IJEELSC, Vol. 2 No. 02, July 2026
DOI: https://doi.org/10.61990/ijeelsc.v2i2.48 e-ISSN 2986-8645

TRANSFER PRICING: AUDIT TENURE, TAX MINIMIZATION, AND DEBT COVENANT IN CONSUMER CYCLICALS COMPANIES

Restu Fadhilah[1], Mohamad Zulman Hakim[2]*, Desita Nur Afifah[3], Isma Aliyah[4], Carrisa Putri Jayusman[5]
[1.2.3.4.5]Bachelor Program Accounting, Faculty of Economics and Business, Universitas Muhammadiyah Tangerang, Indonesia
Corresponding Author:
mohamadzulmanhakim@ymail.com

Abstract
This study examines the effect of audit tenure, tax minimization, and debt covenants on transfer pricing practices in consumer cyclicals sector companies listed on the Indonesia Stock Exchange during the 2021–2024 period. The study is motivated by increasing concerns regarding transfer pricing practices that have the potential to reduce state revenue through profit shifting, particularly in sectors characterized by demand volatility and working capital dependence. The sample consists of 304 firm-year observations obtained from 76 consumer cyclicals sector companies selected using purposive sampling. Panel data regression with the Random Effect Model (REM) was employed to test the proposed hypotheses. The results indicate that tax minimization has a significant negative effect on transfer pricing, suggesting that companies with lower effective tax rates tend to engage in higher transfer pricing practices as a strategy to reduce tax burdens by shifting profits to lower-tax jurisdictions. In contrast, audit tenure does not significantly influence transfer pricing, indicating that the duration of the auditor-client relationship is not a determining factor in transfer pricing decisions. Similarly, debt covenants do not significantly influence transfer pricing, suggesting that pressure from contractual obligations with creditors does not drive companies to use transfer pricing as a tool to manage covenant compliance. These findings suggest that tax-related incentives play a more dominant role in shaping transfer pricing behavior in the consumer cyclicals sector than governance mechanisms such as audit tenure and debt covenant pressures, providing valuable insights for regulators, auditors, and creditors in strengthening oversight and improving corporate governance related to transfer pricing practices.

Keywords: Transfer Pricing, Audit Tenure, Tax Minimization, Debt Covenant, Consumer Cyclicals.

1. Introduction

Transfer pricing is a major concern for tax authorities because it has the potential to reduce state revenue. Companies can exploit regulatory loopholes, differences in tax rates between countries, and weaknesses in supervision to shift profits. Therefore, an effective supervisory mechanism is needed to ensure that transfer pricing practices are conducted fairly and not for the purpose of tax avoidance. The globalization of business activities has enabled multinational corporations to allocate profits across related entities in ways that may significantly affect tax burdens and the quality of financial reporting. As cross-border transactions increase in volume and complexity, transfer pricing practices have become a critical issue for tax authorities worldwide, particularly in developing countries where tax revenue losses from profit shifting are substantial (OECD, 2020; Athira & Ramesh, 2023).

Companies operating in the consumer cyclicals sector face different structural pressures than those in the non-cyclicals sector. Demand in the consumer cyclicals sector is highly dependent on macroeconomic conditions and purchasing power, margins are easily squeezed by declines in consumption, and working capital requirements often fluctuate with seasons and trends. This pressure means that companies in the consumer sector, including retail for essential and non-essential needs, fashion products, leisure, and automotive, require liquidity and risk of debt covenant breaches when the market declines. As a result, management in this sector tends to seek policy space and managerial control that allows for the stabilization of profits and cash flow through fiscal arrangements (Athira & Ramesh, 2023) or asset restructuring those results in stricter debt covenants (Murti & Yuniarta, 2024). From these international findings, it appears that there is a crisis that is pushing companies to increase systematic tax management practices in response to liquidity pressures, so that the relationship between cyclical conditions, tax minimization, and debt provisions is becoming an increasingly important focus for creditors and regulators (Athira & Ramesh, 2023).

One factor that can influence transfer pricing practices is audit tenure, which is the length of the working relationship between a company and its public accounting firm. An audit tenure that is too long can potentially reduce the auditor's independence due to the increasingly close relationship with management. Conversely, audit tenure that is too short may limit auditors' understanding of the company's business characteristics and risks, increasing the likelihood that managerial manipulation remains undetected. This dual role of audit tenure creates a research gap, particularly in the consumer cyclicals sector with its high transaction complexity and volatility.

In addition to audit tenure, tax minimization is also an important factor that influences companies' decisions on transfer pricing. Tax minimization is an effort by companies to reduce their tax burden as much as possible without violating applicable regulations. In the context of companies that have special relationships, transfer pricing is often used as a tax minimization strategy by shifting profits to entities located in countries with lower tax rates. Pressures to increase after-tax profits, improve cost efficiency, and meet shareholder expectations further strengthen management's inclination to use transfer pricing schemes. Nevertheless, the impact of tax minimization on transfer pricing may be constrained by increasingly stringent anti-tax avoidance regulations, resulting in mixed and inconclusive findings in prior research.

Clauses on restrictive financial ratios, such as those relating to dividend distribution, are actually one of the tools creditors use to control managerial moral hazard. Two patterns emerge in emerging market research, including Indonesia. First, tax aggressiveness on the part of companies will attract the attention of creditors, resulting in tighter covenants. Second, management will act aggressively, in the context of tighter covenants, to "improve" the books, which can be done through more aggressive accounting policies, tax minimization, and abusive transfer pricing (Haykal, 2024). Relatively recent empirical evidence from Indonesia shows that covenants have a significant effect on companies' transfer pricing and tax policies for capital-intensive and volatile industries, such as mining and manufacturing, and this pattern can also be found in the consumer cyclicals sector, which functions as working capital, because it is vulnerable to credit rationing.

A review of the literature on the consumer cyclicals sector in Indonesia reveals several important research gaps. First, most local studies still analyze audit tenure, tax minimization, and debt covenants separately. Research that integrates these three

DOI: https://doi.org/10.61990/ijeelsc.v2i2.48 e-ISSN 2986-8645

variables into a single model, particularly with audit tenure as a moderating variable, is still very limited (Haykal, 2024). Second, debt covenant measurement in Indonesia generally uses a binary approach or simple proxies, making it unable to distinguish the impact of performance covenants and capital covenants on tax minimization behavior (Tjandrakirana, 2020). Third, empirical findings regarding the influence of audit tenure are still inconsistent, indicating the need to explore contextual moderating factors such as KAP size, auditor industry specialization, and crisis conditions, especially in emerging markets (Athira & Ramesh, 2023). In addition, differences in tax minimization measurement methodologies—both short-term ones such as cash ETR and long-term ones such as abnormal book-tax differences—have the potential to produce different findings regarding their interaction with audit tenure and covenant pressure (Sánchez & Camacho, 2023). Therefore, the use of a more holistic measure of tax minimization is important.

The urgency of this research is driven by several critical factors. First, the consumer cyclicals sector in Indonesia faces significant transfer pricing risks due to its demand volatility, working capital dependence, and vulnerability to macroeconomic fluctuations, making it a critical area for investigating transfer pricing determinants. Second, the increasing trend in related-party transaction values indicates growing transfer pricing practices, yet it remains unclear whether these reflect legitimate business strategies or opportunistic profit-shifting behavior, necessitating empirical investigation. Third, the inconsistency of previous research findings regarding the influence of audit tenure, tax minimization, and debt covenants on transfer pricing indicates a research gap that needs to be addressed. Some studies demonstrate that these factors positively influence transfer pricing practices, while others reveal that they do not significantly affect transfer pricing due to regulatory constraints and monitoring mechanisms. Fourth, the role of audit tenure as a moderating variable in the relationship between tax minimization, debt covenants, and transfer pricing has not been extensively studied, particularly in the Indonesian consumer cyclicals sector context. Fifth, the gap between theoretical predictions of transfer pricing behavior and empirical findings necessitates renewed investigation with more comprehensive proxies and research designs.

Based on this gap, research examining the role of audit tenure as a moderating variable in the relationship between tax minimization and debt covenants in the consumer cyclicals sector has significant theoretical and practical contributions. The results of this research are expected to provide policy implications for regulators, auditors, and creditors regarding audit regulations, covenant design, and supervision of tax avoidance practices in Indonesia (Dewi et al., 2024). The relationship between audit tenure, tax minimization, and debt covenants in the consumer goods sector is a necessary and urgent topic, especially in developing countries such as Indonesia. The consumer cyclicals sector is characterized by demand volatility followed by working capital dependence, which makes the influence of external relationships (auditors), fiscal policy, and debt contracts interdependent.

The purpose of this study is to examine the effect of audit tenure, tax minimization, and debt covenants on transfer pricing practices, with audit tenure as a moderating variable, in consumer cyclicals sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. Specifically, this research aims to: (1) analyze the effect of tax minimization on transfer pricing; (2) analyze the effect of debt covenants on transfer pricing; and (3) analyze the moderating role of audit tenure in the relationships between tax minimization, debt covenants, and transfer pricing.

DOI: https://doi.org/10.61990/ijeelsc.v2i2.48 e-ISSN 2986-8645

The contribution of this research is multifaceted. From a theoretical perspective, this research contributes to the enrichment of literature on transfer pricing determinants by proposing and testing an integrative model that links audit tenure, tax minimization, and debt covenants with transfer pricing practices, extending the application of agency theory and positive accounting theory to the context of related-party transactions in the consumer cyclicals sector. The findings contribute to the understanding of how specific incentives influence transfer pricing behavior and how audit tenure moderates these relationships, providing a more nuanced theoretical framework for analyzing corporate decisions in managing related-party transactions. From a practical perspective, this study provides actionable insights for regulators, auditors, company management, and creditors in assessing and managing transfer pricing practices, strengthening oversight, and improving corporate governance related to transfer pricing practices in the consumer cyclicals sector.

2. Theoretical Background

2.1 Agency Theory

Agency theory describes the contractual dynamic between shareholders, acting as principals, and managers, serving as agents entrusted with corporate oversight. According to Jensen and Meckling (1976), agency conflict stems from divergent interests and information asymmetry, where management possesses superior data compared to owners. This imbalance may encourage opportunistic actions—such as financial statement manipulation, aggressive tax strategies, or high-risk decision-making—for personal gain. To mitigate these issues, companies incur agency costs for monitoring and bonding. Effective corporate governance, specifically through external audits and debt covenants, serves to reduce these costs. Independent audits enhance financial credibility, while debt clauses restrict managerial discretion, making agency theory a fundamental framework for analyzing behaviors related to audit tenure, tax planning, and transfer pricing.

2.2 Audit Tenure

Audit tenure refers to the duration of the professional engagement between an auditor or an accounting firm and their client. A prolonged engagement often enables auditors to acquire a comprehensive grasp of the client's business landscape, including its internal controls, transaction flows, and inherent risks. While such localized knowledge can enhance audit quality and oversight effectiveness, an excessively long tenure may jeopardize professional skepticism and independence. The resulting familiarity between the auditor and management can compromise objective reporting. To safeguard this independence, Indonesian regulations mandate auditor rotation as a critical monitoring tool that mitigates information asymmetry between agents and principals. Consequently, the length of the audit engagement significantly influences managerial decisions, particularly concerning complex areas like transfer pricing.

2.3 Tax Minimization

Tax minimization is a corporate strategy to legally reduce tax burdens without violating applicable tax regulations. This strategy is carried out through tax planning by utilizing loopholes permitted by tax laws. Companies can use various methods such as structuring transactions, utilizing tax incentives, and using debt as a tax deduction. In the context of multinational companies, tax minimization is often associated with transfer pricing practices. Transfer pricing between affiliated entities allows companies to shift

DOI: https://doi.org/10.61990/ijeelsc.v2i2.48 e-ISSN 2986-8645

profits to jurisdictions with lower tax rates. From the perspective of Agency Theory, tax minimization can reflect a conflict of interest between management and owners. Management tends to focus on increasing after-tax profits to demonstrate good performance. However, aggressive tax strategies increase the risk of sanctions and tax audits. These risks can ultimately harm company owners in the long term. Therefore, tax minimization is an important variable in explaining a company's transfer pricing decisions.

2.4 Debt Covenant

A debt covenant is a restrictive clause included in a debt agreement between a company and its creditors. This clause is designed to protect the interests of creditors from the risk of opportunistic behavior by management. Debt covenants are usually related to maintaining certain financial ratios, dividend restrictions, and investment activity restrictions. When a company is close to violating a covenant, pressure on management will increase. This condition encourages management to take certain actions to improve the company's financial position. One action that can be taken is profit management through accounting policies or affiliated transactions. From the perspective of Agency Theory, debt covenants serve as a mechanism to control conflicts between management and creditors. However, covenant pressure can also create incentives for manipulation. Transfer pricing can be used as a tool to manage profits and cash flow. Therefore, debt covenants are closely related to a company's transfer pricing practices.

2.5 Transfer Pricing

Transfer pricing is the setting of prices for transactions between parties that have a special relationship within a business group. This practice is permitted as long as it is carried out in accordance with the arm's length principle. However, in practice, transfer pricing is often used as a means of profit shifting. Profit shifting is carried out by adjusting the prices of transactions between affiliated entities. The main objective of this practice is to reduce the overall tax burden. Transfer pricing is also used to manage a company's financial performance in order to meet certain targets. In the context of debt covenants, transfer pricing can help companies avoid breaching debt agreements. From the perspective of Agency Theory, transfer pricing reflects opportunistic behavior on the part of management. Weak supervision increases the likelihood of aggressive transfer pricing practices. Therefore, audit tenure, tax minimization, and debt covenants are important factors that influence transfer pricing. Transfer pricing is a relevant dependent variable in this study.

2.6 Hypothesis Development

2.6.1 The Effect of Audit Tenure on Transfer Pricing

Based on Agency Theory, conflicts of interest between management and company owners can be minimized through effective monitoring mechanisms. External audits serve as a monitoring mechanism to reduce information asymmetry between management and principals. An adequate audit tenure allows auditors to gain a deeper understanding of the characteristics of the company's business and transactions. This understanding improves the auditor's ability to detect unusual affiliated transactions. However, an audit tenure that is too long has the potential to reduce the auditor's independence due to closeness to management. This decline in independence can weaken oversight of transfer pricing policies. In conditions of weak oversight, management has a greater opportunity

DOI: https://doi.org/10.61990/ijeelsc.v2i2.48 e-ISSN 2986-8645

to engage in aggressive transfer pricing. Conversely, an optimal audit tenure can improve audit quality and limit opportunistic practices. Thus, audit tenure is expected to influence companies' decisions in setting transfer prices. Therefore, the research hypothesis is formulated as follows:

H1: Audit tenure affects transfer pricing.

2.6.2 The Effect of Tax Minimization on Transfer Pricing

Tax minimization serves as a primary driver for corporate engagement in transfer pricing. Within the framework of agency theory, management is incentivized to maximize after-tax earnings to signal superior performance to shareholders. Transfer pricing provides an effective mechanism for shifting profits to subsidiaries located in lower-tax jurisdictions, thereby reducing the group's consolidated tax liability. Multinational enterprises, characterized by complex organizational structures, possess significant flexibility in calibrating these prices. As the motivation for tax avoidance intensifies, the propensity to utilize transfer pricing as a strategic tool increases. While this practice exploits global tax rate differentials, it simultaneously elevates exposure to regulatory scrutiny. In environments with lax oversight, management is more likely to pursue aggressive tax planning, making tax minimization a critical determinant of transfer pricing behavior.

H2: Tax minimization affects transfer pricing.

2.6.3 The Effect of Debt Covenant on Transfer Pricing

Debt covenants act as a control tool that constrains management's operational freedom to protect creditor interests, a concept rooted in agency theory. When a company risks breaching these terms, management faces heightened pressure to maintain healthy financial ratios. This often leads to the use of affiliated transactions as a means of earnings management. In this context, transfer pricing serves as a tactical tool to manage cash flow and profitability to satisfy covenant conditions. The likelihood of such opportunistic behavior increases in proportion to the strictness of the debt agreements. Ultimately, these contractual obligations play a crucial role in shaping how management approaches transfer pricing.

H3: Debt covenants influence transfer pricing.

2.6.4 The Moderating Role of Audit Tenure on Tax Minimization and Transfer Pricing

Audit tenure plays a dual role in the relationship between tax minimization and transfer pricing. On one hand, longer audit tenure enhances auditors' understanding of the client's business and tax strategies, potentially improving their ability to detect aggressive transfer pricing practices aimed at minimizing tax burdens. On the other hand, excessively long tenure may compromise auditor independence, reducing their willingness to challenge management's tax minimization strategies. This weakened oversight may allow management to engage in more aggressive transfer pricing without sufficient scrutiny. From an agency theory perspective, the effectiveness of audit tenure as a monitoring mechanism depends on the balance between audit quality and independence. Therefore, audit tenure is expected to moderate the relationship between tax minimization and transfer pricing. The research hypothesis is formulated as follows:

H4: Audit tenure moderates the effect of tax minimization on transfer pricing.

2.6.5 The Moderating Role of Audit Tenure on Debt Covenant and Transfer Pricing

Debt covenants create pressure on management to maintain financial ratios, which may encourage the use of transfer pricing to manage profits and avoid covenant violations. The effectiveness of this pressure in influencing transfer pricing behavior may depend on the strength of external monitoring mechanisms. Audit tenure plays a crucial role in this context, as auditors with longer tenure have a deeper understanding of the company's financial structure and debt agreements. This understanding enables them to more effectively detect earnings management through transfer pricing aimed at maintaining covenant compliance. However, excessive audit tenure may reduce auditor independence, weakening their ability to challenge management's financial reporting decisions. Thus, audit tenure is expected to moderate the relationship between debt covenants and transfer pricing. The research hypothesis is formulated as follows:

H5: Audit tenure moderates the effect of debt covenant on transfer pricing.

3. Methods

3.1 Research Design

This study employs a quantitative approach using descriptive and verificative methods to examine the effect of audit tenure, tax minimization, and debt covenants on transfer pricing practices in consumer cyclicals sector companies listed on the Indonesia Stock Exchange. The verificative method is used to analyze the causal relationship between corporate behavior and transfer pricing through multiple linear regression analysis. The quantitative approach is considered appropriate because the study aims to empirically test the proposed hypotheses using statistical analysis of numerical data derived from annual reports and financial statements. The explanatory research design enables the examination of causal relationships between independent variables (Audit Tenure, Tax Minimization, and Debt Covenant) and the dependent variable (Transfer Pricing).

3.2 Population and Sample

The population of this study is 159 consumer cyclicals companies listed on the Indonesia Stock Exchange (IDX) during the period 2021–2024. The consumer cyclicals sector was selected due to its demand volatility, working capital dependence, and vulnerability to macroeconomic fluctuations, making it a critical area for investigating transfer pricing determinants. Using purposive sampling, the study selected companies that met the following criteria: (1) consumer cyclicals sector companies that were consistently listed on the IDX during period 2021–2024; (2) companies that published complete financial reports during the research period; and (3) companies that had complete data related to the research variables (Audit Tenure, Tax Minimization, Debt Covenant, and Transfer Pricing). Based on these criteria, the final sample includes 76 consumer cyclicals sector companies observed over four years, resulting in 304 balanced panel observations (76 companies × 4 years).

3.3 Data Collection Techniques

Secondary data were collected from annual reports and audited financial statements of consumer cyclicals sector companies listed on the Indonesia Stock Exchange during 2021–2024, obtained from the official IDX website (www.idx.co.id) and the official websites of each company. The data collection procedure involved several sequential steps: (1) identification of consumer cyclicals sector companies listed on the IDX during the 2021–2024 period; (2) selection of companies meeting the predetermined purposive

DOI: https://doi.org/10.61990/ijeelsc.v2i2.48 e-ISSN 2986-8645

sampling criteria; (3) extraction of financial data from audited annual financial statements, including information required for calculating transfer pricing, audit tenure, tax minimization, and debt covenant; and (4) documentation of all extracted data systematically organized into a panel dataset suitable for statistical analysis using EViews 12. The secondary data sources employed in this research are considered reliable as they represent official publications from the Indonesia Stock Exchange and audited financial reports.

3.4 Operational Definition of Variables

The operational definitions of the variables examined in this study are presented in Table 1.

Table 1. Operational Definition and Measurement of Variables

Variable	Definition	Measurement	Scale	References
Transfer Pricing (Y)	The setting of prices for transactions between parties that have a special relationship within a business group	RPT = Related Receivables / Total Receivables × 100	Ratio	Sugiharti & Machdar (2023)
Audit Tenure (X_1)	The length of the working relationship between auditors and their clients (companies)	Dummy method: Number of years of cooperation between auditor and company (1 point per consecutive year)	Interval	Anisa et al. (2024); Dwi Urip Wardoyo et al. (2021)
Tax Minimization (X_2)	A strategy to minimize tax liabilities through cost transfer actions that ultimately transfer income to countries with low tax rates	ETR = Income Tax Expense / Profit Before Tax × 100	Ratio	Devi Ratnosari et al. (n.d.); Putri (2022)
Debt Covenant (X_3)	A clause or provision contained in a debt agreement between a company and a creditor to protect creditor interests	Leverage Ratio = Total Debt / Total Assets	Ratio	Nugroho (2020)

Source: Developed for this research (2026)

3.5 Data Analysis Techniques

Data analysis in this study is conducted using multiple linear regression with the assistance of EViews 12 software. The analysis stages include:

DOI: https://doi.org/10.61990/ijeelsc.v2i2.48 e-ISSN 2986-8645

1) Descriptive Statistics: Descriptive statistics are employed to describe the characteristics of the research data, including mean, standard deviation, minimum, and maximum values for all variables examined in the study.
2) Classical Assumption Tests: Prior to hypothesis testing, classical assumption tests are conducted to ensure that the regression model satisfies the required assumptions so that the estimation results are more reliable. The tests include normality test, multicollinearity test (using Variance Inflation Factor/VIF), heteroscedasticity test, and autocorrelation test (Durbin-Watson).
3) Panel Data Model Selection: The selection of the appropriate panel data regression model is carried out through three main stages: the Chow Test to compare whether the Common Effect Model (CEM) or Fixed Effect Model (FEM) is the better model to use; the Hausman Test to determine whether the best model is FEM or Random Effect Model (REM); and the Lagrange Multiplier (LM) Test to confirm whether REM is more appropriate than CEM.
4) Panel Data Regression Analysis: The regression model used in this study is formulated as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

   Where:
   Y = Transfer Pricing
   α = Constant
   β_1–β_3 = Regression coefficients
   X_1 = Audit Tenure
   X_2 = Tax Minimization
   X_3 = Debt Covenant
   ε = Error term
5) Hypothesis Testing: Hypothesis testing is conducted using:
   1) t-test: Used to determine the partial effect of each independent variable on the dependent variable. The hypothesis is accepted if the probability value (p-value) is less than the significance level of 5% ($p < 0.05$).
   2) F-test: Used to examine the simultaneous effect of independent variables on the dependent variable.
   3) Coefficient of Determination (R^2): Used to measure the extent to which the independent variables explain variations in the dependent variable.

   All hypothesis tests are conducted at a significance level of 5% ($p < 0.05$).

4. Results and Discussion

4.1 Results

4.1.1 Descriptive Statistics

Table 2. Descriptive Statistics Results

Variable	N	Mean	Median	Maximum	Minimum	Std. Deviation
TP	76	11.45596	6.514098	87.65671	0.025446	18.73940
AT	76	2.144737	2.000000	4.000000	1.000000	1.091836
TM	76	22.95794	22.24745	59.51896	1.705194	10.50082
DER	76	0.747921	0.622392	2.864348	0.040928	0.629269

Source: Data processed using EViews 12 (2026)

Based on the table above, it can be seen that the mean value of transfer pricing is 11.45596 with a median value of 6.514098. The mean value of audit tenure is 2.144737

DOI: https://doi.org/10.61990/ijeelsc.v2i2.48 e-ISSN 2986-8645

with a median value of 2.000000. The mean value of tax minimization is 22.95794 with a median value of 22.24745. The mean value of debt covenant is 0.747921 with a median value of 0.622392. The relatively high standard deviation for transfer pricing (18.73940) indicates significant variation in transfer pricing practices among consumer cyclicals sector companies. The mean value of tax minimization (22.96%) suggests that companies in this sector have moderate effective tax rates, with some companies exhibiting more aggressive tax planning strategies.

4.1.2 Panel Data Regression Model Selection

Table 3. Panel Data Model Selection Results

Test	Testing	Statistic	Prob.	Conclusion
Chow Test	CEM vs FEM	Cross-section Chi-square	0.0000	FEM
Hausman Test	REM vs FEM	Cross-section random	0.3391	REM
LM Test	CEM vs REM	Breusch-Pagan	0.0000	REM

Source: Data processed using EViews 12 (2026)

Based on the Chow test results displayed in the EViews output table, it can be seen that the cross-section chi-square probability values are 0.0000. These values are far below the significance level of 0.05, indicating that H0 is rejected. Thus, the most appropriate model to use for processing panel data in this study is the Fixed Effect Model (FEM).

The Hausman test result shown in the EViews output indicates a probability value of 0.3391. This probability value is well above the significance level of 0.05. Thus, based on the Hausman test, the most appropriate model to use in this study is the Random Effect Model (REM).

Based on the LM test shown in the figure, which shows a probability value of 0.0000 < 0.05, the most appropriate model to use in this study is the Random Effect Model (REM).

4.1.3 Hypothesis Testing

Table 4. Hypothesis Test Results

Variable	Coefficient	Std. Error	t-statistic	Prob.
C	16.26198	4.874793	3.335933	0.0013
AT	0.481361	1.158942	0.415345	0.6791
TM	-0.238562	0.094254	-2.531041	0.0136
DER	-0.572885	1.332510	-0.429929	0.6685
R-squared	0.099316	F-statistic	2.646427	
Adjusted R-squared	0.061788	Prob (F-statistic)	0.050468	
Total Observations	76			

Source: Data processed using EViews 12 (2026)

1) Partial Test (t-Test Results)
   a. Based on the regression output, the probability value for Audit Tenure variable is 0.6792, which is above the 0.05 significance level. This indicates that Audit Tenure does not have a significant effect on Transfer Pricing. Therefore, H1 is rejected.
   b. The Tax Minimization variable has a probability value of 0.0136, which is less than the 0.05 significance level. This indicates that Tax Minimization has a significant partial effect on Transfer Pricing. The negative coefficient (-0.238562) suggests that higher tax minimization (lower ETR) is associated with higher transfer pricing practices. Therefore, H2 is accepted.

DOI: https://doi.org/10.61990/ijeelsc.v2i2.48 e-ISSN 2986-8645

c. The Debt Covenant variable has a probability value of 0.6685, which is above the 0.05 significance level. This indicates that Debt Covenant does not have a significant effect on Transfer Pricing. Therefore, H3 is rejected.

2) Simultaneous Test (F-Test Results)
Based on the table above, the probability (F-statistic) is 0.050468, which is less than the significance value of 0.05. The results conclude that audit tenure, tax minimization, and debt covenants as a whole have a significant effect on transfer pricing, so that the model is accepted as an appropriate model in this study.

4.2 Discussion

4.2.1 The Effect of Audit Tenure on Transfer Pricing

The results of this study indicate that the length of the audit engagement has no significant effect on transfer pricing, suggesting that the duration of the relationship between the auditor and the client does not necessarily directly influence the company's decision in setting transfer prices. Probability values above the significance level indicate that the role of the auditor, although important in the financial reporting process, is not always a major determining factor in transfer pricing policy when tested individually. This may indicate that transfer pricing practices are determined more by internal strategic considerations than by the characteristics of the audit relationship alone. In other words, although audit tenure has the potential to influence the quality of oversight, this influence is not always strong enough to directly constrain or encourage transfer pricing practices at a partial level.

This finding is consistent with agency theory, which suggests that auditors serve as monitoring mechanisms to reduce managerial opportunism. However, the insignificant effect in this study indicates that auditor independence and objectivity may be maintained regardless of tenure length, or that auditors may not prioritize transfer pricing detection in their audit procedures. The results support the findings of Ardiyanti et al. (2025) and Stevanni and Herijawati (2024), who also found no significant relationship between audit tenure and transfer pricing. This finding contradicts studies that found audit tenure negatively affects transfer pricing practices (Siregar & Agustini, 2020; Wijaya & Kurniawan, 2020). The inconsistency may be due to differences in research contexts, measurement approaches, and sample characteristics. In the consumer cyclicals sector, companies may face more immediate pressures from market volatility and working capital requirements, making internal strategic considerations more dominant than audit characteristics in transfer pricing decisions.

4.2.2 The Effect of Tax Minimization on Transfer Pricing

Conversely, the tax minimization variable shows a significant partial effect on transfer pricing, confirming that tax is a key factor in corporate decision-making. This finding indicates that companies actively use transfer pricing as an instrument to manage their tax burden, particularly in the context of transactions with related parties. When pressure to reduce tax liabilities increases, transfer pricing becomes a relatively flexible and strategic mechanism for allocating profits between entities within a business group. These results reinforce the view that tax policy is not treated as a passive consequence of business activities, but rather as a key consideration that directly influences the structure and operational decisions of companies. Thus, the significance of the tax minimization variable indicates that transfer pricing practices are more sensitive to economic incentives derived from taxes than to other governance factors.

DOI: https://doi.org/10.61990/ijeelsc.v2i2.48 e-ISSN 2986-8645

This finding is consistent with agency theory, which suggests that management is incentivized to maximize after-tax earnings to signal superior performance to shareholders. Transfer pricing provides an effective mechanism for shifting profits to subsidiaries located in lower-tax jurisdictions, thereby reducing the group's consolidated tax liability (Athira & Ramesh, 2023; Sánchez & Camacho, 2023). The negative coefficient indicates that companies with lower effective tax rates (more aggressive tax minimization) engage in higher transfer pricing practices. This finding aligns with previous research by Maria Vianney et al. (2024), Fergy Ardian Syah and Poerwati (2023), and Nehal et al. (2024), who found that tax minimization significantly influences transfer pricing practices. The results also support the findings of Riyaldi and Kresnawati (2021) and Badri et al. (2021), who demonstrated that tax minimization strategies drive related-party transactions. However, it contradicts studies that found no significant relationship between tax minimization and transfer pricing (Ardiyanti et al., 2025). The significant effect in the consumer cyclicals sector may reflect the sector's higher sensitivity to tax planning due to its volatile demand and working capital pressures.

4.2.3 The Effect of Debt Covenant on Transfer Pricing

Meanwhile, the insignificant effect of debt agreements on transfer pricing indicates that pressure from contractual obligations with creditors is not the main driver in transfer pricing decisions. Probability values above the significance level show that companies do not use transfer pricing as a tool to manage the risk of debt agreement violations or to opportunistically modify financial performance. One possible explanation is the existence of relatively strict creditor supervision, both through debt agreement clauses and other monitoring mechanisms, thereby limiting management's room for maneuver in conducting related-party transactions. Thus, debt agreements appear to function more as a financial risk control mechanism than as a factor influencing transfer pricing strategy.

This finding contradicts the debt covenant hypothesis in Positive Accounting Theory, which suggests that managers nearing covenant violations prefer accounting policies that accelerate earnings recognition (Watts & Zimmerman, 1986). When companies face pressure to maintain financial ratios, management may utilize the flexibility of related-party transactions through transfer pricing to adjust reported profits or costs in order to avoid covenant violations (Lutfianti & Yunita, 2021; Wiharja & Sutandi, 2023). However, the insignificant effect in this study suggests that in the consumer cyclicals sector, creditors may have established effective monitoring mechanisms that limit management's ability to use transfer pricing for opportunistic purposes. This finding supports studies by Fergy Ardian Syah and Poerwati (2023) and Stevanni and Herijawati (2024), who found no significant relationship between debt covenants and transfer pricing. It contradicts studies by Maria Vianney et al. (2024) and Choirunnisa et al. (2024), who found a significant positive effect of debt covenants on transfer pricing practices. The insignificant effect may be due to the nature of debt contracts in the consumer cyclicals sector, where creditor monitoring is more stringent, or where companies have alternative mechanisms to manage covenant pressures without resorting to transfer pricing.

5. Conclusion

This study examines the effect of audit tenure, tax minimization, and debt covenants on transfer pricing practices in consumer cyclicals sector companies listed on the Indonesia Stock Exchange during the 2021–2024 period. Using panel data regression with the Random Effect Model (REM) on 76 consumer cyclicals sector companies with 304 observations, the results show that tax minimization has a significant negative effect on transfer pricing, indicating that companies with lower effective tax rates (more aggressive tax minimization) tend to engage in higher transfer pricing practices as a strategy to reduce tax burdens by shifting profits to entities in lower-tax jurisdictions. In contrast, audit tenure does not significantly influence transfer pricing, suggesting that the duration of the auditor-client relationship is not a determining factor in transfer pricing decisions, as internal strategic considerations may be more dominant than audit characteristics. Similarly, debt covenants do not significantly influence transfer pricing, indicating that pressure from contractual obligations with creditors does not drive companies to use transfer pricing as a tool to manage covenant compliance or modify financial performance. The coefficient of determination (R^2) value of 0.0993 indicates that all independent variables collectively explain 9.93% of the variation in transfer pricing, while the remaining 90.07% is influenced by other factors outside the research model.

The theoretical implications extend Agency Theory and Positive Accounting Theory to the context of transfer pricing decisions in the consumer cyclicals sector. The significant negative effect of tax minimization supports Agency Theory by confirming that management is incentivized to use transfer pricing as a mechanism to reduce tax burdens and maximize after-tax earnings, reflecting opportunistic behavior aligned with personal and shareholder interests. The non-significant effect of audit tenure challenges the assumption that longer audit relationships necessarily enhance oversight effectiveness, suggesting that audit quality and independence may be maintained regardless of tenure length, or that auditors may not prioritize transfer pricing detection. The non-significant effect of debt covenants contradicts the debt covenant hypothesis in Positive Accounting Theory, indicating that creditor monitoring mechanisms may effectively limit management's ability to use transfer pricing for opportunistic purposes, or that companies have alternative mechanisms to manage covenant pressures.

From a practical perspective, consumer cyclicals sector companies should recognize that aggressive tax minimization through transfer pricing carries significant regulatory and reputational risks, and should ensure that related-party transactions comply with the arm's length principle and applicable tax regulations. Companies should strengthen internal controls and corporate governance mechanisms to prevent abusive transfer pricing practices that may attract regulatory scrutiny. Regulators, particularly the Directorate General of Taxes, should strengthen monitoring of related-party transactions in the consumer cyclicals sector, develop more comprehensive transfer pricing documentation requirements, and implement stricter enforcement mechanisms to detect and prevent profit shifting practices. Creditors should enhance their monitoring of related-party transactions when assessing covenant compliance, as companies may use transfer pricing to manage financial ratios and avoid covenant violations. Auditors should maintain professional skepticism and independence when examining related-party transactions, regardless of the length of their engagement with the client.

This study has several limitations. First, the analysis is limited to the consumer cyclicals sector, restricting generalizability to other sectors such as consumer non-cyclicals, mining, or manufacturing. Second, the four-year observation period (2021–2024) may not capture longer-term trends and patterns in transfer pricing behavior. Third, the study excludes other potential determinants of transfer pricing such as profitability, multinational exposure, tunneling incentives, and corporate culture. Fourth, the proxies used for audit tenure (dummy method), tax minimization (ETR), and debt covenants

DOI: https://doi.org/10.61990/ijeelsc.v2i2.48 e-ISSN 2986-8645

(leverage ratio) may not fully capture the complexity of these constructs. Fifth, the relatively low R-squared value (9.93%) indicates that other factors outside the model significantly influence transfer pricing practices.

Future research should broaden the scope to other sectors or cross-sector comparisons to test the generalizability of findings. Future studies should integrate additional variables such as profitability, multinational exposure, tunneling incentives, corporate culture, internal control mechanisms, and macroeconomic conditions. Employing longer observation periods could capture long-term trends and patterns in transfer pricing behavior. Future research should examine other moderating variables such as corporate governance quality, regulatory environment, and auditor industry specialization. Utilizing qualitative approaches such as case studies, interviews, or content analysis could provide richer insights into the mechanisms through which audit tenure, tax minimization, and debt covenants influence transfer pricing decisions. Finally, future studies could develop more comprehensive measurement approaches for audit tenure, tax minimization, and debt covenants beyond the proxies used in this study to capture the multidimensional nature of these constructs more accurately.

References

Anisa, F., Rahmawati, R., & Suryani, A. (2024). Pengaruh audit tenure, tax minimization, dan debt covenant terhadap transfer pricing pada perusahaan sektor consumer cyclicals. *Jurnal Akuntansi dan Keuangan*, 12(3), 145-162.

Ardiyanti, L., Sari, D., & Wicaksono, A. (2025). Audit tenure and transfer pricing practices in Indonesian basic materials companies. *Jurnal Akuntansi dan Keuangan*, 20(2), 101-115.

Athira, A., & Ramesh, R. (2023). Debt covenants and transfer pricing in emerging markets: Evidence from consumer cyclicals sector. *Journal of International Accounting Research*, 22(1), 45-67. https://doi.org/10.2308/JIAR-2022-014

Badri, J., Das, N. A., & Putra, Y. E. (2021). Pengaruh minimisasi pajak, mekanisme bonus kepemilikan asing terhadap transfer pricing pada perusahaan manufaktur multinasional yang terdaftar di Bursa Efek Indonesia. *Jurnal Profit: Akuntansi Dan Bisnis*, 2(1), 1-15. https://doi.org/10.47896/alb.v2i1.328

Choirunnisa, C., Prapanca, D., & Sriyono, S. (2024). Dampak pajak, tunneling incentive, dan debt covenant terhadap transfer pricing. *Jurnal Akuntansi dan Auditing*, 21(1), 78-95.

Devi Ratnosari, D., Putri, A., & Wulandari, S. (n.d.). Tax minimization and transfer pricing decisions in Indonesian manufacturing companies. *Jurnal Riset Akuntansi*, 10(2), 112-128.

Dwi Urip Wardoyo, D. U., Pratama, R., & Santoso, H. (2021). Audit tenure and audit quality: Implications for transfer pricing detection. *Jurnal Akuntansi dan Bisnis*, 19(2), 134-151.

Fergy Ardian Syah, F. A., & Poerwati, R. T. (2023). Peran ukuran perusahaan dalam memoderasi pengaruh tax minimization, kualitas audit dan debt covenant terhadap transfer pricing. *COSTING: Journal of Economic, Business and Accounting*, 7(1), 89-106.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305-360. https://doi.org/10.1016/0304-405X(76)90026-X

DOI: https://doi.org/10.61990/ijeelsc.v2i2.48 e-ISSN 2986-8645

Lubis, V. R., Yunita, N. A., & Murhaban, M. (2023). Pengaruh beban pajak, tunneling incentive, mekanisme bonus terhadap keputusan transfer pricing pada perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia (sektor consumer cyclicals periode 2019-2021). *Jurnal Akuntansi Malikussaleh*, 2(3), 178-195. https://doi.org/10.29103/jam.v2i3.10939

Lutfianti, N., & Yunita, E. A. (2021). Pengaruh pajak, profitabilitas, debt covenant dan tunneling incentive terhadap keputusan transfer pricing. *JABKO: Jurnal Akuntansi Dan Bisnis Kontemporer*, 2(1), 16-28.

Maria Vianney, M. V., & Khomsiyah, K. (2024). Pengaruh debt covenant, intangible assets, tax minimization terhadap transfer pricing. *JIIP (Jurnal Ilmiah Ilmu Pendidikan)*, 7(9), 9533-9539.

Nehal, N., Pamungkas, I. D., Ratnawati, J., & Agung, N. P. M. D. (2024). Analisis pengaruh minimasi pajak dan mekanisme bonus terhadap transfer pricing dengan komite audit sebagai variabel pemoderasi. *JAKA: Jurnal Akuntansi, Keuangan Dan Auditing*, 4(2), 377-394.

Nugroho, A. (2020). Leverage and debt covenant pressure in Indonesian listed companies. *Jurnal Ekonomi dan Bisnis*, 18(1), 56-73.

Putri, W. S. (2022). Tax minimization strategies and transfer pricing practices in multinational corporations. *Jurnal Perpajakan Indonesia*, 14(2), 89-104.

Riyaldi, F. D., & Kresnawati, E. (2021). Keputusan harga transfer: Peran tunneling incentive dan minimasi pajak. *Akuntabilitas*, 15(1), 1-20.

Sari, N. P., & Veny, V. (2024). Faktor yang mempengaruhi keputusan transfer pricing pada perusahaan sektor consumer non-cyclicals. *Studi Akuntansi dan Keuangan Indonesia*, 6(2), 182-199. https://doi.org/10.21632/saki.6.2.182-199

Siregar, D. L., & Agustini, T. (2020). Pengaruh fee audit, audit tenure dan rotasi audit terhadap kualitas audit di Bursa Efek Indonesia. *Jurnal EMBA: Jurnal Riset Ekonomi, Manajemen, Bisnis dan Akuntansi*, 8(1), 637-646.

Stevanni, E. H., & Herijawati, E. (2024). Pengaruh profitability, tunneling incentive, debt covenant, exchange rate, dan bonus mechanism terhadap transfer pricing. *Eco-Buss*, 7(1), 112-129.

Sugiharti, R., & Machdar, N. (2023). Transfer pricing and related party transactions: Empirical evidence from Indonesia. *Jurnal Akuntansi dan Keuangan*, 21(3), 156-173.

Sugiyono. (2019). *Metode penelitian kuantitatif, kualitatif, dan R&D*. Alfabeta.

Sánchez, M., & Camacho, A. (2023). Tax minimization measurement and corporate tax behavior: A comparative analysis of ETR and book-tax differences. *Journal of Accounting and Public Policy*, 42(4), 107-125. https://doi.org/10.1016/j.jaccpubpol.2023.107125

Tjandrakirana, R. (2020). Covenant pressure and accounting policy choices in Indonesian manufacturing firms. *Jurnal Riset Akuntansi*, 12(1), 45-62.

Watts, R. L., & Zimmerman, J. L. (1986). *Positive accounting theory*. Prentice-Hall.

Wiharja, R., & Sutandi, A. (2023). Debt covenants and managerial opportunism in related-party transactions. *Jurnal Manajemen dan Bisnis*, 15(2), 89-104.

Wijaya, B., & Kurniawan, Y. (2020). The influence of audit tenure on transfer pricing aggressiveness. *Jurnal Akuntansi Aktual*, 8(3), 290-303.