

TRANSFER PRICING DECISIONS: THE ROLE OF AUDIT TENURE, TAX MINIMIZATION, AND DEBT COVENANTS

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Abstract

Transfer pricing is a common practice among multinational companies in allocating profits across related entities, which may influence tax burdens and the quality of financial reporting. This study aims to analyze the effects of audit tenure, tax minimization, and debt covenant on transfer pricing practices in basic materials sector companies listed on the Indonesia Stock Exchange (IDX). The research employs a quantitative approach using secondary data obtained from financial statements and annual reports for the period 2020–2024. The sample consists of 11 companies selected through purposive sampling, and the data are analyzed using panel data regression with the assistance of EViews 12 software. The results indicate that tax minimization, proxied by the Effective Tax Rate (ETR), has a positive effect on transfer pricing, suggesting that companies tend to engage in related-party transactions to reduce tax burdens. In addition, the debt covenant variable, measured by the Debt to Equity Ratio (DER), also shows a positive influence on transfer pricing practices, indicating that firms with higher leverage are more likely to use transfer pricing strategies to manage financial and contractual pressures. Meanwhile, audit tenure does not have a significant effect on transfer pricing practices. These findings provide empirical evidence that tax-related incentives and financial structure considerations play an important role in shaping transfer pricing behavior in the basic materials sector, and they offer valuable insights for regulators, academics, and practitioners in strengthening oversight and improving corporate governance related to transfer pricing practices.

Kata kunci: Transfer Pricing, Audit Tenure, Tax Minimization, Debt Covenant.

1. Introduction

Globalization has brought fundamental changes to modern business activities through increasingly intensive cross-border economic integration. Advances in information technology, transportation systems, and communication have enabled companies to expand their operational reach internationally in order to improve efficiency and competitiveness. This condition encourages firms to develop more complex organizational structures, such as the establishment of subsidiaries, branch offices, and distribution centers across multiple jurisdictions. As interconnections among entities within a corporate group increase, the volume and complexity of related-party transactions also rise. This situation creates new challenges in terms of oversight, transparency, and accountability in financial reporting, particularly regarding the pricing of transactions between related parties that may affect the allocation of revenues and expenses within a corporate group.

Along with the increasing prevalence of transfer pricing practices, this issue has become a global concern, particularly since the Organisation for Economic Co-operation and Development (OECD) introduced the Base Erosion and Profit Shifting (BEPS) initiative, which highlights profit shifting to low-tax jurisdictions. Multinational enterprises often exploit differences in tax regulations across countries and weaknesses in tax authority oversight to design transfer pricing schemes that significantly reduce tax liabilities. As a developing country, Indonesia also faces the risk of losing tax revenues due to such profit-shifting practices. OECD data indicate that developing countries lose more than 20 percent of their potential tax revenues from multinational companies, especially in the basic materials and manufacturing sectors, which are characterized by global supply chains and high cross-border transaction intensity.

In Indonesia, the Directorate General of Taxes has continuously strengthened supervision of related-party transactions through mandatory transfer pricing documentation requirements. Nevertheless, the implementation of these policies still faces several challenges, including limited availability of comparable data, complex group structures, and differences in industry characteristics. As a result, transfer pricing remains a significant area of managerial discretion in determining prices for transactions between related entities. Conceptually, transfer pricing is permissible when it adheres to the arm's length principle. However, deviations from this principle may lead to earnings manipulation, tax avoidance, and a decline in the reliability of financial reporting.

Companies in the basic materials sector are characterized by complex operations, global supply chains, and a high intensity of related-party transactions, making this sector particularly vulnerable to transfer pricing practices. Data on transfer pricing ratios for 11 basic materials companies listed on the Indonesia Stock Exchange during the 2020–2024 period indicate significant fluctuations over time. Companies such as IPOL, LTLS, SMGR, and TBMS exhibit notable year-to-year variations. For example, IPOL experienced a sharp increase from 0.144 in 2020 to 0.356 in 2024, while LTLS recorded an extreme decline in 2022 to 0.001 before recovering in the subsequent year. These fluctuations suggest that companies face both internal and external dynamics that influence transfer pricing mechanisms. Changes in business strategy, internal restructuring, global market conditions, and tax policies may affect the magnitude of inter-entity transfer prices. These findings are consistent with Hermawan and Suhardi (2021), who argue that environmental instability and financial performance volatility contribute to variations in transfer pricing over time.

The observed fluctuations in transfer pricing values also indicate that basic materials companies operate in a business environment heavily influenced by external factors such as commodity price volatility, exchange rate movements, and changes in raw material costs. These factors directly affect firms' cost structures and often prompt management to adjust related-party transactions accordingly. According to Putri and Nanda (2022), companies facing market volatility tend to adjust transfer prices more frequently as a strategy to stabilize earnings. In addition, corporate financing policies, such as high leverage levels, increase firms' sensitivity to financial covenants, thereby encouraging the use of transfer pricing as a means to maintain certain financial ratios.

Corporate decisions to engage in transfer pricing practices are influenced by several factors, including audit tenure, tax minimization, and debt covenant. Audit tenure, which reflects the length of the auditor–client relationship, may affect audit quality and auditor independence in overseeing financial reporting practices, including related-party transactions. Auditors with longer tenure may develop a deeper understanding of a firm's

business patterns and transactions, which can theoretically enhance oversight effectiveness in assessing the fairness of transfer prices. However, excessive closeness between auditors and clients may reduce objectivity and professionalism, thereby providing opportunities for management to manipulate transfer pricing. Divergent findings in prior studies suggest that audit tenure plays a dual role as both a monitoring mechanism and a risk factor, creating a research gap, particularly in the basic materials sector with its high transaction complexity.

Beyond audit tenure, tax minimization is a primary motivation for multinational companies to engage in transfer pricing. Firms exploit differences in tax rates across jurisdictions to shift profits from high-tax countries to low-tax countries in order to reduce overall tax burdens. 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, especially in the basic materials sector with complex global production networks.

Another factor influencing transfer pricing is the debt covenant, which refers to contractual restrictions designed to protect creditors. Companies with high leverage levels or those approaching covenant thresholds tend to face pressure to maintain financial ratio stability. Under such conditions, management may utilize the flexibility of related-party transactions through transfer pricing to adjust reported profits or costs in order to avoid covenant violations. Therefore, debt covenants are not only related to financing structures but also represent a strategic factor influencing financial reporting decisions and transfer pricing policies.

Research on the determinants of transfer pricing is highly important because these practices affect government tax revenues, the credibility of financial reporting, and the effectiveness of corporate governance. The basic materials sector is selected as the research object due to its complex supply chains, high intensity of related-party transactions, and significant commodity price volatility, which provide broader managerial discretion in setting transfer prices and engaging in cross-jurisdictional profit shifting practices.

2. Theoretical Background

2.1 Agency Theory

Agency theory describes the contractual relationship between principals (shareholders) and agents (management), in which principals delegate authority to agents to manage corporate resources (Jensen & Meckling, 1976). This delegation can give rise to agency conflicts, as management may act in ways that prioritize personal or short-term interests rather than maximizing shareholder value. In taxation matters, managers may employ transfer pricing schemes to minimize tax liabilities and enhance reported profits, which can potentially contravene tax regulations and adversely affect both shareholders and government tax revenues (Apriani et al., 2020). Consequently, transfer pricing is closely associated with agency problems, as managerial discretion provides opportunities to shift profits through related-party transactions for opportunistic purposes (Prabaningrum et al., 2021).

2.2 Positive Accounting Theory

Positive Accounting Theory seeks to explain and forecast managerial behavior in selecting accounting policies under specific economic conditions (Watts & Zimmerman, 1986). This theory posits that managers' accounting choices are influenced by incentives related to compensation arrangements, debt agreements, and political costs. Such incentives shape financial reporting decisions, including practices that affect taxable income and the allocation of profits among affiliated entities.

2.3 Transfer Pricing

Transfer pricing refers to the pricing of transactions conducted between entities that have a special relationship, which may not reflect prevailing market prices (Maulina et al., 2021). In multinational corporations, differences in tax rates across countries often encourage the use of transfer pricing mechanisms. PSAK No. 7 (2021) and Article 18 paragraph (4) of the Indonesian Income Tax Law define related parties based on ownership, control, or familial relationships, conditions that can facilitate income shifting through transfer pricing arrangements.

2.4 Audit Tenure

Audit tenure denotes the duration of the engagement between an auditor and a client company (Siregar & Agustini, 2020). A longer audit tenure can improve auditors' familiarity with the client's business processes and risk profile, thereby enhancing audit quality. Nevertheless, an excessively long relationship may impair auditor independence and reduce the likelihood of detecting opportunistic practices, including transfer pricing activities.

2.5 Tax Minimization

Tax minimization is a lawful strategy adopted by firms to reduce tax obligations through efficient tax planning and the optimal use of available tax incentives (Badri et al., 2021). When conducted in accordance with applicable regulations, tax minimization is considered legitimate and often encourages companies to implement transfer pricing strategies to allocate income to jurisdictions with lower tax rates (Riyaldi et al., 2021).

2.6 Debt Covenant

Debt covenants are provisions included in loan agreements to safeguard creditors by imposing restrictions on managerial decisions (Wiharja & Sutandi, 2023). The debt covenant hypothesis suggests that firms under pressure to comply with covenant requirements may engage in accounting practices, such as transfer pricing, to improve reported financial performance and prevent covenant breaches (Lutfianti & Yunita, 2021).

2.7 Hypothesis Development

2.7.1 Effect of Audit Tenure on Transfer Pricing

A short audit tenure may limit auditors' understanding of a firm's business characteristics and risks, increasing the likelihood that managerial manipulation or data engineering remains undetected. Therefore, a sufficiently long audit tenure is required to enable auditors to comprehensively understand the client's operations and risk profile. Longer audit tenure enhances auditors' ability to detect opportunistic practices, including

transfer pricing aimed at reducing tax burdens, thereby lowering the likelihood of such practices.

This argument is consistent with agency theory, which emphasizes the role of auditors as monitoring mechanisms to reduce managerial opportunism. As audit engagement duration increases, auditors gain deeper insights into the firm's financial and tax-related activities, improving financial reporting transparency and reducing incentives for transfer pricing. Ardiyanti et al. (2025) also document a negative relationship between audit tenure and transfer pricing.

H1: Audit tenure affects transfer pricing.

2.7.2 Effect of Tax Minimization on Transfer Pricing

Companies frequently utilize transfer pricing as a strategy to reduce high tax burdens, particularly in multinational firms operating across jurisdictions with different tax rates (Ardiyanti et al., 2025). Higher tax rates encourage firms to engage in more aggressive tax planning, including shifting profits to lower-tax countries through transfer pricing in order to minimize global tax liabilities and maintain financial performance.

Empirical findings on the relationship between tax minimization and transfer pricing remain mixed. Several studies (Maria Vianney et al., 2024; Fergy Ardian Syah & Poerwati, 2023; Nehal et al., 2024) find that tax minimization significantly influences transfer pricing, while Ardiyanti et al. (2025) report no significant effect. Based on this theoretical and empirical discussion, the hypothesis is formulated as follows:

H2: Tax minimization affects transfer pricing.

2.7.3 Effect of Debt Covenant on Transfer Pricing

Firms with high leverage levels tend to face greater pressure to comply with debt covenant requirements. Under such conditions, managers may adopt accounting strategies, including transfer pricing, to increase reported earnings and ensure compliance with creditor-imposed financial ratios. This behavior aligns with the debt covenant hypothesis in Positive Accounting Theory, which suggests that managers nearing covenant violations prefer accounting policies that accelerate earnings recognition.

Prior studies report inconsistent results regarding the impact of debt covenants on transfer pricing. Some studies find a significant effect (Maria Vianney et al., 2024; Choirunnisa et al., 2024), while others find no significant relationship (Fergy Ardian Syah & Poerwati, 2023; Stevanni & Herijawati, 2024). Accordingly, the hypothesis is stated as follows:

H3: Debt covenant affects transfer pricing.

3. Methods

3.1 Research Design

This study employs a quantitative approach with a causal associative research design. The quantitative approach is selected because the objective of this study is to examine the causal relationships among variables that can be measured numerically. The data used in this study are derived from corporate financial statements. According to Sugiyono (2019), quantitative research is a research method based on the philosophy of positivism. This method is used to examine specific populations or samples, collect data using predetermined instruments, and analyze the data statistically to test established hypotheses.

3.2 Operational Definition of Variables

Operational definitions of variables are required to provide clear and precise boundaries for each variable examined in this study. These definitions specify how each variable is conceptually understood and operationally measured, thereby ensuring that all variables can be observed, measured, and interpreted accurately and consistently. Clear operational definitions also help minimize ambiguity, enhance the reliability of the measurement process, and ensure consistency in data collection and analysis across different observations and time periods.

Table 1. Operational Definitions

No.	Variable	Indicator	Measurement Scale
1.	Transfer Pricing (Suhartono et al., 2022)	$RPT = \text{Related Party Receivables} / \text{Total Receivables}$	Ratio
2.	Audit Tenure (Syah & Poerwati, 2023)	Total years of auditor engagement with the same client	Interval
3.	Tax Minimization (Syah & Poerwati, 2023)	$ETR = \text{Tax Expense} / \text{Profit After Tax}$	Ratio
4.	Debt Covenant (Syah & Poerwati, 2023)	$DER = \text{Total Liabilities} / \text{Total Equity}$	Ratio

Source: Developed for this research (2026)

3.3 Population and Sample

The population of this study consists of multinational companies listed on the Indonesia Stock Exchange (IDX) during the period 2020–2024. Multinational companies are selected because they have special relationships with foreign entities, either as parent companies or subsidiaries, making them more likely to engage in transfer pricing practices than domestic firms. In addition, multinational companies typically have complex ownership structures and cross-border activities involving tax regulations, debt agreements, and interactions with independent auditors. Therefore, this group is considered relevant for examining the effects of tax minimization, audit tenure, and debt covenants on transfer pricing.

In this study, several sample selection criteria are established to ensure that the data used are aligned with the research objectives. The sample selection criteria are as follows:

- 1) Basic materials sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period.
- 2) Companies that do not consistently publish annual reports during the 2020–2024 period.
- 3) Companies that do not have related-party receivables during the 2020–2024 period.
- 4) Companies that did not generate profits during the 2020–2024 period.
- 5) Companies that did not report tax expenses during the 2020–2024 period.
- 6) Companies that did not disclose foreign exchange rates in their financial reporting during the 2020–2024 period.

Using data over a five-year period (2020–2024) produces panel data consisting of cross-sectional units (companies) and time-series units (years). Based on these criteria, out of 113 companies in the basic materials sector, only 11 companies meet all requirements and are selected as the final research sample. The selection of these companies reflects a high level of selectivity to maintain data validity. With five years of

observations, the total panel data used in this study consist of 55 observations (11 companies $\times$ 5 years). The use of purposive sampling provides flexibility in selecting companies that consistently publish complete financial statements, enabling the analysis to be conducted using valid, relevant, and comparable data across periods.

3.4 Data Collection Techniques

Secondary data were collected from annual reports and financial statements of basic materials sector companies listed on the Indonesia Stock Exchange during 2020–2024. Data sources included the official IDX website (www.idx.co.id) and company websites. The data collection procedure involved: (1) identification of basic materials sector companies listed on the IDX; (2) selection of companies meeting the predetermined purposive sampling criteria; (3) extraction of data related to transfer pricing, audit tenure, tax minimization, and debt covenant from audited annual financial statements; and (4) documentation of all extracted data organized into a panel dataset suitable for statistical analysis using EViews 12.

3.5 Data Analysis Techniques

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

- 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. The tests include normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test.
- 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 the Common Effect Model (CEM) and Fixed Effect Model (FEM); 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:

$$TP_{it} = \alpha + \beta_1 AT_{it} + \beta_2 TM_{it} + \beta_3 DC_{it} + \varepsilon_{it}$$

Where:

TP = Transfer Pricing

AT = Audit Tenure

TM = Tax Minimization

DC = Debt Covenant

α = Constant

β_1 – β_3 = Regression coefficients

ε = Error term

i = Company

t = Year

- 5) Hypothesis Testing: Hypothesis testing is conducted using:
 - a. t-test to determine the partial effect of each independent variable on transfer pricing

- b. F-test to examine the simultaneous effect of independent variables on transfer pricing
- c. Coefficient of Determination (R^2) to determine the model's ability to explain variations in transfer pricing
- d. 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 Statistical Analysis

Descriptive statistical analysis is used to present data in a clear and understandable manner. It includes measures such as the mean, maximum value, minimum value, and standard deviation. In simple terms, descriptive analysis helps identify patterns, trends, and variations in the data before proceeding to more complex statistical analyses.

Table 2. Descriptive Statistical Analysis

	RPT	AT	ETR	DER
Mean	0.076215	2.672727	0.272087	0.504573
Median	0.029307	2.000000	0.215552	0.414259
Maximum	0.356430	5.000000	3.951230	1.620445
Minimum	0.000441	1.000000	0.008068	0.062272
Std. Dev.	0.087779	1.414928	0.513222	0.366628
Observations	55	55	55	55

Source: Results of Data Processing Using EViews 12 (2026)

Based on Table 2, the research sample consists of 11 companies with a total of 55 observations. Descriptive statistics are used to provide an overview of the characteristics of the data for each research variable, including the minimum value, maximum value, mean, and standard deviation. The results of the descriptive statistical analysis are explained as follows:

- 1) The lowest (minimum) value of the dependent variable (Y), namely transfer pricing, is 0.000441, while the highest (maximum) value is 0.356430. The mean value of the transfer pricing variable is 0.076215, with a standard deviation of 0.087779. The relatively low mean value indicates that, in general, transfer pricing practices among the sampled companies are at a low level.
- 2) The minimum value of the audit tenure variable (X1) is 1.000000, while the maximum value is 5.000000. The mean value of audit tenure is 2.672727, with a standard deviation of 1.414928. This average value indicates that most companies use the same auditor for less than three years.
- 3) The minimum value of the tax minimization variable (X2) is 0.008068, while the maximum value is 3.951230. The mean value is 0.272087, with a standard deviation of 0.513222. The relatively low mean suggests that, in general, the sampled companies engage in tax minimization practices at a moderate level.
- 4) The debt covenant variable (X3) has a minimum value of 0.062272 and a maximum value of 1.620445. The mean value is 0.504573, with a standard deviation of 0.366628. This average value indicates that most companies operate at a moderate level of leverage.

4.1.2 Selection of Panel Data Regression Model

Table 3. Summary of Panel Data Regression Model Selection

No.	Method	Decision Criteria	Value	Result
1	Chow Test	> 0.05 CEM	$0.0000 < 0.05$	FEM
		< 0.05 FEM		
2	Hausman Test	> 0.05 REM	$0.8768 > 0.05$	REM
		< 0.05 FEM		
3	Lagrange Multiplier Test	> 0.05 CEM	$0.0000 < 0.05$	REM
		< 0.05 REM		

Source: Results of Data Processing Using EViews 12 (2026)

The selection of the panel data regression model was conducted using several statistical tests. The Chow test was employed to determine whether the Common Effect Model (CEM) or the Fixed Effect Model (FEM) was more appropriate. The results of the Chow test showed a probability value of $0.0000 < 0.05$, indicating that the Fixed Effect Model (FEM) was more suitable than the Common Effect Model. Furthermore, the Hausman test was used to choose between the Fixed Effect Model (FEM) and the Random Effect Model (REM). The test results yielded a probability value of $0.8768 > 0.05$, suggesting that the Random Effect Model (REM) was more appropriate. Finally, the Lagrange Multiplier (LM) test was applied to compare the suitability of the Random Effect Model (REM) and the Common Effect Model (CEM). The LM test produced a probability value of $0.0000 < 0.05$, confirming that the Random Effect Model (REM) is the most appropriate model for panel data analysis in this study.

4.1.3 Hypothesis Testing

4.1.3.1 Simultaneous Test (F-Test)

Table 4. F-Test Results

F-statistic	10.34799
Prob (F-statistic)	0.000020

Source: Results of Data Processing Using EViews 12 (2026)

From Table 4, it is known that the F-statistic is 10.34799 with a probability level (F-statistic) of $0.000020 < 0.05$, which means the probability (F-statistic) is smaller than the significance level of 0.05, so it can be concluded that the results of this study indicate that the independent variables are simultaneously (together) significant to the dependent variable. The result indicates that transfer pricing practices are not influenced by a single factor, but rather are the result of a combination of several internal company factors, such as audit policies, tax management strategies, and debt covenant pressures. Thus, the panel data regression model used in this study is considered appropriate to explain the relationship between the independent variables and the dependent variable. Overall, the results of the F-test strengthen that audit tenure, tax minimization, and debt covenants together have an important role in influencing company decisions regarding transfer pricing.

4.1.3.2 Coefficient of Determination (R^2)

Table 5. Coefficient of Determination (R^2) Results

R-squared	0.378382
Adjusted R-squared	0.341816

Source: Results of Data Processing Using EViews 12 (2026)

Based on the results of the coefficient of determination test, the R-squared value was 0.378382 and the Adjusted R-squared value was 0.341816. This indicates that approximately 37.84% of the change in the investigated variable can be explained by the variables used in the regression model. Meanwhile, the remaining 62.16% is influenced by other factors not included in this study. The Adjusted R-squared value of 0.341816 indicates that, after adjusting for the number of variables used, the variables' ability to explain the dependent variable remains quite good. This indicates that the regression model used in this study has adequate explanatory power.

4.1.3.3 Partial Test (t-Test)

Table 6. t-Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Explanation
C	0.011394	0.032698	0.348460	0.728900	
AT	-0.001144	0.003531	-0.323846	0.747400	H1 Rejected
ETR	0.056121	0.011578	4.847334	0.000000	H2 Accepted
DER	0.104262	0.024143	4.318460	0.000100	H3 Accepted

Source: Results of Data Processing Using EViews 12 (2026)

Based on the t-test results, it can be concluded that:

- 1) The first independent variable (X1), namely audit tenure, has a coefficient of -0.001144 and a t-statistic of -0.323846 with a probability of 0.7474. A probability level of $0.7474 > 0.05$, higher than 0.05, indicates that H0 is accepted and H1 is rejected. This means that audit tenure does not significantly affect the dependent variable.
- 2) The second independent variable (X2), namely tax minimization, has a coefficient of 0.056121 and a t-statistic of 4.847334 with a probability of 0.0000. Based on a t-probability of $0.0000 < 0.05$, or a probability less than 0.05, H0 is rejected and H1 is accepted with a positive coefficient. This means that tax minimization has a significant positive effect on the transfer pricing variable partially.
- 3) The third independent variable (X3), namely the debt covenant variable, has a coefficient of 0.104262 and a t-statistic of 4.318460 with a probability of 0.0001. Based on the probability level of $0.0001 < 0.05$ with a positive coefficient, it can be concluded that H0 is rejected and H1 is accepted. This means that the debt covenant variable has a significant positive effect on the transfer pricing variable partially.

4.2 Discussion

4.2.1 The Effect of Audit Tenure on Transfer Pricing

Based on the test results, the audit tenure variable (X1) has a regression coefficient of -0.001144, with a t-statistic of -0.323846 and a probability value of 0.7474, which is greater than the significance level of 0.05. Therefore, the null hypothesis (H0) is accepted, and the alternative hypothesis (H1) is rejected. This indicates that audit tenure does not have a significant effect on transfer pricing. These results suggest that the length of the auditor's tenure does not directly influence management decisions in implementing transfer pricing practices. Although a longer auditor tenure is often associated with a better understanding of the company's conditions, in the context of transfer pricing, auditors tend to focus on the fairness of overall financial statement presentation rather than internal business strategies, such as determining transfer prices between related parties.

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. These 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.

4.2.2 The Effect of Tax Minimization on Transfer Pricing

Based on the t-test results, the tax minimization variable (X2) has a regression coefficient of 0.056121, with a t-statistic of 4.847334 and a probability value of 0.0000, which is less than the significance level of 0.05. This indicates that the null hypothesis (H0) is rejected, and the alternative hypothesis (H2) is accepted. Thus, tax minimization has a positive and significant effect on transfer pricing. This positive effect implies that companies with higher tax minimization practices tend to engage in more transfer pricing activities. Tax minimization is seen as an efficient way to manage tax burdens, which can increase net profit after tax. The increase in net profit has the potential to enhance firm value and shareholder welfare, thereby triggering positive reactions from investors.

From the signaling theory perspective, tax minimization practices signal to investors that management is capable of effectively and efficiently managing tax obligations. Investors tend to view companies that can reduce tax burdens without violating regulations as having strong managerial performance and more stable financial prospects. Therefore, information regarding tax minimization can influence investment decisions and be reflected in market reactions. This finding is consistent with 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.

4.2.3 The Effect of Debt Covenants on Transfer Pricing

Based on the t-test results, the debt covenant variable (X3) has a regression coefficient of 0.104262, with a t-statistic of 4.318460 and a probability value of 0.0001, which is less than the significance level of 0.05. This indicates that the null hypothesis (H0) is rejected, and the alternative hypothesis (H3) is accepted. Thus, debt covenants have a positive and significant effect on transfer pricing on a partial basis. This positive effect suggests that the higher the pressure from debt covenants faced by a company, the greater the tendency for management to engage in transfer pricing practices. Debt covenants typically contain certain requirements that must be met by the company, such as restrictions on financial ratios and obligations to maintain specific profit levels. These requirements encourage management to ensure that the company's financial performance remains within the limits set by creditors.

In such situations, transfer pricing can be used as a strategic mechanism to manage profits and the company's financial position. By adjusting transactions with related parties, companies have the flexibility to allocate revenues and expenses among business entities. This flexibility allows companies to align their financial performance to comply with existing debt covenants. Moreover, pressure from debt covenants also increases management's incentives to minimize the risk of covenant violations. Violating covenant terms can have serious consequences, such as higher debt costs, accelerated repayment, or reduced creditor trust. Therefore, management tends to take steps to maintain financial performance stability, including through transfer pricing practices.

The influence of debt covenants on transfer pricing also reflects conflicts of interest among management, creditors, and shareholders. In an effort to fulfill obligations to

creditors, management may implement policies that benefit the company in the short term, even if they carry long-term risks. In this context, transfer pricing is considered a managerial tool to manage financial pressures faced by the company. This finding aligns with the debt covenant hypothesis in Positive Accounting Theory, which suggests that managers nearing covenant violations prefer accounting policies that accelerate earnings recognition. The results are consistent with Maria Vianney et al. (2024) and Choirunnisa et al. (2024), who found a significant effect of debt covenants on transfer pricing practices.

Overall, the findings of this study indicate that debt covenants are an important factor influencing transfer pricing practices. The greater the pressure from debt covenants faced by a company, the more likely the company is to adjust transactions between related parties. These findings show that a company's financing structure and debt policies play a significant role in managerial decisions regarding transfer pricing.

5. Conclusion

Based on the analysis of audit tenure, tax minimization, and debt covenants on transfer pricing in basic materials sector companies listed on the Indonesia Stock Exchange during 2020–2024, it can be concluded that audit tenure does not have a significant effect on transfer pricing. In contrast, tax minimization and debt covenants have positive and significant effects, indicating that companies tend to engage in transfer pricing to optimize tax efficiency and comply with debt agreements. Overall, transfer pricing practices are influenced by a combination of audit oversight, tax policy, and the company's financing structure.

Companies are encouraged to increase transparency in related-party transactions and adhere to arm's length principles when determining transfer pricing to minimize tax and legal risks. Regulators, particularly the Directorate General of Taxes, should strengthen monitoring of affiliated transactions in high-risk sectors such as basic materials. Auditors are advised to maintain professional skepticism and independence when examining related-party transactions. Future research should include additional relevant variables, such as tunneling incentives, corporate culture, profitability, multinational exposure, and internal control mechanisms, as well as extend the analysis period to obtain more comprehensive findings.

This study has several limitations. First, the scope is limited to 11 companies in the basic materials sector listed on the Indonesia Stock Exchange from 2020–2024, so findings may not generalize to other industries. Second, only audit tenure, tax minimization, and debt covenants were considered as independent variables, while other potential factors influencing transfer pricing were excluded. Third, transfer pricing was proxied using the Related Party Transaction (RPT) ratio, which may not fully reflect overall transfer pricing practices. Fourth, secondary financial data may have limitations in completeness and transparency. Finally, using the Random Effects Model (REM) may overlook company-specific characteristics not captured in the model.

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