

UNIVERSITI TEKNOLOGI MARA

**THE TRANSFER PRICING
OPTIMIZATION BEHAVIOUR IN
AN INDONESIAN MINING
COMPANY: INTEGRATION OF TAX
AND MANAGEMENT
ACCOUNTING OBJECTIVE**

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ABSTRACT

Multinational Enterprises (MNEs) utilize transfer pricing to achieve various management and tax objectives, often prioritizing tax avoidance. However, cross-border transfer pricing poses significant challenges for many countries, leading to economic and social issues, including reduced tax revenue and broader societal problems. Despite efforts to develop transfer pricing policies, numerous obstacles persist, such as transparency, human resources, and ethical concerns. To address these complexities, a multi-dimensional approach is essential. This study adopts a behavioural perspective, specifically the Theory of Planned Behaviour (TPB), to explore the factors influencing transfer pricing optimization. Through a qualitative approach, employing a constructivist-interpretive paradigm, this research examines the interpretations of key actors involved in transfer pricing, including MNEs, tax consultants, and tax authorities. The study's three-layer unit analysis and NVivo software analysis reveal that transfer pricing is a normal business practice aimed at managerial and taxation purposes. Notably, Indonesian MNEs often lack awareness of national and international regulations and rely on tax consultants and internal and external factors to optimize transfer pricing. This study contributes to the literature on behavioural aspects of transfer pricing and provides practical implications for improving transfer pricing guidance to minimize related problems.

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CHAPTER 1

INTRODUCTION

1.1 Research Background

Traditional economic theories guide corporate actions aimed at exploiting tax regulation loopholes to maximize profits. Tax planning, tax evasion, and tax avoidance are ways businesses try to maximize their earnings (Barsch & Olbert, 2019). Companies, organizations, or managers who engage in tax fraud are at significant risk of tax evasion (Mehafdi, 2000). Therefore, most businesses prefer to engage in tax planning and tax avoidance rather than evading taxes (Brem & Tucha, 2006). Most companies control their tax obligations to maximize profits. Among the popular strategies that businesses find appealing for optimizing profits are tax planning and tax avoidance (Tambunan, 2022).

Using related parties to transfer goods and services is one method of tax avoidance. Through related parties, companies can conduct transfer pricing in accordance with the agreement between their affiliates. Companies typically engage in price transfers with related parties or affiliates to boost their overall profit, often at the cost of other unit's tax payments (Rahmiati & Sandi, 2016). According to Kamilah (2019), Multinational Enterprises (MNEs), as economic actors in economic globalization, engage in transfer pricing. Transfer pricing involves the distribution of profits from one entity to other entities within a group of companies. This practice is considered a normal thing in business activity.

MNEs use transfer pricing to shift the profit from high-tax jurisdictions to low-tax jurisdictions as well as to minimize tax obligations (Sari, 2020). Transfer pricing practices have increasingly developed over the past few years. MNEs commonly use the transfer pricing practice to reduce tax expenses by exploiting tax loopholes without violating any tax regulations (Sari, 2020). The other usefulness of transfer pricing is linked to tax evasion, resulting in numerous instances of transfer pricing litigation. Transfer pricing cases have been increasing globally, with several high-profile disputes, involving big multinational enterprises such as Glencore Investment Pty in Australia, Cameco Corporation and Agra City Ltd. in Canada, Altera Corps in the United States, Business Norway AS and A/S Norske Shell in Norway, Prime Plastic Hem Nigeria Limited in Nigeria, Zinc Smelter B.V. in the Netherlands, Societal Italians Per