Conceptualizing the MNEs Transfer Pricing Behavior: Indonesian Tax Authority Perspective

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Abstract

Indonesian tax authorities currently encounter a lack of cooperative compliance among companies engaged in transfer pricing practices with their affiliated entities across borders. Transfer pricing is commonly associated with tax purposes, such as tax planning or avoidance, which is considered standard practice for business entities. Hence, there is a significant necessity to assess and evaluate the prevalence of tax planning or avoidance through transfer pricing in multinational enterprises operating in Indonesia. To gauge the extent of transfer pricing used for tax avoidance purposes, this study examines the perspective of tax authorities on companies' transfer pricing optimization behavior. Employing a qualitative approach, the study aims to comprehend the utilization of transfer pricing and its implications. The findings provide insights into transfer pricing behavior within companies over time. According to tax authorities, companies are motivated by the benefits of transfer pricing, including revenue optimization, corporate profit allocation, and cost optimization. However, these practices are influenced by various factors that facilitate or constrain transfer pricing activities. Multinational enterprises demonstrate limited awareness of normative beliefs regarding international and domestic transfer pricing regulations. Notably, companies affiliated with large multinational enterprises, possessing a strong understanding of transfer pricing, exhibit a high potential for tax planning or avoidance through transfer pricing arrangements with related parties. These findings contribute to the existing body of research on transfer pricing practices from the perspective of tax authorities as part of the Indonesian government.

Keywords: transfer pricing behavior, tax avoidance, related party transaction, profit shifting, multinational enterprises

1. Introduction

In the context of the interconnectedness between multinational corporations and their subsidiaries within the global economy (Guo, 2017), optimizing transfer pricing has emerged as a prominent economic phenomenon, garnering significant attention and concern from nations worldwide (Anh, 2018). Tax avoidance issue through transfer pricing has prompted the OECD to establish and refine the OECD-G20 BEPS Project. Consequently, various governments globally have integrated and tailored these BEPS Action Plans into their tax frameworks. Countries such as India, Korea, Japan, Indonesia, and other G20 members have endeavored to adhere to these action plans, albeit to varying degrees of compliance. Nevertheless, the execution of these regulations faces challenges pertaining to transparency, human resources, and regulatory infrastructure (Oktaviani & Tambunan, 2020). Therefore, numerous studies have been undertaken to investigate the implementation of transfer pricing regulations.

While Sari (2020), Nurhidayati (2020), Pietro (2020), Oktaviani and Tambunan (2020) have examined the implementation of transfer pricing regulation and its upcoming issues, Pietro (2020) argued that there remains divergence in discerning between transfer pricing practices that adhere to legal frameworks and those that do not. It has been argued that employing a multi-dimensional perspective can mitigate such challenges. For instance, Sari (2020) demonstrates how adopting a behavioral approach is essential for bolstering the implementation of regulations governing transfer pricing practices by multinational corporations. More importantly, a behavioral approach is required to transform negative transfer pricing practices, often referred to as manipulative or aggressive transfer pricing, into compliant and legal practices (Le Hang, 2019). Stemming from this premise, it is essential to delve into the behaviors of multinational enterprises to comprehend the motivations and methodologies behind their transfer pricing practices.

This study aims to investigate transfer pricing behavior by analyzing the perceptions of tax authorities on the transfer pricing behavior. This is crucial, considering that tax authorities play a significant role in aiding and overseeing taxpayers, including multinational enterprises, to ensure compliance with transfer pricing regulations. Serving as tax administrators, these authorities engage extensively with multinational enterprises, thereby gaining valuable insights into their transfer pricing behavior. Using a qualitative method, this study aims to understand the MNEs' transfer pricing behavior through the lens of tax authorities' experiences to gain insights into the evolution of transfer pricing practices over time. Such findings aim to provide valuable insights to assist MNEs in adopting best practices in transfer pricing.

2. Literature Review

Transfer pricing can be understood from multiple perspectives, including management accounting and taxation. From a management accounting standpoint, transfer pricing involves determining prices for the transfer of goods or services, including intellectual property, tangible goods, services, loans, and other financial transactions (Kusuma et al, 2019). In other words, transfer pricing is utilized for resource allocation and profit allocation within company units. The concept of transfer pricing has been enriched by economic globalization, impacting various perspectives, including taxation (Utari et al, 2020). From a tax perspective, transfer pricing refers to the determination of prices for goods exchanged between affiliated companies located in different taxation jurisdictions (Hikmatin & Suryarini, 2019). This approach necessitates setting arm’s length transfer prices to comply with tax regulations (Moisello, 2016).

Multinational enterprises often utilize transfer pricing for both managerial and tax purposes. These enterprises, engaged in foreign direct investments (FDI), oversee value-added activities across multiple countries in various capacities. This spectrum ranges from smaller companies venturing into foreign markets to large conglomerates managing subsidiaries across numerous countries. Presently, the boundaries between an MNE and its operational environment have become increasingly permeable (Cools et al, 2008; Garbowski & Olsztyn, 2021). Foreign subsidiaries frequently collaborate with local entities and independently engage with diverse local business ecosystems comprising suppliers, distributors, clients, and government bodies. MNEs are intricately embedded within multiple networks that tend to adapt to the local contexts in which they operate, thereby presenting significant opportunities for implementing transfer pricing strategies. Global environments offer multinational enterprises the opportunity to optimize their transfer pricing practices.

While transfer pricing serves both managerial and tax objectives, the evolution of global business practices tends to incentivize multinational enterprises (MNEs) to optimize transfer pricing primarily for tax purposes, particularly for tax planning or avoidance strategies (Gupta, 2015). For example, MNEs employ transfer pricing techniques to minimize their tax liabilities by reallocating profits between different tax jurisdictions through transactions with related parties (Wu & Wang, 2018). This approach involves the formulation of transfer pricing policies and decisions pertaining to price determination methods and other related considerations.

From a behavioral standpoint, transfer pricing decisions may not always be entirely within companies’ control, as they are influenced by the perceptions of the benefits associated with conducting transfer pricing optimization (Le Hang, 2019). Additionally, transfer pricing optimization can be driven by companies’ perceptions of normative beliefs, which encompass subjective norms related to transfer pricing, including international regulations, domestic regulations, and the broader business environment, which may either encourage or restrict multinational corporations (MNEs) in optimizing transfer prices. Furthermore, transfer pricing decisions of multinational companies may also be influenced by various factors that either enable or constrain MNEs in conducting transfer pricing activities. This study employs the theory of planned behavior to investigate tax authorities’ perceptions of transfer pricing.

2.1 Behavioral Approach of Transfer Pricing

The Theory of Planned Behavior (TPB) is utilized to elucidate the behavior of multinational enterprises (MNEs) regarding transfer pricing. TPB posits a connection between attitude and action (Ajzen, 1994), where the intention to engage in a behavior is shaped by several indicators. From transfer pricing perspective, managers’ intentions to set prices within their affiliated companies are central. Transfer pricing decisions stem from various underlying causes and indicators encapsulated within three constructs: attitude toward behavior, subjective norms, and control beliefs. From a behavioral perspective, transfer pricing is construed as a behavior influenced by companies' perceptions of the benefits of transfer pricing, their perceptions of subjective norms associated with transfer pricing, and their perceptions of numerous factors that may either facilitate or impede transfer pricing practices.

Behavioral belief stems from the organizational perception of the costs and benefits associated with transfer pricing optimization. In this regard, companies assess the costs and benefits when making transfer pricing decisions. MNEs typically evaluate the costs and benefits of transfer pricing optimization. While implementing transfer pricing may incur certain costs for the company, the perceived benefits of such decisions often outweigh these costs. Therefore, companies' decisions regarding transfer pricing are largely influenced by their perceptions of the costs and benefits associated with it (Le Hang, 2019).

Differential perceptions of international and domestic norms are referred to as normative beliefs. These beliefs are linked to companies' perceptions of international and domestic norms governing transfer pricing practices. Companies' perceptions of subjective norms, which encompass international consensus, transfer pricing regulations, and domestic regulations, can significantly influence their decisions regarding transfer pricing. Normative beliefs are regarded as factors that can either encourage or restrict transfer pricing behavior.

Control belief encompasses various factors that either facilitate or limit companies' transfer pricing behavior. Previous research indicates that internal factors, such as company resources, subsidiaries, and joint ventures among related parties within the same group of companies, tend to facilitate transfer pricing practices. Additionally, external factors, such as loopholes in transfer pricing regulations and the competencies of tax authorities, enable multinational companies to engage in transfer pricing for tax avoidance purposes. Companies' beliefs regarding these factors play a crucial role in either facilitating or restricting their transfer pricing behavior.

2.2 Conceptual Framework of The Study

This research aims to examine the perspective of tax authorities in understanding the subjective norms associated with transfer pricing, which influence the optimization of transfer pricing and the various factors that either enable or constrain transfer pricing optimization behavior. The study characterizes transfer pricing behavior using three constructs: companies' perceptions of the benefits of transfer pricing optimization, differential perceptions of transfer pricing regulations and the business environment, and differential perceived control over behavior. This model is constructed based on the theoretical framework of the Theory of Planned behavior, recognizing that transfer pricing practices involve behavioral aspects and perceptions of transfer pricing (Sari, 2021).

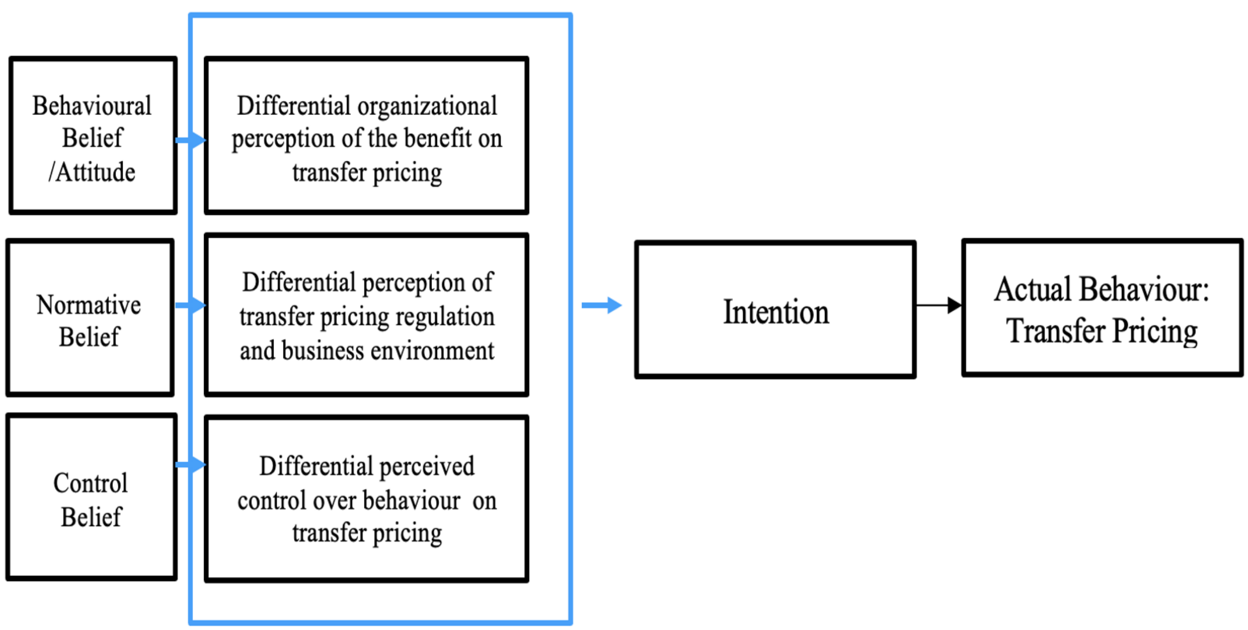

Figure 1. Conceptual Framework of The Study

3. Methodology

This study employed an interpretive-qualitative paradigm to explore the diverse interpretations of transfer pricing practices provided by the informants. The interpretive paradigm was selected due to the reliance on subjective relationships between the researcher and informants, especially considering that this study utilized interviews. The interviews were conducted with senior transfer pricing professionals from KPP PMA 1, KPP PMA 2, and KPP PMA 3, each possessing over 5 years of experience in transfer pricing issues. The interviews were conducted online using the Google Meet platform, lasting approximately 3 hours, and incorporating both structured and unstructured questions. The interview schedule was determined in several steps, including sending the consent form and interview questions, receiving feedback, and conducting the research interview. Data triangulation was employed to enhance the validity and reliability of the data, involving a comparison of information gathered from interviews with written documents and transfer pricing regulation documents.

Table 1. Research Informant

No	Name	Position/Department	Year Of Experience in Transfer Pricing
1	Interviewee A	APA/MAP Analyst/ Directorate of International Taxation	15 Years
2	Interviewee B	APA/MAP Analyst/ Directorate of International Taxation	5 Years
3	Interviewee C	APA/MAP Analyst/ Directorate of International Taxation	9 Years
4	Interviewee D	APA/MAP Analyst/ Directorate of International Taxation	14 Years
5	Interviewee E	APA/MAP Analyst/ Directorate of International Taxation	5 Years
6	Interviewee F	Account Representative (AR)/ Supervision	5 Years

Note: APA is for Arm’s Length Principle, MAP is for Mutual Agreement Procedure

Source: Author’s Elaboration from Interview Result, 2022

4. Results

The objective of this study is to gain insight into how Indonesian multinational companies optimize transfer pricing, understand the business norms principles adopted by Indonesian multinational companies, and comprehend how transfer pricing is practiced within these multinational companies. To achieve these objectives, interviews were conducted with senior transfer pricing professionals from KPP PMA 1, KPP PMA 2, and KPP PMA 3, all of whom possess over 5 years of experience in transfer pricing issues.

The results and discussion section begins with an explanation of the classification of taxpayers (MNEs) concerning the existence of related party transactions or transfer pricing and the potential implications of profit shifting, particularly from the perspective of tax authorities. This discussion is followed by a description of tax authorities' perspectives on transfer pricing practices within each construct.

From the perspective of tax authorities, taxpayers conducting transfer pricing can be categorized into three types. These taxpayers are classified based on the company's categorization according to the existence of related party transactions or affiliated transactions. The classification of taxpayers and its implications for tax authorities are described in Table 2.

Table 2. The Classification of Taxpayers That Conduct Transfer Pricing

Taxpayer Category	The level of understanding of transfer pricing regulation	The level of profit shifting via Transfer Pricing	The Implication on Tax Authorities	Responsible Tax Authority
Taxpayers as a part of a big multinational enterprise	Have a high-understanding on-transfer pricing and have TP Policy	Have a high potential on profit shifting via transfer pricing. Large number of profits shifting	Making the category for the existences of profit shifting More intensifying risk analysis on the existences related party transaction Conduct TP audit to the targeted MNE	KPP PMA
The taxpayer which as a part of Medium multinational enterprise	Have enough understanding on transfer pricing and have TP Policy	Have enough potential on profit shifting via transfer pricing. Certain number of profits shifting	Making the category for the existences of profit shifting More intensifying risk analysis on the existences related party transaction Conduct TP audit to the targeted MNE	KPP Madya
Small enterprise	Have no understanding on transfer pricing and have no TP Policy	Have a small potential on profit shifting via transfer pricing. Small Profit shifting via transfer pricing	Less risk analysis on the existences related party transaction Did not Conduct TP audit for small enterprise	KPP Pratama

Note: KPP is for Foreign Investment Tax Service Office

Source: Author's Elaboration from Interview Result, 2022

The classification of taxpayers based on those types was useful for the tax authorities to detect and prevent the transfer pricing optimization behavior of Indonesian multinational enterprises (MNE). The tax authorities usually focus on big multinational enterprise and medium multinational enterprise because there is high possibility that they shift profit using transfer pricing via related party parties or affiliated companies. This possibility arises since those types of taxpayers have several resources which are needed to conduct such practices, and have high-understanding on-transfer pricing regulation that allow them to utilize it for tax purposes. They also have transfer pricing policy which maintain the company tax compliance. Therefore, the tax authorities focus on these types of taxpayers to prevent and detect the transfer pricing by conducting an assessment, examination, and transfer pricing audits.

4.1 Tax Authorities Perception on The MNE Differential Perception on the Benefit of Transfer Pricing

The first and second objectives of this study are to understand why and how Indonesian multinational companies optimize transfer pricing. Through interviews with various stakeholders, it was revealed that both MNEs affiliated with large multinational enterprises and those not affiliated with such entities possess a strong understanding of transfer pricing. Tax authorities from KPP PMA 1, 2, and 3 highlighted that most taxpayers affiliated with large multinational companies are often supervised by tax consultants to ensure compliance with transfer pricing regulations. Additionally, these taxpayers have access to numerous resources that facilitate transactional activities with related parties, enabling them to optimize transfer pricing within their units effectively. Utilizing tax consultants helps them fulfill transfer pricing documentation requirements and other related obligations. Furthermore, they leverage different tax rates in various taxation areas to their advantage.

Furthermore, interviewees A, B, C, D, E, and F also noted that all taxpayers or MNEs affiliated with large multinational companies have a transfer pricing policy in place. This transfer pricing policy serves as a guide for enterprises in conducting transfer pricing activities. With the existence of a transfer pricing policy, enterprises can ensure that their transfer pricing practices align with regulations and compliance requirements.

As explained by interviewees D and E, this phenomenon is often identified as tax planning or tax avoidance through related party transactions, commonly undertaken by MNEs with related parties in other tax jurisdictions. These companies leverage different tax rates across countries to their advantage. Interviewee C further illustrated this with examples of cases observed in KPP PMA 3, where taxpayers engage in significant transactions with related parties, particularly utilizing special entities in locations like Singapore. This situation serves as an early warning sign for tax authorities, indicating a potential inclination towards tax planning or avoidance.

However, addressing such cases poses challenges for tax authorities. In many instances, there is no specific regulation in place that enables tax authorities to readily detect instances of tax avoidance or planning through related party transactions. If taxpayers adhere to transfer pricing documentation requirements and ensure arm's length transactions, tax authorities may find it difficult to act, even if they suspect tax avoidance. In such cases, taxpayers may resort to further examination to determine if profit shifting is occurring. This finding suggests that opportunistic transfer pricing practices persist, underscoring the need for enhanced regulatory measures and enforcement efforts.

To understand why multinational enterprises (MNEs) engage in transfer pricing practices, interviews were conducted with a transfer pricing analyst from the Directorate of International Taxation and an account representative responsible for overseeing MNEs' taxation obligations. From the interview findings, it was revealed that the primary motivation for MNEs to engage in transfer pricing is to optimize various aspects, including revenue optimization, corporate profit allocation, and cost optimization.

4.2 The Perception of Tax Authorities on Business Norms and Environments

The third objective of this study is to comprehend the business norms and environments adopted by multinational enterprises (MNEs) in their transfer pricing practices. Currently, there exist transfer pricing regulations, particularly those related to Base Erosion and Profit Shifting (BEPS). On an international scale, the Organization for Economic Cooperation and Development (OECD) has established the BEPS action plan along with the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations. Indonesia, as a member of the G-20, has partially incorporated the BEPS action plan into its domestic regulations. These regulations shape an environment that can assist enterprises in their transfer pricing practices. Therefore, it is crucial to explore whether MNEs consider this regulatory framework as part of their environment when conducting transfer pricing activities.

Analysis of the interviews revealed that all the interviewees agree that since most taxpayers are part of large multinational corporations that possess sufficient accounting and legal expertise, they can adhere to transfer pricing regulations. However, these taxpayers may not have a full understanding of international regulations. Typically, MNEs hire tax consultants to handle transfer pricing requirements, and they view compliance with domestic regulations as imperative in conducting transfer pricing activities. Both international and national transfer pricing regulations are not fully considered by MNEs when conducting transfer pricing. In other words, taxpayers may meet the legal requirements (formal compliance with regulations) but may lack full adherence to the underlying principles and substance of these regulations.

Indonesia has aligned with global transfer pricing regulations, requiring multinational enterprises operating within its borders to comply with transfer pricing regulations, including documentation requirements. The transfer pricing (TP) documentation mandates taxpayers engaged in affiliated transactions to adhere to the arm's length principle (ALP). According to tax authorities, these TP documentation standards facilitate examinations of ALP implementation. However, it has been observed that despite meeting legal requirements, many taxpayers prioritize compliance over substance, indicating that the application of the arm's length principle may sometimes be inadequate. There remains a gap in the implementation of OECD guidelines concerning transfer pricing methods.

In practice, multinational enterprises (MNEs) typically apply the arm's length principle while adjusting for their specific business conditions in accordance with PMK Number 3, 2020, utilizing the most appropriate method. Interviewees A and B also highlighted the intention of enterprises to leverage differences in tax rates across jurisdictions using their affiliates. Interviewee B stated:

"There is an intrinsic motivation in the multinational enterprises (MNEs) as taxpayers to look for the proper method to report the received income and tax income formally according to the tax regulation."

4.3 Differential Perceived Control over Behavior on Transfer Pricing

The final objective of this study is to understand the tax authorities' perceptions regarding factors that either facilitate or restrict transfer pricing optimization. Several factors contribute to facilitating transfer pricing behavior, encompassing both internal and external factors. Internally, multinational enterprises (MNEs) are propelled by various factors such as the abundance of resources at their disposal, including affiliated companies, global accounting and legal teams, and tax experts. Externally, MNEs are encouraged by factors such as economic globalization and the existence of tax regulations that may not be detailed in specific circumstances. Conversely, there are factors that limit transfer pricing behavior. These include the presence of Advance Pricing Agreements (APAs) and the Mutual Agreement Procedure (MAP), as well as the implementation of automatic exchange of information measures.

Indonesia has incorporated the transparency framework from OECD BEPS Action Plan 5, addressing four key aspects: the information gathering process, exchange of information, confidentiality of received information, and statistics. This framework pertains to the exchange of information between taxpayers and their parent entities located in other countries. The regulation mandates taxpayers to prepare the Country-by-Country Report (CbCR). However, in practice, many companies face difficulties in obtaining complete data from their group, particularly concerning related companies located in tax haven countries. Consequently, the existence of regulations related to automatic exchange of information can restrict transfer pricing practices due to challenges in meeting these requirements.

Another action plan accommodated by Indonesia is BEPS Action Plan 13, which offers guidance on analyzing metrics and transfer pricing rationale for taxpayers engaged in related party transactions. The presence of this regulation aids tax authorities in analyzing transfer pricing practices within multinational enterprises (MNEs). From the perspective of tax authorities, multinational enterprises operating in Indonesia, particularly those that are not part of large multinational corporations and smaller companies, may not be fully aware of BEPS Action Plans 5 and 13. However, they typically have a strong awareness of transfer pricing documentation requirements and the arm's length principle.

5. Discussion

The interview findings underscore that multinational enterprises are primarily motivated to engage in transfer pricing practices for revenue optimization, corporate profit allocation, and cost optimization. This aligns with previous studies conducted by Zvarikova, & Kovalova, 2021; Karla & Afzal (2023) indicating that transfer pricing practices serve tax purposes as well as tax planning or avoidance through related parties. From the perspective of tax authorities, the potential for profit shifting via transfer pricing among related parties still exists. Multinational enterprises are incentivized by the perceived benefits of transfer pricing. However, the study reveals that perceptions of business norms and international regulations do not necessarily constrain transfer pricing behavior. Companies do not consider international transfer pricing regulations as subjective norms. Instead, domestic transfer pricing regulations, particularly concerning documentation and the arm's length principle, are the focus for taxpayers affiliated with large multinational companies. While they may comply with these requirements legally, they may not fully adhere to the underlying principles. Interestingly, companies demonstrate a greater awareness of tax haven countries and other issues related to profit shifting efforts.

The findings imply that many Indonesian companies, especially those affiliated with large multinational enterprises, have significant opportunities to shift profits through transfer pricing. These opportunities stem from the utilization of various company resources in conducting transfer pricing, including numerous affiliated companies across different countries and a sizable pool of tax experts, accountants, and lawyers. Consequently, tax authorities prioritize the oversight of large multinational companies with substantial transaction volumes due to the inherent risks associated with these transactions. Classification, examination, and audits are carried out to ascertain the presence of inherent profit shifting. This involves scrutinizing the accuracy and compliance of arm's length principle implementation.

The discussion further delves into comparing the findings with existing theories and regulations, revealing a gap between practices and theory.

Table 3. Comparison Between The Finding and The Theory

No	Issue	Regulation/Theory	Findings (Tax Authorities Perspective)
Business norms and environments related to transfer pricing			
1	Which government should tax the income of the group entities engaged in the transaction	TP regulation requires to analyze the existence of tax treaty between the countries and determined whether only one or each country has taxing right on these kinds of income	OECD members are still trying to develop a formula in determining taxation rights when affiliated transactions occur. There is still a lack of the implementation of OECD guidelines related to this issue.
2	If both governments claim the right to tax the same income	TP regulation requires to make the mutual agreement procedure or MAP	If the tax base arises in more than one country, one of the governments usually give tax relief to prevent double taxation of the relevant entities and their income
4	Transfer pricing regulation, especially documentation requirements given the evolution of stringent documentation standards	The existence of TP regulation in Indonesia, which is mandatory, is quite enough to force the companies fulfil the TP requirement	In Fact, the TP documentation is quite enough for tax authorities. Practically, the taxpayers can ask the explanation of the regulation to get a detailed information on transfer pricing regulation
Differential perceived control over behavior on transfer pricing			
1	International Regulation-BEPS Action plans 5	BEPS action plan number 5 is related to how international regulation counter harmful tax practices more effectively using transparency and substance.	MNE in Indonesia is not fully aware of this BEPS action plan. In Fact, Indonesian companies are still utilizing a preferential regime to shift profit, especially in tax haven countries or any country that has a preferential regime".
2	ETR Status message XML scheme and BEPS Action Plan 13	The ETR Scheme allow tax administrations in providing structured feedback to the sender on frequent errors encountered, to improve overall data quality and receiving corrected information BEPS Action Plans 13 provides an overview for Tax Authorities an Inclusive Framework and guidance on how to analyze the metrics, TP reason for taxpayer who conduct related party transaction	Indonesian Multinational enterprises are aware of exchange information since they are required to prepare TP documentation. There are still difficulties for Indonesian taxpayer to get data in some cases, especially when the related parties located in preferential regime

Source: Author Elaboration from Interview Result

6. Conclusion

Taxpayers in Indonesia are primarily motivated by the benefits of transfer pricing practices such as revenue optimization, corporate profit allocation, and cost optimization. However, they may not have a full understanding of transfer pricing regulations, including both those affiliated with large multinational enterprises (MNEs) and those that are not, as well as small enterprises.

Currently, Indonesian tax authorities mainly focus on examining and auditing taxpayers affiliated with large multinational enterprises (MNEs). Therefore, there is a need for Indonesian tax authorities to shift their attention towards taxpayers that are not part of large MNEs and small enterprises. It is essential to assess and measure the existence of transfer pricing in MNE business transactions at an earlier stage, within the supervision process, rather than solely during the examination phase.

Consequently, there is a requirement for legal frameworks that allow authorities to conduct earlier examinations and assessments regarding the presence of profit shifting in taxpayer transactions. This proactive approach would enhance the effectiveness of tax authorities' oversight and ensure compliance with transfer pricing regulations across all types of taxpayers in Indonesia.

The findings of this study hold significant theoretical implications, particularly regarding the role of behavioral aspects in transfer pricing optimization. This enriches previous research conducted by Oktaviani and Tambunan (2020) and Pietro (2020), shedding light on the behavioral motivations driving transfer pricing practices among multinational enterprises.

Moreover, this study offers practical implications, highlighting the need for improvements in transfer pricing guidance that can be utilized by tax authorities to mitigate profit shifting through transfer pricing. Enhancing transfer pricing regulations and providing clearer guidance to tax authorities would aid in minimizing opportunities for profit shifting and ensuring fair tax compliance among taxpayers.

7. Recommendation

This study solely investigates the tax authorities' perspective on transfer pricing behavior. For future research, it is recommended to explore other perspectives, including those of tax experts and multinational enterprises (MNEs) as the taxpayers engaged in transfer pricing practices. By examining these additional perspectives, a more comprehensive understanding of transfer pricing dynamics can be gained, enriching the existing literature on the subject.

Furthermore, considering the significant number of transfer pricing disputes, the Indonesian government should focus on developing detailed transfer pricing regulations along with comprehensive guidance for MNEs. This would ensure that MNEs consider the regulations when formulating their transfer pricing policies, thereby promoting transparency and compliance in transfer pricing practices.

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