (1)$$

3.2.2 Audit Quality

High-quality auditors are assumed to be able to prevent and mitigate misdemeanor practices as well as violations of questionable accounting as well as materially irregularities compared with lower quality auditors (Nastiti & Gumanti, 2011). Audit quality cannot be observed, so auditors strive to communicate their quality through signals such as reputation (Francis et al., 1999). The use of the Big Four's public accounting firm to audit a company is good news for the public that audited financial statements are of high quality (. Quality Audit in this study is measured using the size of the Public Accounting Firm that audits a company. Audit quality measurements using dummy variables as follows:

- Score 1: Company audited by the Big Four Public Accounting Firm.
- Score 0: Company unaudited by the Big Four Public Accounting Firm.

3.2.3 Firm size

The size of the company is the size of the company. Company size can show the stability, balance, and ability of the company to conduct its economic activities. Furthermore, if the size or assets owned by a larger company then increasingly become the center of public attention, especially the government so that the tendency of the company's managers to apply obediently and comply. Company size variables are measured using the Log of Total Assets. The Log of Total Assets serves to reduce the significant difference between the size of the company that is too large and the company that size is too small, so the value of the total assets are converted into natural logarithm which aims to make the data of total assets distributed normally. Company size variables are formulated with:

$$SIZE = \text{Log}(\text{Total Aset}) \quad (2)$$

3.3 Population and Sample Research

3.3.1 Population

The population in this study is covering manufacturing companies listed on the Indonesia Stock Exchange in the 2010-2016 research year. Taking the time to see the consistency of research results from year to year. Sampling method in this research using a purposive sampling method where the determination of sample based on a specific criterion which aims to provide information optimally.

3.3.1 Flow Selection of Samples

For the determination of the sample is determined by the following criteria:

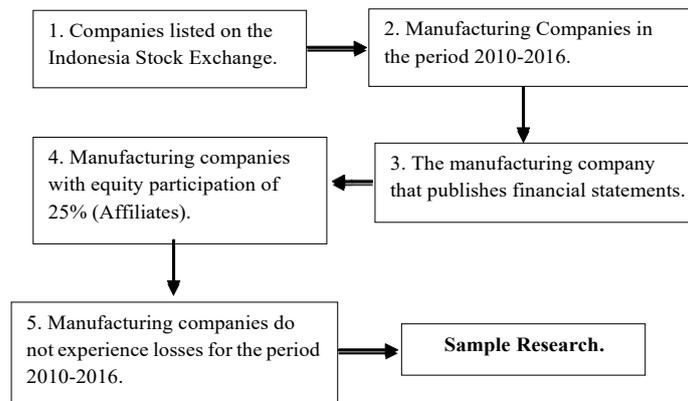


Fig 2. Flow Selection of Samples

3.4 Analysis Method

The method of analysis used logistic regression analysis to measure how far the influence of independent variables on the dependent variable. This analysis does not require a classical assumption test because in logistic regression analysis a model of fit model analysis that describes whether the data from this research is good for use in the research. In this case, logistic regression does not need the assumption of data normality on the independent variables (Ghozali, 2013). This technique of analysis does not require the test of normality and the classical assumption test on the independent variables. Logistic regression analysis was done by using the help of Statistical Package for Social Sciences (SPSS) version 21. Furthermore, the equation model in this study is as follows:

$$\ln \left(\frac{p}{1-p} \right) = Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \quad (3)$$

Remarks:

- Y = Transfer Pricing
- α = Coefficient of Constants
- $\beta_1 - \beta_3$ = Independent Variable Coefficient
- X1 = Tax
- X2 = Audit Quality
- X3 = Company Size
- ε = Error Coefficient.

4. Discussion and implications

4.1 Discussion

4.1.1 Overview of Research Objects

Companies that become the object of research is a manufacturing company listed on the Indonesia Stock Exchange (BEI). The sampling method is done by purposive sampling method, that is the determination of sampling based on specific characteristics which have been known before to give information optimally. The study sample was taken to be limited to all manufacturing companies listed on the Indonesia Stock Exchange (IDX) and issued an annual report for the period 2010-2016. Based on the results of sample selection procedures presented in table 1, so that the number of samples of the research object is as follows:

Step	Sample Selection Criteria	Amount
1	Manufacturing companies listed on the Stock Exchange in 2010 - 2016.	144
2	Companies that do not publish complete annual reports in 2010 - 2016.	(40)
3	The company has a minimum capital participation of 25%.	(32)
4	Companies that lost in the period 2010 - 2016.	(50)
5	Companies that do not comply with the sample selection criteria.	(23)
6	Number of Samples	19
7	The Number of research samples during 2010-2016	133

Table 1. Sample Selection Procedure

4.1.2 *Descriptive Statistics*

According to the table 2 below, the value of descriptive statistics of the tax variable (ETR) indicates a minimum value of 0.001 while the maximum rate of 0.879. The average value of the tax rate is 0.25552 with a standard deviation of 0.097078 which means the data variation is quite large. Audit quality (AQ) test shows the minimum value of 0 and the highest value of 1. Average (mean) has a value of 0.59 while the standard deviation of 0.494. The company size (SIZE) test has an average value of 12.21213 with a standard deviation of 1.356679. Maximum value obtained from the research is 15.109, and the minimum value is 7.936. The transfer pricing (TP) test shows the smallest value of 0 while the maximum value of 1. The average value of the sample of the company is 0.84 with a standard deviation of 0.366.

	N	Minimum	Maximum	Mean	Std. Deviation
ETR	133	,001	,879	,25552	,097078
AQ	133	0	1	,59	,494
SIZE	133	7,936	15,109	12,21213	1,356679
TP	133	0	1	,84	,366
Valid N (listwise)	133				

Source: SPSS 21

Table 2. Descriptive Statistics

4.1.3 *Feasibility of Regression Model*

The result of Table 3 below shows a Chi-square value of 6.488 with a significant probability of 0.593. This significance probability value of 0.593 is greater than (0.05), then there is no difference between the prediction of the logistic regression model and the observed data. It is concluded that the regression model can be used for further analysis.

Step	Chi-square	Df	Sig.
1	6,488	8	,593

Source: SPSS 21

Table 3. Hosmer and Lemeshow Test

4.1.4 *Logistic Regression Coefficient*

The table 4 below shows that the tax variable (ETR) has a positive regression coefficient of 6.355 with a significance level of 0.024 under 0.05 (5%). Significance level value is smaller than $\alpha = 0.005$ (5%) that can be interpreted as the first hypothesis accepted or tax variable significantly influences indication of transfer pricing. The result of the beta value test which shows positive with a value of 6.355 has positive effect between taxes with an indication of the company doing transfer pricing. Audit quality (AQ) variable as the independent variable has a positive regression equal to 0.628 with a significance level of 0.230 which is above 0.05 (5) %. Because the level of significance is greater than $\alpha = 5\%$, then the third hypothesis (H2) is not accepted, or the audit quality variable has no significant effect on the indication of transfer pricing. The company size (SIZE) variable as independent coefficient has a positive regression coefficient of 0.329 with the significance level of 0.104 above 0.05 (5%). Because the level of significance is greater than $\alpha = 5\%$, the second hypothesis (Ha2) is not accepted, or the company size variable has no significant effect on the indication of transfer pricing. Furthermore, the logistic regression coefficient results in the following model:

$$\ln(p/1 - p) = -4,116 + 6,355ETR + 0,329SIZE + 0,628AQ + e$$

Variables in the Equation							
	B	S.E.	Wald	Df	Sig.	Exp(B)	
Step 1 ^a	ETR	6,355	2,810	5,115	1	,024	575,391
	AQ	,628	,523	1,441	1	,230	1,874
	SIZE	,329	,203	2,637	1	,104	1,390
	Constant	-4,116	2,538	2,630	1	,105	,016

Source: SPSS 21

Table 4. Logistic Regression Test

4.2 *Implications*

4.2.1 *Effect of Tax on the Indication of Transfer Pricing*

The results indicate that the tax is listed on the Indonesia Stock Exchange (IDX). Tax motivation is one of the main reasons why companies do transfers to companies or companies with a special relationship. Transfer pricing is believed to be reduced to potential state tax revenues because the company tends to shift its tax obligations so that the tax burden can be minimized according to the company's desire (Lingga, 2012). This study proves that audit quality has no significant effect on the indication of transfer pricing. The result of this study is supported by Noviasatika et al. (2016) and Wibawa, et al. (2016) which stated that the company has no significant effect on transfer pricing. Not only the public accountant office labeled The Big Four has good results and high credibility, but all public accounting firms must apply guidelines, procedures, and regulations to audit financial statements (Nugroho, 2018). It is also evident that audit quality is not the basis of the company to do transfer pricing.

4.2.2 *Effect of Audit Quality on the Indication of Transfer Pricing policy*

The results indicate that the audit is listed on the Indonesia Stock Exchange (IDX). Not only the office of public accountant labeled The Big Four has good results and high credibility but all public accounting firm must apply guidelines, procedures and regulations to audit financial statements (Nugroho et al., 2018). It is also evident that audit quality is not the basis of the company to do transfer pricing.

4.2.3 *Effect of Firm Size on the Indication of Transfer*

The results indicate that the size of the company has no significant effect on the indication of transfer pricing at manufacturing companies listed in the Indonesia Stock Exchange (IDX). Big companies lack the drive to manage profits by transfer pricing. Large companies will be more cautious and transparent in reporting their financial conditions. Meanwhile, smaller companies tend to do transfer pricing to show satisfactory performance.

7. Conclusion

Based on the result of the research conducted, it can be concluded that:

- Taxes significantly influence the indication of transfer pricing, where tax motivation is one of the reasons the company to do transfer pricing by making the transaction to a related company.
- The size of a firm does not significantly influence the indication of transfer pricing, where large companies will be more cautious and transparent in reporting their financial condition. Meanwhile, smaller companies tend to do transfer pricing to show satisfactory performance.
- Audit quality does not significantly influence the indication of transfer pricing, where the company does not consider the audit quality in the practice of transfer pricing.

Furthermore, for future study can extended in another sector such as manufacture, food and beverage, etc. to get another perspective of research.

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