ISSN: 2723-1399
e-ISSN: 2723-1488
JURNAL AKUNTANSI KEUANGAN DAN TEKNOLOGI INFORMASI AKUNTANSI
Available online at: http://jurnal.umb.ac.id/index.php/JAKTA
DOI: https://doi.org/10.36085/jakta.v2i1

THE EFFECT OF PROFITABILITY AND TAX MINIMIZATION ON TRANSFER PRICINGMODERATED BY FIRM SIZE (AN EMPIRICAL STUDY ON MINING COMPANIES

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INFORMASI ARTIKEL
Diterima : 15/06/2026
Direvisi : 18/06/2026
Disetujui : 20/06/2026

Keywords:
Firm Size, Profitability, Tax Minimization, Transfer Pricing

ABSTRACT:
This study aims to examine the effect of profitability and tax minimization on transfer pricing, with firm size serving as a moderating variable, in mining companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2022 period. The research employed a quantitative approach using secondary data obtained from the audited annual financial statements of mining companies listed on the IDX. The sample consisted of 12 companies (36 firm-year observations) selected through purposive sampling. Data were analyzed using Partial Least Squares–Structural Equation Modeling (PLS-SEM), including descriptive statistics, measurement model evaluation, structural model assessment, and hypothesis testing. The results indicate that profitability has a significant negative effect on transfer pricing, while tax minimization has no significant effect on transfer pricing. Firm size has a significant negative direct effect on transfer pricing and significantly moderates the relationship between profitability and transfer pricing. However, firm size does not moderate the relationship between tax minimization and transfer pricing. The coefficient of determination (R^2) shows that profitability, tax minimization, and firm size explain 36.6% of the variation in transfer pricing. In conclusion, transfer pricing practices in Indonesian mining companies are primarily influenced by profitability and firm size, whereas tax minimization does not significantly affect transfer pricing, either directly or through the moderating role of firm size.

INTRODUCTION

One of the growing issues in discussions of international accounting and corporate governance is transfer pricing. In general terms, transfer pricing refers to the process of setting transaction values among related entities within multinational corporations, which are frequently established at levels that differ from prevailing market prices. In practice, this mechanism is frequently employed as a means of tax avoidance or minimization, thereby posing the risk of substantial reductions in government tax revenue. As a result, transfer pricing has evolved into a contentious subject, particularly because of its potential to be misappropriated for aggressive tax planning. Such practices not only challenge the integrity of fiscal systems but also threaten national economic

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interests by undermining fair taxation and eroding public trust in regulatory frameworks (Maulina et al., 2021). Mekar Satria Utama, formerly the Director of P2 Public Relations at the Directorate General of Taxes, highlighted a significant discrepancy in corporate tax compliance during 2016. He noted that approximately 2,000 Foreign Investment Companies (PMA) filed for zero tax liabilities by citing financial losses. This reporting stands in contrast to the fiscal projection that each entity had the potential to contribute an average of IDR 25 billion annually to state revenue. The scheme employed by these companies was transfer pricing. According to the Director of International Taxation, John Hutagaol, digital advancements and globalization have increased the volume and value of cross-jurisdictional transactions, including trade, services, and investment. Around 60% of global transactions are conducted by multinational companies, where transfer pricing practices frequently occur. While handling transfer pricing cases presents opportunities for tax authorities to enhance revenue, the complexity of such schemes and the limited number of tax auditors make it difficult to comprehensively supervise all corporations in each country (Karunia, 2020).

The mining sector holds a pivotal role within Indonesia's economic framework, as it significantly enhances the nation's overall revenue. Beyond generating foreign exchange through commodity exports, this sector also represents a significant source of fiscal revenue via corporate taxation. Nevertheless, the industry is confronted with multifaceted challenges, including the complexities of cross-border operations and the increasingly stringent tax regulatory environment. These circumstances underscore the necessity for rigorous oversight and consistent enforcement of taxation policies to ensure that mining enterprises fulfill their fiscal responsibilities in a transparent and accountable manner. Furthermore, the effectiveness of such regulatory mechanisms is vital not only for safeguarding state revenues but also for maintaining equity, stability, and trust in the broader economic system (Amalo & Hardi, 2024). In 2022, concerns regarding transfer pricing became a focal point of both public discourse and regulatory scrutiny, especially involving PT Adaro Indonesia. As the country's second-largest coal producer, PT Adaro Indonesia—well-known for marketing its coal under the environmentally oriented brand "Enviro Coal"—found itself at the center of these discussions. The company became entangled in controversy following allegations concerning its affiliated entity in Singapore, Coaltrade Services International Pte. Ltd. A report issued by Global Witness on July 4, 2019, asserted that PT Adaro engaged in profit-shifting strategies by channeling sales to Coaltrade at artificially depressed prices, which were later resold at substantially higher values in the international market. Such arrangements were purportedly structured to minimize the company's tax obligations, given Singapore's comparatively favorable tax regime relative to Indonesia. This case exemplifies the broader challenges faced by resource-based industries in balancing commercial strategies with compliance to fair taxation principles, and underscores the persistent scrutiny over cross-border intra-group transactions that may erode domestic fiscal revenues (Maharani, 2022).

As a result, PT Adaro was estimated to have underpaid taxes by approximately USD 125 million in Indonesia during the period 2009–2017, leading to an annual potential tax loss of around USD 14 million for the state. Although Garibaldi Tohir, President Director of PT Adaro Energy Tbk., denied these allegations and affirmed that

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the company's governance complied with prevailing regulations, the case remains controversial. It underscores the need for transparency and disclosure of related-party transactions in accordance with PSAK No. 7 to ensure the provision of accurate and relevant information for financial statement users (Maharani, 2022). Research on transfer pricing in mining companies is therefore highly significant, particularly in light of the case involving PT Adaro Indonesia and its subsidiary in Singapore. The suspicion that PT Adaro shifted revenues and profits to exploit lower tax rates abroad emphasizes the urgency of investigating this practice further. This urgency is also reflected in the achievements of the Directorate General of Taxes, which exceeded tax revenue targets for three consecutive years, with revenues in 2023 reaching IDR 1,869.23 trillion. This substantial increase highlights the importance of transparency and stringent oversight in tax practices to sustain national economic stability (Oktaviyoni, 2024). Accordingly, research on transfer pricing not only contributes to understanding and addressing taxation challenges but also plays a crucial role in maintaining public trust in government and safeguarding state financial stability.

Transfer pricing thus remains a critical issue for Indonesian corporations. Mining companies, in particular, can easily manipulate transfer prices due to their cross-border operations. Ownership structures such as holding companies and subsidiaries further enable profit shifting to low-tax jurisdictions. Mining commodities such as coal and gold, which are freely traded on international markets, provide ample opportunities for transfer pricing adjustments (Siregar & Yunira, 2024). Consequently, transfer pricing becomes an effective tool for reducing tax burdens or shifting profits to lower-tax jurisdictions, which directly impacts state revenues and Indonesia's economic development objectives (Sari et al., 2023). Profitability represents a crucial determinant that can shape corporate decisions regarding the adoption of transfer pricing practices. Firms with higher profitability levels generally possess stronger incentives to implement transfer pricing strategies, primarily as a means of reallocating profits to subsidiaries located in low-tax jurisdictions, thereby optimizing post-tax earnings. In contrast, companies with relatively lower profit margins may exhibit limited motivation to pursue such practices, as the potential benefits from earnings shifting are comparatively marginal. This suggests that the financial performance of a firm not only reflects its operational efficiency but also influences the extent to which it engages in tax planning mechanisms such as transfer pricing. Moreover, the relationship underscores the broader implication that profitability functions not merely as an indicator of corporate success but also as a driver of strategic financial behavior with significant regulatory and fiscal consequences (Junaidi & Zs, 2020).

In addition to pursuing profit maximization, corporations frequently engage in strategies aimed at minimizing tax liabilities. A central rationale for the adoption of transfer pricing lies in its capacity to facilitate the strategic relocation of profits to jurisdictions with comparatively lower tax rates. Through such practices, firms effectively reduce their taxable income in high-tax environments while simultaneously reallocating earnings to affiliates operating in more favorable tax regimes. This approach exemplifies intentional tax planning which, while frequently defended as a lawful business practice, has prompted debates over its fairness, adherence to the arm's length principle, and the risk it poses to the integrity of national tax revenues (Makhmudah &

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Djohar, 2023). The Directorate General of Taxes (DGT) constitutes a central authority in supervising and regulating transfer pricing practices within the Indonesian taxation system. In fulfilling this mandate, the DGT does not merely conduct transfer pricing audits to monitor corporate adherence to tax obligations, but also promulgates derivative regulations that operationalize the provisions of the Income Tax Law (Undang-Undang Pajak Penghasilan/UU PPh). A fundamental legal basis can be found in Article 18, paragraph (3) of the Income Tax Law, which mandates that transfer pricing practices and declared profits adhere to the arm's length principle. This provision is intended to guarantee that transactions between affiliated parties are conducted at values consistent with those prevailing in the open market. To reinforce this principle, the Ministry of Finance enacted Regulation No. 22/PMK.03/2020, introducing the framework for Advanced Pricing Agreements (APAs). These agreements negotiated between the DGT and taxpayers, or between the DGT and tax authorities in treaty-partner jurisdictions establish ex-ante criteria for determining transfer pricing policies, thereby offering legal certainty, mitigating disputes, and fostering equity in cross-border taxation.

The regulatory framework was further strengthened with the enactment of Minister of Finance Regulation No. 172/2023, which offers more comprehensive technical guidelines for implementing the arm's length principle in transactions between affiliated entities. The progressive refinement of these regulatory instruments illustrates the government's sustained commitment to strengthening tax governance while aligning Indonesia's regulatory environment with international standards in transfer pricing supervision (Ortax, 2023). Agency Theory serves as the foundational basis for this study's theoretical framework. It describes the contractual dynamics between owners (principals) and managers (agents) of a company, where differing interests and information asymmetry frequently arise. Principals typically expect managers to maximize firm value and safeguard long-term interests, while managers may instead prioritize short-term gains or personal benefits that are not always aligned with shareholder welfare. In the context of transfer pricing, Agency Theory provides a useful lens to understand managerial behavior. Managers, acting as agents, may adopt transfer pricing strategies not solely for efficiency or tax optimization, but also to pursue individual incentives such as performance-based bonuses, career advancement, or reputational gains. Such actions may result in the relocation of profits across jurisdictions in ways that conflict with the principals' overarching interests. Consequently, transfer pricing becomes not only a tool of corporate strategy but also a manifestation of agency problems within the firm (Sa'diah & Afriyenti, 2021).

Studies investigating the relationship between profitability and transfer pricing have yielded inconsistent findings. For instance, Junaidi & Zs (2020) found that profitability exerts a positive influence on transfer pricing practices, suggesting that firms with higher profitability levels tend to exploit transfer pricing arrangements as a means of optimizing global earnings. This perspective assumes that profitable firms have stronger incentives and resources to shift income strategically in order to reduce their overall tax burden and maximize shareholder wealth.

In contrast, the empirical inquiries of Mineri & Paramitha (2021) and Rustian & Syafri (2023) revealed a statistically significant negative association between profitability and transfer pricing. Their results indicate that firms demonstrating strong

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financial performance may have less motivation to manipulate transfer pricing, as their robust profitability already ensures favorable outcomes. Under this reasoning, engaging in aggressive transfer pricing could be deemed unnecessary or even counterproductive, particularly given the potential reputational risks and regulatory sanctions associated with such practices. In contrast, the empirical investigation conducted by Sari & Djohar (2022) reported no significant association between profitability and transfer pricing practices, thereby reinforcing the heterogeneous nature of prior findings in this domain. The inconsistencies observed across studies may stem from a range of contextual and methodological factors, such as differences in research design, industry-specific dynamics, temporal coverage, and cross-country variations in regulatory frameworks. These divergent outcomes underscore the need for more context-sensitive analyses that account for both institutional environments and market-based mechanisms. By integrating these perspectives, future research can generate a more holistic and theoretically grounded understanding of the complex interplay between profitability and transfer pricing behavior.

Densiska & Kunawangsih (2023) provide evidence that tax minimization has a positive effect on transfer pricing, suggesting that firms with a pronounced focus on reducing their tax liabilities are more likely to engage in profit-shifting practices toward jurisdictions offering lower tax rates. Conversely, research conducted by Putri & Lindawati (2023) found no statistically significant association between tax minimization and transfer pricing practices. This finding suggests that efforts to optimize tax liabilities are not always reflected through the use of transfer pricing as the main strategy for fiscal management. Such contradictory findings highlight the complexity of corporate tax behavior and suggest that the extent to which tax minimization drives transfer pricing may be contingent upon other contextual factors, including governance quality, regulatory enforcement, and industry-specific characteristics. Adding further complexity to this discourse, Makhmudah & Djohar (2023) revealed a negative and significant relationship, implying that firms characterized by aggressive tax minimization motives may intentionally eschew transfer pricing practices due to their potential legal risks, heightened regulatory scrutiny, and procedural complexities. The incongruity across these empirical results may reasonably be ascribed to differences in methodological frameworks, temporal scope of observations, characteristics of the firms under investigation, as well as the institutional and regulatory contexts shaping corporate decision-making. Such divergences highlight the necessity for more context-sensitive and comparative studies to unravel the contingencies under which tax minimization objectives align or fail to align with transfer pricing practices.

The moderating role of firm size in shaping transfer pricing practices has garnered increasing scholarly interest in recent years. Commonly proxied by indicators such as total assets, shareholders' equity, or sales volume, firm size is widely perceived as a proxy for a corporation's economic capacity and operational scope, which may, in turn, affect the design and execution of transfer pricing strategies (Pandia & Gultom, 2022). Larger firms, by virtue of their broader resource base and wider market exposure, are often assumed to possess both the incentives and capabilities to engage in more complex tax planning arrangements. Conversely, smaller firms may face limitations in resources and regulatory scrutiny, thereby constraining their ability to exploit transfer pricing

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opportunities. Empirical findings by Hutapea & Herawaty (2020) reinforce this perspective, indicating that the size of a company acts as a moderating factor in the relationship between profitability and tax avoidance behaviors linked to transfer pricing. This finding reinforces the notion that firm size constitutes not merely a descriptive attribute of corporate scale but a critical contextual determinant that shapes managerial discretion and tax planning behavior. By influencing the degree of oversight, resource allocation, and strategic flexibility available to managers, firm size can thus operate as a pivotal factor in understanding the variability of transfer pricing practices across different organizational contexts.

On the other hand, research by Pandia & Gultom (2022) as well as Sintiana & Purnomo (2023) indicates that firm size does not have a significant moderating effect on the relationship between tax minimization and transfer pricing. However, their analyses did confirm the moderating influence of firm size in relation to other independent variables. These mixed results underscore the complexity of firm characteristics in shaping transfer pricing dynamics and suggest that the role of firm size may be conditional, varying across contexts, industries, and regulatory frameworks. Such inconsistencies further highlight the necessity of exploring firm size not merely as a static control variable but as a contingent factor that interacts with multiple determinants in influencing corporate transfer pricing behavior. The variation in empirical findings across previous research underscores the absence of a unified perspective regarding the moderating role of firm size in the relationships among profitability, tax minimization, and transfer pricing. In response to this conceptual gap, the present investigation positions firm size as a moderating construct, aiming to yield more reliable empirical validation and to enrich theoretical comprehension of its strategic role. This research concentrates on the mining subsector and adopts a contextual analytical framework by analyzing financial data from mining companies listed on the Indonesia Stock Exchange (IDX) during the period 2020 to 2022. Such an industry-specific emphasis not only ensures the timeliness and relevance of the findings but also provides a more precise depiction of transfer pricing behavior within a sector characterized by substantial capital intensity, regulatory oversight, and global market exposure.

This inquiry is intended to bridge existing gaps in the literature and enrich academic discourse on transfer pricing by assessing the combined effects of profitability, tax minimization, and firm size. Beyond advancing theoretical comprehension, the study also illuminates the practical mechanisms that facilitate or restrict transfer pricing behavior in resource-intensive industries. Furthermore, it seeks to contribute to a more comprehensive understanding of taxation complexities and corporate financial strategies within the Indonesian context. In doing so, the findings are expected to provide valuable implications for policymakers, regulators, and practitioners, particularly in strengthening supervisory frameworks and formulating more effective tax governance strategies.

LITERATURE REVIEW

Agency Theory

Within the scope of this study, agency theory serves as the most pertinent theoretical foundation. This theory delineates the contractual relationship between

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principals, namely the shareholders or company owners, and agents, referring to the managers entrusted with operational decision-making.

A central premise of agency theory is that managers do not always act in perfect alignment with the interests of owners, as they may be motivated to pursue personal wealth or utility maximization. Such divergent objectives give rise to potential conflicts of interest, particularly when managers possess superior access to information compared to principals. This condition of information asymmetry enables managers to engage in opportunistic behavior, one manifestation of which is the use of transfer pricing arrangements that prioritize managerial or short-term benefits at the expense of shareholder value. In this regard, agency theory provides a robust explanatory framework for understanding why and how transfer pricing practices may emerge as a tool for managerial self-interest, highlighting the importance of governance mechanisms to mitigate agency conflicts (Ilmi & Prastiwi, 2020). In situations where a company achieves substantial profitability, managers acting as agents might be inclined to pursue transfer pricing strategies to reallocate earnings to regions with more favorable tax rates, which can diverge from the objectives of the principals. Nevertheless, the size of the firm may function as a moderating variable, since larger organizations generally possess more robust monitoring systems and greater resources to ensure that managerial actions are better aligned with the interests of the owners, thereby mitigating the influence of profitability on transfer pricing behavior.

Transfer Pricing

Transfer pricing describes the method of establishing the transaction values between business entities that are under shared ownership or are part of the same corporate group (Rustian & Syafri, 2023). Such practices typically emerge when parent firms, their subsidiaries, or other affiliated companies situated across diverse jurisdictions engage in intra-group exchanges involving tangible goods, services, or intangible assets. Within the framework of financial reporting, these exchanges are reflected through transfer prices, which possess the capacity to substantially alter the distribution of reported income among related entities. From a strategic standpoint, companies frequently utilize transfer pricing as a tool for shifting profits to regions with lower tax rates, aiming to minimize the total tax burden at the group level. However, it should be acknowledged that transfer pricing is not exclusively aimed at tax reduction; it can also serve legitimate managerial objectives, such as ensuring the fair distribution of costs, income, and risks among entities within a corporate group. At the international scale, transfer pricing assumes a pivotal role in determining how tax bases are distributed among nations where multinational enterprises maintain operations, which in turn has significant implications for global fiscal equity and the capacity of states to safeguard their revenue systems (Maulina et al., 2021).

In contrast to legitimate applications, manipulated transfer pricing refers to the deliberate misrepresentation of intra-group transaction values, either inflated or deflated from the arm's-length standard, with the objective of capitalizing on regulatory disparities across tax jurisdictions. Such practices are predominantly driven by tax avoidance motives, as they allow firms to depress taxable income reported in high-tax jurisdictions while reallocating profits to affiliates located in lower-tax regimes (Sa'diah

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& Afriyenti, 2021). To capture this phenomenon empirically, previous studies have frequently relied on the Related Party Transaction (RPT) ratio, operationalized by dividing receivables from related entities by the firm's aggregate receivables (Densiska & Kunawangsih, 2023). This ratio serves as a practical proxy for gauging the intensity of intra-group financial dealings, thereby offering researchers an indirect yet measurable indicator of the potential presence of transfer pricing practices. Furthermore, the use of RPT as a proxy underscores the methodological challenges in distinguishing between legitimate managerial allocations and opportunistic manipulations, a distinction that remains central to both academic inquiry and regulatory oversight.

Prifitability

Profitability serves as a fundamental indicator of a firm's financial health, reflecting its capacity to produce earnings through both its operations and investment endeavors (Liza, 2020). Higher profitability typically signals greater efficiency in operations and effective resource allocation, which are essential for ensuring long-term business sustainability. In financial analysis, profitability is often assessed through ratios that highlight various aspects of earnings performance, including Return on Assets (ROA), which measures how effectively assets are utilized; Return on Equity (ROE), which captures shareholder returns; and Net Profit Margin (NPM), which reflects the portion of net income relative to total sales. Collectively, these indicators offer a comprehensive assessment of a company's financial status and serve as essential reference points in guiding corporate strategies, including transfer pricing, tax planning, and other key financial decisions (Silvia, 2021).

Profitability represents the capacity of a firm to generate earnings from its core business operations within a specific time frame, reflecting the efficiency with which capital, assets, or sales are utilized. Beyond its financial implications, profitability also functions as a performance indicator that captures the effectiveness of managerial decision-making in orchestrating operational activities to achieve desired outcomes. Among the various indicators used to assess profitability, Return on Assets (ROA) stands out as one of the most commonly utilized measures. ROA demonstrates the extent to which net income is produced relative to the total assets deployed, thereby offering insights into both the firm's operational efficiency and its ability to maximize asset utilization for value creation (Wardoyo et al., 2022).

Tax Minimization

Tax management through tax minimization is a strategy to fulfill tax obligations correctly, while paying the least possible amount of tax in order to increase corporate profit and liquidity. In practice, business actors often view taxation as a burden, prompting them to reduce their tax payments to optimize earnings. This effort aligns with the goal of enhancing efficiency and competitiveness, as entrepreneurs attempt to minimize costs including taxes which directly reduce net after-tax income (Pandia & Gultom, 2022). Tax minimization can be conceptualized as a corporate strategy aimed at lowering overall tax obligations by strategically reallocating revenues and expenses to jurisdictions with comparatively lower tax rates. Such practices are typically executed through the transfer of income and cost components across related entities, thereby

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shifting profits to affiliated companies operating in more favorable tax regimes. As noted by Putri & Lindawati (2023), manipulation of transfer pricing within intercompany transactions is among the most prevalent mechanisms employed to reduce taxable income. To empirically assess the degree of tax minimization, researchers commonly use the Cash Effective Tax Rate (CETR), which is defined as the proportion of cash taxes paid relative to pre-tax earnings (Densiska & Kunawangsih, 2023). Beyond serving as a practical proxy, the CETR also provides insights into the aggressiveness of firms' tax planning behavior, as consistently low ratios may indicate systematic efforts to exploit tax differentials across jurisdictions.

Firm Size

Firm size can be categorized into large, medium, or small using several indicators, including total assets, logarithmic measures, and market capitalization, with total assets being the most widely applied metric (Sa'diah & Afriyenti, 2021). A business organization is considered successful when it possesses substantial assets, while smaller firms have more limited resources. Companies with large total assets demonstrate growth and maturity, with stronger cash flows and better long-term prospects. Successful business organizations are generally more stable and capable of generating higher revenues (Rustian & Syafri, 2023). Large corporations typically possess greater financial resources, stronger brand recognition, and increased visibility. As a company's market capitalization grows, its profile becomes more pronounced to both the public and prospective investors. In contrast, smaller firms often remain relatively obscure, with limited accessibility of information to external stakeholders and lower levels of attention from the investment community (Wardoyo et al., 2022). In empirical studies, firm size is often measured using the natural logarithm of total assets (Ln [Total Assets]). This approach provides a standardized and comparable metric, helping to address skewness in financial data and accurately reflect the company's relative economic scale of a company's economic strength.

Hypothesis Development

Agency theory highlights the inherent conflict of interest between principals, who aim to enhance firm value and shareholder wealth, and agents, who may prioritize personal gains such as bonuses, compensation, or other managerial rewards. Within this framework, firms with high profitability typically encounter larger tax liabilities, motivating managers to implement strategies that reduce the tax burden. A common approach is transfer pricing, through which managers reallocate profits across jurisdictions or related entities to lower reported taxable income. This dynamic suggests a significant linkage between profitability and the propensity to engage in transfer pricing activities. Specifically, higher profitability not only increases the tax exposure of the firm but also enhances the likelihood that managers will exploit transfer pricing mechanisms as a form of opportunistic behavior, thereby illustrating how agency conflicts are manifested in corporate tax planning practices. This perspective is reinforced by earlier studies, including those conducted by Mineri & Paramitha (2021) and Rustian & Syafri (2023), which identified a significant inverse relationship between the profitability of multinational companies and transfer pricing activities.

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In their pursuit of private benefits, managers may adopt tax minimization strategies that are not always fully aligned with the long-term interests of shareholders. One prominent mechanism in this regard is transfer pricing, whereby profits are reallocated from high-tax jurisdictions to affiliates located in regions with lower tax rates. Such practices effectively reduce the consolidated tax burden of the corporation, thereby increasing post-tax earnings. From the perspective of agency theory, this strategy reflects managerial opportunism, as it can simultaneously enhance corporate performance indicators while serving as a means of securing personal rewards tied to profitability metrics. Consequently, tax minimization emerges as a critical determinant motivating the application of transfer pricing practices. This reasoning is corroborated by empirical findings. For instance, Densiska & Kunawangsih (2023) highlight that companies with a pronounced focus on tax savings tend to more actively utilize intra-group transactions as a means to lower their tax obligations.

Agency theory acknowledges that while profitability may serve as a driver for transfer pricing practices, effective monitoring mechanisms can help align managerial actions with the interests of shareholders (Rustian & Syafri, 2023). Within this framework, firm size emerges as a potential moderating factor shaping the relationship between profitability and transfer pricing. Larger firms, relative to smaller ones, are generally characterized by stronger governance structures, more substantial resources, and stricter oversight systems. These features may serve to constrain managerial discretion and limit the pursuit of aggressive transfer pricing strategies, even in contexts of high profitability. Empirical findings lend support to this argument. Hutapea & Herawaty (2020) demonstrate that firm size acts as a moderating variable in the relationship between profitability and tax avoidance activities related to transfer pricing. This indicates that organizational size is more than just a descriptive metric; it plays a crucial contextual role in shaping how profitability influences transfer pricing behavior. Based on this rationale, the present study suggests that including firm size as a moderating factor increases the explanatory power of the research framework.

Although tax minimization may drive transfer pricing practices, agency theory also emphasizes the role of monitoring mechanisms in aligning the interests of principals and agents (Rustian & Syafri, 2023). Within this analytical framework, firm size functions as a crucial moderating variable in the nexus between tax minimization and transfer pricing. Relative to their smaller counterparts, larger corporations typically exhibit more robust governance mechanisms, superior resource availability, and more rigorous oversight. Consequently, these structural advantages tend to constrain managerial discretion, thereby limiting the potential for aggressive transfer pricing maneuvers intended to lower tax liabilities. Despite extensive scholarly attention, empirical evidence on this matter remains fragmented and inconclusive. For example, research conducted by Pandia & Gultom (2022) and Sintiana & Purnomo (2023) revealed that firm size does not play a moderating role in the relationship between tax minimization and transfer pricing. Nevertheless, their analyses revealed divergent outcomes regarding the moderating role of firm size when examined in relation to alternative antecedents of transfer pricing, thereby implying that its impact may vary across different contextual and theoretical settings. These inconsistencies underscore the lack of a clear consensus

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and emphasize the need for additional empirical research to better understand the conditional impact of firm size.

RESEARCH METHODS

This study focuses on mining companies that are publicly traded on the Indonesia Stock Exchange (IDX) from 2020 to 2022. The mining sector was intentionally chosen for several substantive reasons. Notably, this industry is particularly susceptible to transfer pricing activities because of its extensive cross-border transactions and intra-group operations, which present firms with opportunities to adjust or optimize their tax liabilities. Furthermore, the mining industry constitutes a vital component of Indonesia's macroeconomic structure, contributing significantly to national revenues through taxation and foreign exchange earnings derived from commodity exports. As a result, any transfer pricing practices within this sector are likely to generate profound economic implications at the national level, particularly in terms of fiscal sustainability and regulatory compliance (Sukamto, 2023).

This research adopts a quantitative approach, which is rooted in the positivist paradigm. Quantitative methods prioritize the analysis of specific populations or samples using structured instruments and statistical procedures to empirically evaluate hypotheses. In this context, the primary data source is secondary data. According to Syafrida (2021), secondary data refers to information obtained from established external sources rather than being gathered directly by the researcher. For this study, the data were collected from audited financial reports of mining companies, as published on the official IDX website (IDX.co.id) for the fiscal years 2020 to 2022. This ensures the data's reliability, transparency, and reproducibility. The data collection process was conducted through the documentation method, which involves systematically gathering information from written records, archival sources, and other relevant materials that substantiate the research (Syafrida, 2021). Accordingly, financial statements obtained from IDX.co.id were utilized as the primary documents, offering both authenticity and verifiability to support subsequent statistical analysis. The choice of this technique not only ensures the accuracy of the data but also aligns with established practices in empirical accounting and finance research. The research population in this study consists of all 63 mining companies listed on the IDX during the specified period. To enhance the focus and ensure methodological rigor, purposive sampling was utilized. As a non-probability sampling method, purposive sampling is suitable when the aim is to select analysis units that best meet the research objectives and address the study's questions. This approach ensures that the sample accurately reflects the key characteristics of the broader population, thereby strengthening the validity of the results and ensuring that the conclusions drawn are both contextually meaningful and theoretically sound.

Table 1.
Sample Detremination Criteria

No	Sample Determination Criteria	Amount
1	Mining companies listed on the IDX in the 2020-2022 period	63

No	Sample Determination Criteria	Amount
2	Mining companies not included in the main board in the 2020-2022 period	(40)
3	Companies that do not publish financial reports in rupiah currency	(11)
4	Companies that do not have all the information related to the research	0
Total companies in the research period		12
Observation period (3 years)		3
Amount of data		36

The analysis commenced with descriptive statistics, providing a summary of the measurement outcomes for both dependent and independent variables, including values such as maximum, minimum, average, and standard deviation. This approach provides an initial understanding of the dataset's characteristics by offering a clear overview of data distribution and central tendencies without aiming to generate broader inferences. As such, descriptive analysis functions as a preliminary stage that helps identify patterns, potential irregularities, and the overall adequacy of the dataset for further inferential testing (Syafrida, 2021). This stage is essential in understanding the characteristics of the data before proceeding to more advanced statistical testing.

After conducting the descriptive analysis, the study advanced to evaluating the measurement model (outer model) by utilizing the Average Variance Extracted (AVE) as a primary metric for convergent validity and construct reliability within the Partial Least Squares (PLS) approach. AVE measures how effectively a latent construct explains the variance of its observed indicators. An AVE value above 0.50 indicates adequate convergent validity, demonstrating that the construct accounts for more than half of the variance in its indicators. In contrast, an AVE below 0.50 points to insufficient explanatory power, thus calling into question the adequacy of the construct's measurement. Ensuring convergent validity at this stage is essential to confirm that latent variables are properly reflected by their indicators before proceeding to structural model assessment (Naili et al., 2024). Additionally, Cronbach's alpha was employed to examine internal consistency reliability, with values above 0.70 generally considered to indicate satisfactory construct reliability (Salsabilla & Nurdin, 2023).

This comprehensive evaluation strengthens the measurement model's validity and reliability, providing a solid foundation before testing the proposed structural relationships. After confirming the validity of the measurement model, the analysis moved to the assessment of the structural model (inner model) to examine the connections between the latent constructs. At this stage, the bootstrapping technique was employed to produce path coefficients, which were used to determine both the magnitude and direction of the proposed relationships. Additionally, the coefficient of determination (R^2) was calculated to measure how well the independent variables explained the variation in the dependent variable (Salsabilla & Nurdin, 2023). Next, hypothesis testing was performed to statistically validate the relationships that had been proposed. The PLS-SEM method facilitates the analysis of both direct and moderating effects, allowing for assessment of how these factors may influence the strength or

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e-ISSN: 2723-1488
JURNAL AKUNTANSI KEUANGAN DAN TEKNOLOGI INFORMASI AKUNTANSI
Available online at: http://jurnal.umb.ac.id/index.php/JAKTA
DOI: https://doi.org/10.36085/jakta.v2i1

direction of relationships between variables. In this research, firm size was evaluated specifically as a moderating factor in the connections between profitability, tax minimization, and transfer pricing. A hypothesis was considered supported if the p-value was less than 0.05 or if the t-statistic was greater than 1.96, providing statistical justification for the hypothesized effects (Naili et al., 2024).

RESULT AND DISCUSSION

Table 2.
Descriptive Statistical Test Results

	Mean	Min	Max	Standar Deviasi
Profitability (X1)	196.778	0.000	654.000	204.868
Tax minimization (X2)	238.194	0.000	582.000	122.766
Firm Size (Z)	18.438	10,996.000	25,026.000	3,221.036
Transfer pricing (Y)	206.611	0.000	987.000	303.139

Profitability (X1) exhibited an average of 196.778, ranging from 0.000 to 654.000, with a standard deviation of 204.868. This reflects significant variability in profitability among the companies analyzed. For tax minimization (X2), the mean was 238.194, with observed values spanning from 0.000 to 582.000 and a standard deviation of 122.766, indicating notable differences in tax minimization practices across the sampled firms. Firm size (Z) had an average value of 18.438, with values ranging from 10.996.000 to 25.026.000 and a standard deviation of 3.221.036, indicating considerable diversity in company size within the sample. Transfer pricing (Y) showed a mean of 206.611, with a minimum of 0.000, a maximum of 987.000, and a standard deviation of 303.139, highlighting significant differences in transfer pricing activities among the firms studied. In summary, the descriptive statistics demonstrate notable variability across all variables, suggesting that the sample is adequately representative for testing the research hypotheses.

Table 3.
Construct Validity Test

Variable	Average Variance Extracted (AVE)	Result
Profitability (X1)	1.000	Valid
Tax minimization (X2)	1.000	Valid
Firm Size (Z)	1.000	Valid
Transfer pricing (Y)	1.000	Valid

The analysis indicates that each item's loading factor is 1.000, exceeding the 0.5 threshold, thus fulfilling the criteria for convergent validity. This demonstrates that the construct accounts for at least 50% of the variance in each item, confirming its validity.

Table 4.
Reliability Test Results

Variabel	Cronbach's Alpha	Result
Profitability (X1)	1.000	Reliabel
Tax minimization (X2)	1.000	Reliabel

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Available online at: http://jurnal.umb.ac.id/index.php/JAKTA
DOI: https://doi.org/10.36085/jakta.v2i1

Firm Size (Z)	1.000	Reliabel
Transfer pricing (Y)	1.000	Reliabel

The findings reveal that each item has a Cronbach's Alpha value of 1.000, which is well above the minimum standard of 0.7. This result indicates that the constructs assessed in this study demonstrate strong reliability.

Table 5.
R-Square Test Results

	R Square	**R Square Adjusted**
Transfer pricing (Y)	0.366	0.260

The R-square value for the transfer pricing variable (Y) is 0.366, indicating that profitability (X1), tax minimization (X2), and firm size (M) collectively explain 36.6% of the variance in transfer pricing. The remaining 63.4% is attributed to other variables outside the scope of this research.

Table 6.
Hypothesis Test Results

	Original Sampel (O)	**T Statistic (|O/STDEV|)**	**P Values**
Profitability (X1) -> Transfer pricing (Y)	-0.428	3.807	0.000
Tax minimization (X2) -> Transfer pricing (Y)	0.064	0.392	0.695
Firm Size (Z) -> Transfer pricing (Y)	-0.347	2.571	0.010
Firm Size (Z)* Profitability (X1) -> Transfer pricing (Y)	0.312	2.266	0.023
Firm Size (Z)* Tax minimization (X2) -> Transfer pricing (Y)	-0.096	0.580	0.562

The results of hypothesis testing using the PLS method, which examined the relationships among profitability, tax minimization, firm size, and transfer pricing, produced several important findings. Firstly, the direct effect of profitability (X1) on transfer pricing (Y) yielded a coefficient of –0.428, with a t-statistic of 3.807 and a p-value of 0.000. This significant negative relationship suggests that companies with higher profitability are less likely to engage in transfer pricing, as strong financial results reduce the motivation for earnings manipulation. Secondly, the influence of tax minimization (X2) on transfer pricing (Y) was not significant, with a coefficient of 0.064, a t-statistic of 0.392, and a p-value of 0.695. This indicates that, when considered independently, tax minimization does not adequately account for differences in transfer pricing behavior among firms. Third, the analysis verified the moderating effect of firm size (Z) on the relationship between profitability (X1) and transfer pricing (Y), with a coefficient of 0.312, a t-statistic of 2.266, and a p-value of 0.023.

This result suggests that larger firms are generally more capable of controlling or limiting profit-shifting activities, which strengthens the negative association between profitability and transfer pricing. Conversely, the interaction between tax minimization (X2) and firm size (Z) on transfer pricing (Y) showed a coefficient of –0.096, a t-statistic of 0.580, and a p-value of 0.562, indicating that firm size does not significantly moderate the effect of tax minimization on transfer pricing. Taken together, these outcomes confirm

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e-ISSN: 2723-1488
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DOI: https://doi.org/10.36085/jakta.v2i1

support for hypotheses H1 and H3, while hypotheses H2 and H4 are not substantiated. The evidence underscores that profitability and firm size jointly shape transfer pricing practices, whereas tax minimization, either directly or in interaction with firm size, fails to exert a meaningful influence. This suggests that managerial decision-making regarding transfer pricing is more sensitive to internal financial performance and organizational scale than to tax minimization considerations alone, thereby highlighting the need for future studies to re-examine the role of tax planning strategies within different regulatory or industrial contexts.

The Influence of Profitability on Transfer Pricing

Agency theory offers a comprehensive framework for understanding transfer pricing behavior in corporations by describing the contractual dynamics between shareholders as principals and managers as agents (Sa'diah & Afriyenti, 2021). Within this framework, conflicts of interest frequently emerge: while principals prioritize maximizing corporate profits and long-term firm value, agents may pursue personal benefits, such as performance-based bonuses, career advancement, or other forms of compensation. To achieve these objectives, managers often employ transfer pricing strategies, commonly executed by reallocating profits from high-tax jurisdictions to affiliates situated in lower-tax regimes. Profitability constitutes a critical determinant of transfer pricing behavior (Muzal & Lastanti, 2024). Firms that generate higher profits are generally exposed to greater tax liabilities, thereby heightening the incentive for managers to implement mechanisms that alleviate fiscal burdens. Transfer pricing is often utilized as a strategic approach, enabling companies to reallocate profits from regions with higher tax rates to jurisdictions with more advantageous tax conditions.

This method not only lowers the group's total tax liability but also functions as an effective financial management tool, helping firms sustain their competitiveness and enhance shareholder value. Empirical studies provide substantial support for this perspective. Rustian & Syafri (2023) reported that highly profitable multinational firms exhibit a significant positive association with transfer pricing practices, suggesting that increased profitability strengthens the incentive to engage in tax-motivated income shifting. In a similar vein, Mineri & Paramitha (2021) found that companies demonstrating robust financial results tend to employ transfer pricing as a means to mitigate high tax obligations. These results collectively indicate that profitability plays a crucial role in influencing managerial choices regarding transfer pricing strategies. In sum, transfer pricing practices are strongly influenced by profitability. This conclusion aligns with agency theory, which posits that managers are inclined to pursue strategies that simultaneously enhance corporate financial outcomes and secure personal rewards. Accordingly, policymakers and tax authorities must consider the role of profitability in driving transfer pricing practices when formulating regulatory frameworks aimed at mitigating tax avoidance.

The Impact of Tax Minimization on Transfer Pricing

The findings of this study indicate that tax minimization initiatives do not have a statistically significant influence on transfer pricing practices. At first glance, this outcome may seem inconsistent with the conventional assumption that firms exploit

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e-ISSN: 2723-1488
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DOI: https://doi.org/10.36085/jakta.v2i1

every possible mechanism to reduce tax burdens. However, agency theory provides a plausible explanation. While managers (agents) may indeed have incentives to minimize tax liabilities for personal benefits, transfer pricing is not always the preferred strategy due to its inherent risks and potential legal consequences (Sa'diah & Afriyenti, 2021). Instead, managers often resort to legitimate tax-saving avenues, such as exploiting tax incentives, engaging in prudent tax planning, or maximizing deductible expenses. These approaches comply with statutory requirements while avoiding the substantial reputational and legal risks associated with aggressive transfer pricing schemes. As Putri & Lindawati (2023) argue, tax minimization is not synonymous with transfer pricing, since firms may achieve lower tax burdens through lawful and transparent practices that do not jeopardize compliance or stakeholder trust.

A further explanation lies in the tightening of regulatory oversight by tax authorities. Across jurisdictions, governments have reinforced transfer pricing rules and introduced more rigorous monitoring systems to curb abusive profit-shifting practices. This heightened scrutiny increases firms' perceived risks of regulatory sanctions, thereby discouraging reliance on transfer pricing and motivating the adoption of alternative, compliant tax-saving strategies (Maharani et al., 2023). Although the results indicate that tax minimization does not have a direct impact on transfer pricing practices, the study highlights the necessity for ongoing regulatory oversight. It is essential for authorities to enhance systems that ensure transparency and enforce compliance with the arm's length principle in transfer pricing reporting (Aqilla & Sisdianto, 2024). Beyond external regulation, robust internal corporate governance is equally vital, as effective oversight by boards and audit committees can align managerial decision-making with shareholder interests while restraining opportunistic behaviors that may foster abusive transfer pricing In conclusion, the absence of a direct link between tax minimization and transfer pricing highlights the growing importance of regulatory enforcement and corporate governance as complementary safeguards. Tax authorities should not only enforce compliance but also encourage firms to pursue legitimate, efficiency-driven tax strategies. By balancing strict oversight with constructive guidance, regulators can protect fiscal integrity while sustaining fairness in cross-border business practices.

The Moderating Role of Firm Size in the Relationship Between Profitability and Transfer Pricing

The findings indicate that firm size plays a significant moderating role in the positive association between profitability and transfer pricing. From the perspective of agency theory, larger companies generally have more advanced governance structures and stronger oversight compared to smaller firms (Densiska & Kunawangsih, 2023). These institutional arrangements serve to constrain managerial discretion, thereby lowering the propensity to engage in aggressive transfer pricing practices, even when profitability levels are elevated. In addition, large-scale enterprises generally possess superior financial and organizational resources that enable the implementation of comprehensive governance frameworks, including internal auditing systems, transparent financial disclosures, and proactive supervisory boards (Ilmi & Prastiwi, 2020). These mechanisms act as pivotal safeguards that align managerial decision-

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e-ISSN: 2723-1488
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Available online at: http://jurnal.umb.ac.id/index.php/JAKTA
DOI: https://doi.org/10.36085/jakta.v2i1

making with broader corporate objectives, thereby reducing the managerial incentive to exploit transfer pricing for opportunistic purposes.

This finding underscores the critical importance of reinforcing corporate governance structures, particularly within highly profitable and large-scale firms. Regulators and policymakers are urged to establish and enforce stricter governance standards, such as enhancing the functional effectiveness of audit committees and strengthening the monitoring roles of boards of commissioners (Madani & Djohar, 2024). Strengthened oversight not only mitigates the risks of transfer pricing but also promotes compliance with regulatory frameworks and fosters higher levels of corporate accountability. As a result, firm size stands out as an important moderating variable in the relationship between profitability and transfer pricing. Strong governance frameworks and transparent disclosure practices are essential in limiting profit-shifting behaviors, supporting fiscal responsibility, enhancing corporate credibility, and promoting a fairer and more sustainable business landscape.

The Moderating Effect of Firm Size on the Relationship Between Tax Minimization and Transfer Pricing

The results of this research demonstrate that firm size does not have a moderating effect on the relationship between tax minimization and transfer pricing activities. While larger corporations are generally characterized by more elaborate governance architectures and stronger supervisory mechanisms, these institutional features appear insufficient to curtail managerial initiatives directed toward achieving tax minimization through transfer pricing arrangements (Densiska & Kunawangsih, 2023). Instead, persistent pressures from shareholders to maximize post-tax earnings, together with managerial incentives tied to performance outcomes, remain decisive drivers of such practices. Consistent with the empirical evidence reported by Pandia & Gultom (2022), the present study corroborates the view that firm size does not significantly alter the linkage between tax minimization and transfer pricing. This suggests that, irrespective of organizational scale, the fundamental motivation to lower tax burdens continues to incentivize firms to adopt profit-shifting strategies, thereby underscoring the robustness of tax minimization as a determinant of transfer pricing behavior.

These findings highlight the critical importance of rigorous regulatory enforcement and the institutionalization of transparent disclosure standards. As highlighted by Sukamto (2023), it is essential for tax authorities to enhance oversight systems and enforce compliance with the arm's length principle in the disclosure of transfer pricing transactions. These measures are crucial for reducing opportunities for manipulation and protecting government revenue. Beyond regulatory measures, improvements in corporate governance frameworks are equally vital to enhance accountability and reduce the scope for opportunistic managerial behavior. In conclusion, the absence of a significant moderating role of firm size implies that structural advantages embedded within larger organizations are not, by themselves, sufficient to deter aggressive tax minimization strategies pursued through transfer pricing. Accordingly, policymakers and regulators are urged to reinforce oversight frameworks, mandate greater transparency in corporate reporting, and tighten compliance standards

ISSN: 2723-1399
e-ISSN: 2723-1488
JURNAL AKUNTANSI KEUANGAN DAN TEKNOLOGI INFORMASI AKUNTANSI
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in order to protect state revenues while maintaining public trust in the integrity of corporate governance practices.

CONSLUSION

The empirical results of this research show that profitability has a significant negative impact on transfer pricing, whereas tax minimization does not exhibit a notable effect. Moreover, firm size is identified as a moderating factor in the relationship between profitability and transfer pricing, yet it does not appear to moderate the association between tax minimization and transfer pricing. These results underscore the nuanced dynamics underlying corporate transfer pricing decisions and highlight the importance of firm-specific characteristics in shaping such practices. Given these insights, along with the inherent limitations of this study, future research is encouraged to investigate additional determinants of transfer pricing behavior within the mining sector. Potential avenues include analyzing the influence of regulatory and institutional frameworks, assessing the implications of global market volatility, and incorporating other firm-level attributes such as ownership structure, governance mechanisms, and internationalization strategies. Further research in this area would deepen the current understanding by offering a more comprehensive and contextually nuanced perspective on transfer pricing practices within resource-based sectors.

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