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Research Article

Analysis of the Effect of Exchange Rate Profitability and Foreign Ownership on Transfer Pricing

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Abstract: This study aims to examine the effect of profitability, exchange rates, and foreign ownership on transfer pricing. The sampling method was purposive sampling and obtained 22 samples of companies that met the criteria. The data used were secondary data in the form of financial reports and annual reports of companies listed on the Indonesia Stock Exchange during the 2021-2023 period. The analytical method used in this study was multiple regression analysis. The results of this study indicate that (1) Profitability has a positive and significant effect on transfer pricing. This means that high profitability encourages companies to carry out transfer pricing by shifting profits. (2) Exchange rate has no effect on transfer pricing. This explains that the exchange rate is not one of the considerations for companies in carrying out transfer pricing. (3) Foreign ownership does not affect transfer pricing. High foreign ownership will tend to minimize the practice of transfer pricing to consider the risks that will be faced in the future, such as a decline in the company's value which will impact minority and majority shareholders.

Keywords: Exchange Rate; Foreign Ownership; Profitability; Shares; Trasfer Pricing

1. Introduction

Transfer pricing is a pricing policy in a transaction conducted by companies with special relationships and is neutral in nature (Suartama, 2023). Transfer pricing is typically used by multinational companies to reduce tax burdens and shift profits. By setting favorable transfer prices, companies can shift profits to countries with lower tax rates, thereby reducing the overall tax burden. The purpose of transfer pricing is to evaluate and assess all services provided within a company. However, in practice, transfer pricing is often used by some multinational companies to minimize the amount of tax they must pay through the formulation of transfer prices between company units.

In an article published on the website of the Ministry of Finance, Directorate General of Taxes https://www.pajak.go.id He explained that one indicator for assessing the government's ability to collect tax revenue is the tax ratio. The tax ratio itself is the comparison between total tax revenue and Gross Domestic Product (GDP).(DJP, 2023)The higher a country's tax revenue, the higher its tax ratio. The World Bank states that Indonesia's tax ratio is relatively low compared to middle-income countries. One reason for the declining

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tax ratio from year to year is the persistence of loopholes in government tax policies and the relatively easy practice of tax avoidance in Indonesia due to its open economy.(Ministry of Finance, 2023).

According to Fuest et al. (2010), the low tax ratio is partly caused by profit shifting for tax avoidance purposes. Profit shifting, or Base Erosion and Profit Shifting (BEPS), is a tax planning strategy that exploits gaps and weaknesses in domestic tax laws and regulations to "eliminate" profits or shift them to other countries with low or even tax-free tax rates. (kemenkeu.go.id). According to the Organization for Economic Co-operation and Development (OECD) in its 2013 BEPS (Based Erosion Profit Shifting) Action Plan, transfer pricing is the most dominant scheme in profit shifting.

Transfer pricing manipulation schemes are relatively dominant in tax avoidance practices and have even become an international problem. Transfer pricing is considered an undesirable practice because it is often used by companies to minimize their overall tax burden. This has the potential to reduce tax revenue in Indonesia, resulting in a low tax ratio.

One of the transfer pricing cases that recently occurred in Indonesia that has attracted public attention is PT. Nippon Indosari Corpindo Tbk.(Putri et al., 2024)In Indonesia, in 2019, they engaged in transfer pricing practices against PT. Indofood CBP Sukses Makmur Tbk and PT. Indofood Sukses Makmur Tbk in purchasing raw materials. They manipulated the selling and purchasing prices of raw materials and finished goods with related entities in other countries. They also reduced net profit to pay less tax between 2018 and 2022. As a result, the tax paid to the government was lower.

In addition, transfer pricing cases were also carried out at Limited Risk Distributor companies, such as PT Smart Corp.(Sri et al., 2024), whose business activities produce electronic products in country A. Smart Corp is a multinational company that owns 100% of the shares in PT Smart Indonesia, domiciled in Indonesia. There was a transfer pricing practice carried out in 2021 related to the purchase price of electronic products from the parent company (Smart Corp) compared to the purchase price from an independent party. The purchase price from the parent company was USD 110/Unit. Meanwhile, the purchase price from the Independent party was USD 100/Unit. As a result, the Tax Authority found that the acquisition price should only be USD 104.12/Unit (Calculated using the Resale Price Method – RPM). Due to the price difference, the Tax Authority made a tax adjustment (correction) of USD 5.88/Unit on the acquisition price and imposed additional tax.

Transfer pricing practices are also carried out by international companies, one of which is the Coca-Cola company in the United States (Vallencia, 2022). Coca-Cola was accused by the Internal Revenue Service (IRS), which acts as a United States federal government agency that collects taxes and establishes domestic revenue laws (True, 2024), Coca-Cola carried out transfer pricing by selling its products to its subsidiaries abroad such as in Ireland and Switzerland at low prices, thereby reducing income and taxes in the United States. This resulted in Coca-Cola having to pay an additional $3.3 billion in taxes to the IRS (Internal Revenue Service) and Coca-Cola also had to face stricter oversight from the IRS (Internal Revenue Service) and other tax authorities to ensure compliance with transfer pricing regulations.(Byrnes, 2024)..

Based on the cases and losses incurred by the state, the phenomenon of transfer pricing is certainly a matter that the government must pay attention to. Therefore, the government

must implement measures and policies to curb transfer pricing practices. Currently, numerous studies have examined the factors influencing companies' transfer pricing practices. However, this study will only examine a few factors that may influence transfer pricing, including profitability, exchange rates, and foreign ownership. Similar to the research conducted(Denny et al., 2024)explains that one of the factors influencing a company's transfer pricing practices to avoid tax obligations is profitability. Increasing profitability indicates increasing profits or gains earned by the company. This means that research conducted by (Denny et al., 2024) explains that the higher a company's profitability, the greater the likelihood of the company engaging in transfer pricing practices. However, this research contradicts research conducted by (Khaerul, 2020) and (Hanum & Dewi, 2022). These studies explain that profitability has no effect on a company's transfer pricing. This is because the research proves that profitability is not the primary driver of transfer pricing practices.

Research conducted by (Syafrizal, 2023) explains that the exchange rate is also a factor in current transfer pricing practices. Differences in exchange rates present a significant opportunity for companies seeking to maximize profits. Consequently, multinational companies may attempt to mitigate foreign exchange risk by transferring funds to stronger currencies through transfer pricing practices to maximize overall corporate profits. However, this contradicts research conducted by(Rusla, 2020)The exchange rate has no effect on companies' transfer pricing decisions. This indicates that rising exchange rates do not motivate management to implement transfer pricing. This is because many companies experience losses from transactions with foreign companies. Therefore, the high value of foreign currencies leads to a further decline in the value of the domestic currency.

The third factor that can influence a company's transfer pricing practices is foreign ownership. Research conducted by Syafrizal (2023) explains that foreign ownership influences a company's transfer pricing decisions. This means that the greater the foreign ownership in a company, the greater the influence of foreign ownership in determining the smallest transfer pricing amount. This explains that the greater the control rights held by foreign shareholders, the greater the opportunity for abuse of authority by foreign controllers to make transaction policies with related parties that can harm non-controlling shareholders. However, this research also contradicts research conducted by Nadiah Adilah et al., 2022, which explains that foreign ownership has no effect on a company's transfer pricing. The study explains that the greater the level of foreign ownership in a company, the less influence foreign shareholders have in determining various decisions within the company regarding transfer pricing practices. This is because companies with high foreign ownership have higher compliance with tax and transfer pricing regulations. These differences have prompted researchers to further examine the factors influencing a company's transfer pricing practices.

According to the researcher's observations, there are still discrepancies in the results of previous studies. Furthermore, the researcher will examine these differences in more depth. In this study, transfer pricing is calculated based on the related party transaction ratio because the prices set in related party transactions usually do not comply with the arm's length principle and indicate transfer pricing practices. This study replicates (Syafrizal, 2023) with the difference being the addition of an independent variable, namely profitability (Khaerul,

2020). This additional variable aims to examine other factors influencing a company's transfer pricing. It is hoped that this additional variable will strengthen this study's understanding of the influence of profitability, exchange rates, and foreign ownership on transfer pricing in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period.

2. Preliminaries or Related Work or Literature Review

Grand Theory

Based on the background and research gap explained above, the supporting theories used are:

a. Agency Theory

Agency theory according to Putri et al., (2024)states that there is a relationship between the principal and the agent, where the principal assigns the agent to manage the company with the aim of maximizing profits for the owner. However, there are differing interests between managers or management (agent) and shareholders (principal), which can lead to agency conflicts. This conflict is minimized by a monitoring mechanism that can align the related interests. In principle, a person acts according to his own interests, while the agent has a duty to produce good performance for the principal by trying to create profits for the corporation.(Zarkasih & Maryati, 2023)Meanwhile, the principal is responsible for providing bonuses for the performance of their agents. This ensures that all parties benefit from the results of their work, requiring maximum effort from both the principal and the agency to achieve the desired results.(Novita et al., 2024).

Research Variables

a. Transfer Pricing

Organization For Economic Co-operation And Development The Organization for Economic Cooperation and Development (OECD) defines transfer pricing as the assets determined in transactions between group members within a multinational corporation, where the determined transfer price can deviate from the fair market price as long as it is appropriate for the group (OECD, 1979). From an industrial or managerial accounting perspective, transfer pricing is used to maximize company profits by determining the price of goods or services by one organizational unit of the company to another organization within the same company (Hafidh, 2020). Although the term transfer pricing is actually a neutral term, in practice, the term transfer pricing is often interpreted as an effort to minimize taxes by shifting prices or profits between companies within a group.

b. Profitability

Profitability reflects a company's financial performance in generating profits. Broadly speaking, a company's profits are derived from sales and investment income. Profitability reflects a company's ability to generate profits through all available capabilities and resources, such as sales activities, cash flow, capital, number of employees, number of branches, and so on

(Harahap: 2009). High profits are a key advantage for a company, attracting investors. However, high profits also increase tax burdens. Companies with low profits are likely to experience financial difficulties, leading to tax non-compliance, such as transfer pricing practices.

c. Exchange Rate

By definition, an exchange rate is the value of one country's currency compared to another country's currency. Over time, the exchange rate of a currency will continue to change or fluctuate.(Chen, 2024). The exchange rate, also often referred to as the exchange rate, is the comparison of prices or values of currencies. Companies engaged in international trade inevitably conduct transactions in different currencies, and the exchange rate is one solution for this. These different exchange rates ultimately influence companies' transfer pricing practices.

d. Foreign Ownership

Foreign ownership is ownership by individuals or groups from abroad (foreign) who invest their capital either in the form of shares or by establishing a company in the country.(Octaviani et al., 2022)This is because the sustainability of national development requires significant funding. Foreign ownership can be individual or group ownership originating from abroad, where shareholders invest their capital either in the form of shares or by establishing a company domestically. Concentrated ownership structures often give rise to various conflicts between controlling shareholders and management, with non-controlling shareholders. If a foreign party owns a majority stake, it will have greater control over management in transfer pricing.(Amelia & Gani Asalam, 2022).

Hypothesis Development

a. The Influence of Profitability on Companies' Decisions to Conduct Transfer Pricing

According to Kasmir (2021:114) in Denny et al., 2024, profitability is a ratio used to assess a company's ability to generate profits within a given period. Profitability refers to the degree to which a company's management effectively oversees its operations to achieve its desired goals. Companies with higher revenues are more likely to manipulate profits to lower or increase them in situations of higher or lower taxes. However, transfer pricing decisions must adhere to the fair market value principle applied in international tax regulations to ensure that the prices set reflect actual market conditions.(Gurusinga, Latersia Br, Yusnaini, 2024)This aligns with agency theory, which states that if a manager (agent) has detailed information about a company's condition, he or she can use this information to plan transfer pricing strategies. This motivation encourages managers to manipulate company activity data reports, potentially creating conflict between management and shareholders.(Susilawati et al., 2024).

H1: Profitability has a positive and significant effect on transfer pricing.

b. The Influence of Exchange Rates on Companies' Decisions to Conduct Transfer Pricing

Multinational companies use different currencies in their operations due to time differences. This exchange rate will ultimately influence transfer pricing practices within multinational companies. The exchange rate is the recorded market price of a foreign currency in terms of the

domestic currency, or the price of the domestic currency in terms of a foreign currency (Novita et al., 2024). Exchange rates are closely related to international trade, as multinational corporate cash flows are dominated by a number of currencies, each of which tends to fluctuate in value over time. These differences in exchange rates can influence transfer pricing activities by multinational corporations. Consequently, companies will attempt to mitigate foreign exchange risk by transferring funds to stronger currencies through transfer pricing to maximize profits.(Denny et al., 2024)This aligns with agency theory, which suggests that with motivational factors, individuals choose transfer pricing to maximize overall exchange rate benefits or minimize overall exchange rate losses for the company. Therefore, the greater the desire to maximize exchange rate benefits, the greater the likelihood of transfer pricing practices.(Robiyanto et al., 2022).

H2: exchange rate has a positive and significant effect on transfer pricing.

c. The Influence of Foreign Ownership on Corporate Decisions to Conduct Transfer Pricing

Foreign ownership by foreigners refers to share ownership held by foreign parties, both individuals and institutions. As control by controlling shareholders increases, they will attempt to allocate company resources for personal gain in various important decisions, including influencing pricing policies and profit margins (Syafrizal, 2023). Foreign ownership is related to transfer pricing. The size of shares held by foreign owners influences control over transfer pricing policies. In this case, foreign companies can manipulate transfer prices to reduce taxes or shift profits from high-tax countries to low-tax countries.(Susilawati et al., 2024)Foreign ownership is related to agency theory, which can create conflict between the owner (principal) and the manager (agent) due to differing goals and interests. In agency theory, the foreign investor (principal) has the authority to conduct special relationship transactions because the investor has rights to foreign ownership in a company, and this is what causes the company to engage in transfer pricing transactions.(Amelia & Gani Asalam, 2022).

H3: Foreign ownership has a positive and significant influence on a company's decision to carry out transfer pricing.

3. Materials and Method

Population and sample

This study uses a quantitative approach to determine the causal relationship between three independent variables: profitability, exchange rate, and foreign ownership, which influence the dependent variable, transfer pricing. This study utilizes secondary data derived from financial reports, with the study population consisting of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period. This data was obtained from the website www.idx.co.id and the required data in the form of annual financial reports. In this study, sample selection was conducted using the purposive sampling method, a sampling technique based on certain considerations. The considerations used in determining the sample in this study are:

a. Manufacturing companies listed on the Indonesia Stock Exchange (IDX) 2021-2023.
b. Companies that have complete and transparent financial reports consecutively in 2021-2023

c. Companies that have data on foreign exchange profit or loss

d. The sample companies are controlled by foreign companies with an ownership percentage of 20% or more.

e. Companies that have complete research data as a whole.

Operational research variables

The following is the formula used in measuring research variables, which consists of:

Dependent Variable

Transfer pricing In this study, it was measured by the Related Party Transaction (RPT) value.(Susilawati et al., 2024) :

$$Transfer\ Pricing\ = \frac{Receivables\ from\ related\ parties}{Total\ company\ reivables} \times 100\%$$

Independent Variables

a. Profitability, in this study using Return On Assets (ROA) as a measure of profitability(Fitriana, 2024):

$$ROA\ = \frac{Net\ profit}{Total\ Assets} \times 100$$

b. Exchange rate,calculated based on the ratio scale of the exchange rate profit or loss divided by the profit or loss before tax(Novalina, 2024):

$$Exchange\ rate\ = \frac{Foreign\ exchange\ profit/loss}{Profit\ and\ loss\ before\ tax} \times 100\%$$

c. Foreign ownership, calculated based on the percentage of foreign share ownership which is then compared with the total shares in circulation.(Zarkasih & Maryati, 2023):

$$Foreign\ ownership\ = \frac{Amount\ of\ foreign\ ownership}{Total\ shares\ outstanding} \times 100\%$$

4. Results and Discussion

This study aims to obtain empirical evidence on the influence of profitability, exchange rates, and foreign ownership on transfer pricing in manufacturing companies listed on the Indonesia Stock Exchange. This study uses secondary data obtained from the website.www.idx.co.idThe research population consisted of 227 manufacturing companies listed on the Indonesia Stock Exchange in 2021-2023. The sample selection process was based on the following considerations:

Table 1. Sample Selection Results

No	Information	Amount
1	Manufacturing companies listed on the Indonesia Stock Exchange (IDX) 2021-2023.	227
2	Companies that do not have complete and transparent financial reports consecutively 2021-2023	-51
3	Companies that do not have foreign exchange profit or loss data.	-25
4	Sample companies that are not controlled by foreign companies with an ownership percentage of 20% or more.	-95
5	Companies that do not have complete data	-34
	Final Sample Number of observations	22

Number of Observations (20 x 3 years)	66

Based on the purposive sampling method, a total sample of 22 companies was obtained. Therefore, for the three-year period 2021-2023, 66 observational data were obtained as samples. Data analysis techniques used were normality tests, heteroscedasticity tests, multicollinearity tests, autocorrelation tests, multiple linear regression tests, hypothesis tests, and coefficient of determination tests.

Classical Assumption Test

This test is conducted to ensure the validity and reliability of statistical analysis. The classical assumption tests used include:

a. Normality Test

Table 2. Normality Test Results.

One-Sample Kolmogorov-Smirnov Test

			Unstandardized Residual
N			**66**
Normal Parametersa,b	**Mean**		**,0000000**
	Standard Deviation		**,31745671**
Most Extreme Differences	**Absolute**		**,161**
	Positive		**,161**
	Negative		**-,082**
Test Statistics			**,161**
Asymp. Sig. (2-tailed)			**,000c**
Monte Carlo Sig. (2-tailed)	**Sig.**		**,054d**
	99% Confidence Interval	**Lower Bound**	**,049**
		Upper Bound	**,060**

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. Based on 10000 sampled tables with starting seed 1585587178.

Source: SPSS Version 26 Output.

Based on Table 2, the researcher used the Monte Carlo test to test for normality. According to (Ghozali, 2018), the decision-making process for the Monte Carlo normality test is as follows:

a. If the probability with significance is greater than 0.05 then the data is normally distributed
b. If the probability with significance is less than 0.05 then the data is not normally distributed.

The Monte Carlo test results show that the significance value in Monte Carlo Sig. (2-tailed) is 0.054. This value is greater than 0.05. Meanwhile, the requirement for a normality test is a significance value above 0.05. This means that the significance value in the Monte Carlo test meets the requirements for a normality test.

b. Heteroscedasticity Test

This test aims to test whether in a regression model there is a variance imbalance from residuals from one observation to another.

Table 3. Glejser Test Results.

Coefficientsa

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.039	.032		1,225	.235
PROFITABILITY	.324	.290	.263	1,119	.277
Exchange Rate	.079	.134	.131	.588	.563
FOREIGN OWNERSHIP	.071	.041	.404	1,739	.098

a. Dependent Variable: ABS_RES

Source: SPSS Version 26 output, processed in 2025.

Based on the Glejser test output in Table 3 above, it can be seen that the sig value is > 0.05 for the variables Profitability (X_1), Exchange rate (X_2), and Foreign Ownership (X_3). Therefore, it can be concluded that the Glejser test does not indicate heteroscedasticity. The regression coefficient estimates obtained can be considered efficient and valid.

c. Multicollinearity Test

The multicollinearity test aims to determine whether there is a high or perfect correlation between the independent variables (profitability, exchange rate and foreign ownership) in the regression model.

Table 4. Multicollinearity Test Results.

Coefficientsa

Model		Collinearity Statistics	
		Tolerance	VIF
1	Profitability	,980	1,020
	Exchange rate	,954	1,048
	Foreign ownership	,948	1,054

a. Dependent Variable: Transfer pricing

Source: SPSS Version 26 output, processed in 2025.

Based on table 4.5, it can be seen that the tolerance value for the profitability, exchange rate, and foreign ownership variables is greater than 0.10 and the VIF value for each variable is less than 10. This indicates that there is no strong or excessive correlation between the independent variables, so that the regression model is suitable for use and the resulting regression coefficients can be interpreted reliably and efficiently and can be continued to the next test.

d. Autocorrelation Test

The autocorrelation test aims to determine whether there is a correlation between variables in the prediction model and changes in time. A good regression model is one that does not exhibit autocorrelation problems.

Table 5. Durbin Watson Autocorrelation Test Results.

Model Summary

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate	Durbin-Watson
1	,608a	,369	,339	,06333	1,532

a. Predictors: (Constant), Foreign ownership, Profitability, Exchange rate

b. Dependent Variable: Transfer Pricing

Source: SPSS Version 26 output, processed in 2025.

The results of the autocorrelation test using the Durbin Watson test showed a value of 1.532. This value when compared with the Durbin-Watson table with a sample of 66 and the number of independent variables as many as 3 with a significance level of 0.05 obtained a dL value of 1.5079 and a dU value of 1.6974. In accordance with the provisions that the test results show the position of dU < d < 4 - dU, namely 1.6974 > 1.532 < 2.3026 means that autocorrelation occurs.

Therefore, to prove that this study does not experience autocorrelation, further analysis is needed using the Cochrane-Orcutt transformation method, which is considered an alternative solution to problems in regression models that experience autocorrelation. According to Ghozali (2011:121), the Cochrane-Orcutt method is a method used to overcome the problem of autocorrelation, where research data is converted into Lag form. The steps to carry out the Cochrane-Orcutt transformation are by determining the Rho value (the estimated coefficient or estimate of the data used to transform variables in the regression model to overcome the problem of autocorrelation). Next, carry out the Lag transformation on the newly obtained residual variable. The result will be a beta value in the SPSS output results. That beta value is what is meant by the Rho coefficient. Next, the Cochrane-Orcutt transformation by forming a new variable resulting from the transformation.

The results of the autocorrelation test using the Cochrane-Orcutt method are as follows:

Table 6. Results of the Cochrane-Orcutt Autocorrelation Test.

Model Summary

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate	Durbin-Watson
1	,563a	,317	,284	,06173	2,030

a. Predictors: (Constant), Lag_X3, Lag_X1, Lag_X2

b. Dependent Variable: Lag_Y

Source: SPSS Version 26 output, data processed 2025.

From the output results in table 4.7, the new Durbin-Watson number is 2.030. This value, when compared with the Durbin-Watson table value using a confidence level of 0.05 with a sample size of 66, obtained a dL value of 1.5079 and a dU value of 1.6974 so that the value of 4 - dU is 2.3026. This results in a position of dU < d < 4 - dU, namely 1.6974 < 2.030 < 2.3026 which means there is no autocorrelation.

e. Hypothesis Testing with Multiple Linear Regression

Multiple linear regression analysis aims to test and determine whether there is an influence of two or more independent variables on one dependent variable (Ghozali, 2013).

Table 7. Results of Multiple Linear Regression Analysis Test.

Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,417	,024		17,696	,000
	Profitability	,193	,091	,216	2,118	,038
	Exchange rate	,014	,010	,142	1,378	,173
	Foreign ownership	-,189	,035	-,558	-5,391	,000

a. Dependent Variable: Transfer Pricing

Source: SPSS Version 26 output, data processed 2025.

The results of the multiple linear regression test in table 4.9 can be used to formulate the following equation:

TP = 0.417 + 0.193 Profitability + 0.014 ER– 189 KA + €

Based on the multiple linear regression equation model above, it can be analyzed as follows: The constant value of 0.417 states that if the variables of profitability, exchange rate and foreign ownership are zero, then the average transfer pricing value is 0.417. The coefficient value on profitability (X_1) of 0.193, states that every one unit increase in profitability, assuming other variables are constant, will increase transfer pricing by 0.193. The coefficient value of 0.193 with a significance value of 0.038 is smaller than 0.05, meaning that the first hypothesis stating that profitability has a positive and significant effect on transfer pricing is accepted. A positive sign indicates a unidirectional (positive) relationship. The coefficient value on the exchange rate (X_2) of 0.014 explains that every one unit increase in the exchange rate, assuming other variables are constant, will increase transfer pricing by 0.014. The coefficient value of 0.014 with a significance value of 0.173 is greater than $\alpha = 0.05$, meaning that the second hypothesis stating that the exchange rate has a positive and significant effect is rejected. The coefficient value for foreign ownership (X_3) is -0.189. This indicates that every one-unit increase in foreign ownership, assuming other variables remain constant, will decrease transfer pricing by 0.189. The coefficient value is -0.189 with a significance value of 0.000, which is less than 0.05, meaning that the third hypothesis stating that foreign ownership has a positive and significant effect on transfer pricing is rejected. It is said to decrease because the negative sign indicates a negative relationship.

f. F test

This test aims to determine whether all independent variables (profitability, exchange rate and foreign ownership) together (simultaneously) have a significant influence on the dependent variable (transfer pricing).

Table 8. Results of Simultaneous F-test (F-test).

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,146	3	,049	12,111	,000b
	Residual	,249	62	,004		
	Total	,394	65			

a. Dependent Variable: Transfer Pricing

b. Predictors: (Constant), Foreign ownership, Profitability, Exchange rate

Source: SPSS Version 26 output, data processed 2025.

The decision-making criteria for this F test are as follows:

a. If F count > F table or Probability < significance value (Sig < 0.05), then the regression model is said to be acceptable.

b. If the calculated F < F table or probability > significance value (Sig > 0.05), then the regression model is said to be unacceptable.

This study uses 3 independent variables, 1 dependent variable, and 66 regression samples. Then df1 = 3 – 1 = 2, and df2 = 66 – 4 = 62, so the F table number is obtained = 2.753. Table 4.11 shows that the calculated F is 12.111 with a significance value of 0.000 while the F table is 2.753. This means that the calculated F > F table (12.111 > 2.75) and sig < 0.05 (0.000 < 0.05). Therefore, the hypothesis can be accepted. The results of the analysis based on the simultaneous F test of this study indicate that in general the regression model used in this study is suitable for predicting transfer pricing because profitability, exchange rates, and foreign ownership together have a significant effect on transfer pricing.

g. Coefficient of Determination (R2)

The coefficient of determination (R^2) aims to determine the best level of accuracy in regression analysis, where the best level of accuracy in regression analysis is. If the value is close to one, it means that the independent variable has a stronger influence on the dependent variable.

Table 9. Determination Test Results.

Model Summary

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	.563a	.317	.284	.06173

a. Predictors: (Constant), Lag_X3, Lag_X1, Lag_X2

Source: SPSS Version 26 Output, Data processed 2025.

The table shows an R^2 (R Square) of 0.317, or 31.7%. This indicates that the studied percentages of profitability, exchange rates, and foreign ownership influence transfer pricing by 31.7%, while the remainder is influenced by other variables not studied.

Discussion

a. The Effect of Profitability on Transfer Pricing

The first hypothesis proposed is that profitability has a significant effect on transfer pricing. The results of the regression analysis indicate a positive relationship between profitability and transfer

pricing with a coefficient value of 0.193 with a significance value of 0.038, which is smaller than 0.05, which means that profitability has a positive and significant effect on transfer pricing. Based on these results, the first hypothesis stating that profitability has a positive and significant effect on transfer pricing is accepted.

The results of this study explain that high levels of company profitability increase the likelihood of companies shifting profits through transfer pricing practices. This is done to minimize taxable income arising from high profits. This is because high profits also result in high tax liabilities.(Susilawati et al., 2024)With good profitability, investors are likely to maintain their investments in the company. The large number of investors who maintain their investments encourages companies to optimize their financial statements by increasing transfer prices in entities with lower tax rates. However, transfer pricing decisions must adhere to the fair market value principle applied in international tax regulations to ensure that the prices set reflect actual market conditions.(Gurusinga, Latersia Br, Yusnaini, 2024).

This result is in line with the results of the study(Denny et al., 2024),(Gurusinga, Latersia Br, Yusnaini, 2024)And(Cledy & Amin, 2020)which shows that profitability has a positive and significant effect on transfer pricing. The results of this study also reject research from(Linda Santioso, 2021)which shows that profitability does not influence the decision to carry out transfer pricing.

b. The influence of exchange rates on transfer pricing

The second hypothesis proposed is that the exchange rate has a positive and significant effect on transfer pricing. The results of the regression analysis indicate a positive relationship between the exchange rate and transfer pricing, with a coefficient value of 0.014 and a significance value of 0.173, greater than $\alpha = 0.05$. This means that the exchange rate does not significantly influence transfer pricing. Based on these results, the second hypothesis, which states that the exchange rate has a positive and significant effect on transfer pricing, is rejected.

The results of this study indicate that the exchange rate is not a factor considered by multinational corporations in their transfer pricing activities. This is because multinational corporations' business activities are influenced by the dollar, and the rising value of foreign currencies leads to a decline in the value of the domestic currency.(Novita et al., 2024)This influences companies' ability to conduct transactions with foreign companies and impacts their profits because the more frequently a company conducts transactions abroad while the domestic currency is depreciating, the more likely the company is to experience losses. Because multinational companies experience different exchange rates, they experience uncertain payments. Fluctuating exchange rates make the amount of cash required for payments uncertain. Therefore, increases or decreases in exchange rates will not affect the company's transfer pricing practices.(Hanum & Dewi, 2022).

This research does not support research from(Denny et al., 2024)which shows that the exchange rate has a positive and significant effect on transfer pricing, but supports research from(Mayzura & Apriwenni, 2023),(Novita et al., 2024)And(Ruslaini, 2020)which shows that the exchange rate does not have a significant effect on transfer pricing.

c. The influence of foreign ownership on transfer pricing

The third hypothesis proposed is that foreign ownership has a significant effect on transfer pricing. The results of the regression analysis indicate a negative relationship between foreign ownership and transfer pricing, with a coefficient value of -0.189, with a significance level of 0.000, less than 0.05. This indicates that foreign ownership has a significant effect on transfer pricing. However, the value is negative. Based on these results, the third hypothesis, which states that foreign ownership has a positive and significant effect on transfer pricing, is rejected.

The results of this study explain that foreign ownership has a negative and significant effect on transfer pricing. A negative value indicates an inverse relationship. The larger the stake held by foreign parties in a company, the higher the company's value. Foreign ownership and company management will minimize transfer pricing practices to maintain the company's already strong value. The significant results of this study indicate that this inverse relationship is not a coincidence but has a strong statistical basis. High levels of foreign ownership can give foreign shareholders greater influence in corporate decision-making, including pricing policies.(Susilawati et al., 2024)This policy can benefit foreign shareholders, who can conduct sales or purchase transactions at unfair prices to the company, gaining profits for themselves, but at the expense of minority shareholders. This reveals that higher foreign share ownership does not always provide shareholders with a strong position to control their company, including in transfer pricing. Because companies with large foreign ownership must always consider the risks they will face in the future, such as a decline in company value that will impact both minority and majority shareholders.(Amelia & Gani Asalam, 2022).

This research is not in line with research(Syafrizal, 2023)And(Meiriasari & Nurkholis, 2023)which states that foreign ownership has a positive and significant effect on transfer pricing. However, this research is in line with research from(Susilawati et al., 2024)which states that foreign ownership has a negative and significant effect on transfer pricing.

6. Conclusion

Based on the results of research on the influence of profitability, exchange rates and foreign ownership on transfer pricing in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period, the following conclusions can be drawn:

The profitability variable has a positive and significant effect on transfer pricing. This indicates that a company's high level of profitability increases the likelihood of shifting profits through transfer pricing practices. This is done to minimize taxable income arising from high profits, as high profits also result in high tax liabilities.

The exchange rate variable has no positive or significant effect on transfer pricing. This indicates that the exchange rate is not a consideration for multinational corporations in their transfer pricing activities. Many of the samples used experienced losses, and the value of foreign currencies increased, while the value of the domestic currency declined. This influenced companies to engage in transactions with foreign companies. This impacted corporate profits, as the more frequently a company conducts foreign transactions while the value of the domestic currency is declining, the more likely it is to incur losses.

Foreign ownership has a negative and significant effect on transfer pricing. This indicates that the larger the stake held by foreign parties in a company, the higher the company's value. Foreign ownership and company management will minimize transfer pricing practices to maintain the company's already strong value. The higher the level of foreign ownership, the lower the transfer pricing practices. Conversely, if foreign ownership decreases, transfer pricing tends to increase.

The R square value in this study is still relatively small, namely 0.317, which shows that the variables of profitability, exchange rate, and foreign ownership affect transfer pricing by only 31.7%, meaning that there are still other variables outside the study that can affect the variables studied.

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