

The Effect of Tax Avoidance, Multinationality, and Profitability on Corporate Transfer Pricing Decisions: a Systematic Literature Review

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ABSTRACT

This study aims to analyze the influence of tax avoidance, multinationality, and profitability on transfer pricing decisions in multinational companies through the Systematic Literature Review (SLR) method. This study uses 50 national and international articles indexed by Scopus and Sinta, with a publication period of 2019–2024. The results of the study show that transfer pricing practices are influenced by three main factors, namely tax avoidance, multinationality, and profitability. The tax avoidance factor has proven to be the main driver for companies to carry out transfer pricing to divert profits to countries with low tax rates. Multinationality has a positive effect because the wider the cross-border operation, the greater the opportunity for transfer pricing practices. However, profitability shows mixed results; some studies show positive influences, while others find negative influences depending on the industry context, tax regulations, and corporate governance. These findings confirm the importance of monitoring and applying the arm's length principle to prevent the abuse of transfer pricing in multinational companies.

KEYWORDS

Tax Avoidance, Multinationality, Profitability, Transfer Pricing.



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INTRODUCTION

The rapid economic development without knowing the borders of the country indirectly encourages a number of companies to expand their markets by establishing subsidiaries at home and abroad that refer to the construction of multinational companies. Multinational companies have a significant role in the global economy through cross-border business activities. The complexity of transactions between entities within one business group often gives rise to the practice of transfer pricing, which is the determination of prices in transactions between affiliated companies operating in different countries.

Transfer pricing is defined as the price that applies to intra-company trade in the form of tangible goods between affiliates of multinational companies. Because affiliation related to transfer pricing is an internal price for multinational companies that function in allocating profits from companies that export and import goods or services (Alan M. Rugman, 2017). Transfer pricing is a problem that is difficult to solve because it is closely related to customs profits, general tax provisions, and is an unhealthy business competition.

A company's transfer pricing activity initially aims to assess the performance of each member of each part of the company. However, in the growing economy, this practice is used to manage the taxes that will be issued. The government considers transfer pricing to reduce or even eliminate a country's tax revenue because multinational companies are synonymous with reducing tax obligations from countries with high tax rates to countries with low tax rates. Meanwhile, for multinational companies, the practice of transfer pricing is used as an effective way to compete in winning limited resources.

The energy sector is a sector that is considered prone to transfer pricing. The Corruption Eradication Commission once noted that there was a shortfall in tax payments for the mining sector in forest areas amounting to Rp. 15.9 trillion per year which was definitely a result of manipulation of transfer pricing. The author researches the target and realization of state revenue for 2017–2024 obtained from www.kemenkeu.go.id sources. The following is the target data and the realization of state revenue. In 2020, the mining sector was minus 34.9%, which was caused by a decline in world crude oil prices and exacerbated by low oil and gas lifting due to the pandemic (Kurniati, 2020). In 2021, the achievement has increased, where the realization of revenue has exceeded the set target. This increasing tax revenue is supported by economic activity that is starting to recover and increasing commodity prices that encourage production, consumption, and international trade activities. In 2022, the mining sector recorded higher growth compared to the previous year, but the contribution to tax revenue was only 8.3%, which is a lower tax contribution compared to other sectors, namely the trade and financial services and insurance industries (CNBC, 2023).

According to an internal report by Global Witness, in 2019 in 2017 the arrears of non-tax state revenues amounted to Rp. 25.5 trillion rupiah, this illustrates that there are many possibilities for state revenues to decrease from the previous year. This is the practice of tax avoidance on transfer pricing. The phenomenon and facts that occur in the field of cases that are in the spotlight that carry out transfer pricing practices are PT Adaro Energi, Tbk (ADARO) with its affiliated company in Singapore, Coaltrade Service International.

According to Sugianto, in 2019 these efforts have been carried out since 2009–2017 PT Adaro Energi, Tbk (ADARO) took advantage of the gap by selling its coal to Coaltrade Service International at a cheaper price, which paid US\$ 125 million lower than what should have been paid to the Government of Indonesia, namely by making a transaction of selling coal at a low price and then by Coaltrade Service International reselling it at a high price to independent parties (Global Witness, 2019). This case proves that the public and the government, especially the tax authorities, should focus on the multinational energy sector related to transfer pricing practices.

There are several factors for companies that carry out transfer pricing practices. According to (Falbo & Firmansyah, 2019) tax avoidance is the behavior of taxpayers to reduce the tax burden but not violate regulations. The technique used by companies to carry out tax avoidance is by reducing the amount of tax owed without violating tax regulations or in other terms looking for regulatory weaknesses. Although tax avoidance is considered legal by taking advantage of various loopholes in the law, the government opposes the practice of tax avoidance.

The company transfers pricing by transferring industrial profits in Indonesia to intermediary industries abroad with a smaller tax rate. According to research (Sari et al., 2022), (Farkhah Elfa et al., 2022) and (Pramita & Susanti, 2023) shows that transfer pricing has a positive effect on tax avoidance. However, research conducted by (Ramdhani1 et al., n.d.), and (Sulistyawati et al., 2020) shows that transfer pricing has a negative effect on tax avoidance. Research (Falbo & Firmansyah, 2019) shows that transfer pricing has no effect on tax avoidance.

In addition to tax avoidance, another reason that allows companies to carry out transfer pricing practices is multinationality. Basically, multinationality is a company that covers a

number of countries and has production facilities and services outside its own country. The research conducted (Taylor & Richardson, 2013) showed that multinationals have a positive effect on transfer pricing decisions by utilizing interstate tax policies. However, research by Waworuntu (2022) found that there was a negative relationship between multinationals by companies on transfer pricing practices.

In addition to tax avoidance and multinationality, another factor that allows companies to carry out transfer pricing practices is profitability. Profitability in financial statements describes a company's ability to generate profits from the resources it has. Profitability ratio indicators such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM) are often used to assess how efficiently a company manages its assets and capital to generate profits. Indications in financial statements when profitability differs significantly between entities in a group, for example, subsidiaries in countries with high tax rates record small profits or even losses, while in low-tax countries it is actually very high, this is often a warning for tax authorities regarding the potential for transfer pricing. Research by (Mas Bayu Anggah & Yuliati, 2024) shows that profitability has a positive effect on transfer pricing because the company's high profitability will give a positive signal for investors to make a profit. However, research by (Huu Anh et al., n.d.) found that profitability did not have a significant effect on transfer pricing.

From various sources of previous research above, there are those who say that tax avoidance, multinationality, and profitability have a significant effect on transfer pricing, but there are also studies that say that tax avoidance, multinationality, and profitability do not have a significant effect. This happens because of various factors that make the view of the study different.

First, from the industrial sector, research on multinational companies in the energy or mining sector often shows a significant influence because this sector is prone to transfer pricing practices. However, in the manufacturing or services sector, the results can be different because the characteristics of assets, cost structures, and regulations are not the same. Second, there are limitations in tax regulation research, the level of supervision, and the company's strategy changes from year to year. Third, several researchers added control variables such as corporate governance, leverage, firm size, thin capitalization. The presence of these variables can strengthen or weaken the relationship between tax avoidance, multinationality, and profitability with transfer pricing. Fourth, in countries with strict supervision and strict tax regulations, it is more difficult for companies to carry out transfer pricing so that the effect can be insignificant. In contrast, in countries with weak law enforcement, tax avoidance and multinationality are more clearly seen to have an effect.

Based on the description of the differences in the results of previous research, it can be concluded that the author is interested in researching the variables of tax avoidance, multinationality, and profitability on transfer pricing because these three variables still cause a fairly strong research gap. The results of previous research showed inconsistencies, some of which proved a significant influence and some did not. This inconsistency is influenced by differences in industry sectors, research periods, tax regulations, and control variables used. Thus, this research is important to provide the latest empirical evidence, especially in the context of tax regulations and business practices in Indonesia, so that it can enrich the academic

literature as well as provide practical input for the government in anticipating transfer pricing practices.

The purpose of this study is to empirically analyze the effect of tax avoidance, multinationality, and profitability on transfer pricing decisions among companies operating in Indonesia. The benefits of this research are both theoretical and practical. Theoretically, it is expected to enrich the academic literature on international taxation and corporate financial behavior, particularly concerning transfer pricing determinants in emerging economies. Practically, the results of this study can serve as valuable input for policymakers and tax authorities in formulating more effective anti-avoidance regulations and improving supervision of multinational companies.

METHOD

This study used Systematic Literature Review as an analysis method, which is a systematic method to conduct a review of pre-existing research literature. This study analyzed various national and international studies to answer questions related to transfer pricing in multinational companies. In this study, we searched for literature sources from the databases of Mendeley, ProQuest, Scopus, Publish and Perish, and ScienceDirect with several criteria as follows: 1) Literature was only in the form of research articles, excluding theses, dissertations, books, or conference proceedings; 2) Articles had publication years from 2019 to 2024; 3) Articles could be downloaded and were fully open access; 4) Articles were in Indonesian or English; and 5) Indexed in Scopus and Sinta, which had been tested for the validity of the discussion. The article search used keywords such as "transfer pricing," "tax avoidance," "profitability," and "multinationality." From the search results, 50 articles were found that matched the criteria.

RESULT AND DISCUSSION

Transfer Pricing in Relation to Tax Avoidance

Based on the results of the literature analysis, there are 10 transfer pricing articles related to tax avoidance.

Table 1. Transfer Pricing and Tax Avoidance Research Results

Writer	Findings
(Taylor & Richardson, 2013)	Tax avoidance has a significant effect on transfer pricing decisions.
	Tax avoidance has a significant effect on transfer pricing decisions.
(Sulistyawati et al., 2020)	Transfer pricing has a negative effect on tax avoidance.
(Widyasari et al., 2024)	Transfer pricing is used by multinational corporations to move profits from countries with high tax rates to countries with low tax rates.
	Companies move value from intangible assets to tax havens through high royalty payments or disproportionate service fees, which reduces reported profits in high-tax countries.
(Sebele-Mpofu et al., 2021)	Limited oversight and transparency in developing countries make information incomplete or difficult to access, paving the way for companies to evade taxes undetected
	Transfer pricing has a positive influence on tax avoidance.

Writer	Findings
	The setting of transfer pricing has a positive effect on tax avoidance.
	Transfer pricing has a negative effect on tax avoidance.
	Transfer pricing has a negative effect on tax avoidance.
	Companies that have transfer pricing agreements tend to have less cash flow, suggesting that strict regulation can reduce tax avoidance practices.
	This research highlights the importance of transparency, compliance, and ethical considerations in transfer pricing practices.
	Transfer pricing plays an important role in decision-making, performance evaluation, and alignment of goals within organizations, emphasizing the need for strategic alignment and ethical behavior in transfer pricing practices.
(Iriyadi et al., 2024)	Transfer pricing has no effect on tax avoidance.
(Mulyani et al., 2020)	
(Ravanelly & Soetardjo, 2023)	
(Kalekye Musya et al., n.d.)	
(Alghamdi et al., 2024)	
Armalia (2020)	
(Sari et al., 2022)	

source: author (2025)

Transfer pricing is considered to have a detrimental impact on developing countries, not only causing problems, but also aiding tax avoidance practices (Sebele-Mpofu et al., 2021). With transfer pricing, there will be a decrease in turnover in tax reporting, which is a form of tax avoidance (Iriyadi et al., 2024). However, research from (Widyasari et al., 2024) (Mulyani et al., 2020), and Amirullah 2022 shows different results (Widyasari et al., 2024) explaining that the more aggressive a company is in transfer pricing practices, the lower the tax avoidance rate will be. This suggests that strict regulations regarding transfer pricing can encourage companies to be more transparent in their tax returns.

(Mulyani et al., 2020) also said that Taxpayers will be sanctioned if they do not organize and store transfer pricing documents. In Indonesia itself, there is a policy for taxpayers who

have special relationship transactions to prove the fairness of their transactions through the preparation of transfer pricing documents that have been regulated in the Regulation of the Minister of Finance of the Republic of Indonesia Number 213/PMK.03/2016. As such, companies tend to avoid transfer pricing practices with affiliated companies in countries with lower tax rates. (Iriyadi et al., 2024) also explained the importance of transparency, compliance, and ethical considerations in transfer pricing practices.

This may also happen because companies that run transfer pricing make them pay taxes at the lowest price but in accordance with applicable principles and not violate the law, so they are not burdened with paying taxes. The company actually shows its nationalism through the contribution of tax payments (Widyasari et al., 2024) In some studies, transfer pricing does not even have an effect on tax avoidance (Sari et al., 2022)

Transfer Pricing Relates to Company Profitability

From the results of the analysis of the research literature, there are 4 transfer pricing articles related to the company's financial profitability.

Table 2. The Relationship of Transfer Pricing to Company Profitability

Writer	Findings
(Putri et al., 2023)	Profitability was found to have a negative effect on transfer pricing behavior. This means that more profitable companies tend not to do much transfer pricing.
(Nugroho et al., 2024)	It was found that profitability influences the company's decision to transfer pricing
(Akisheva & Fcca, n.d.)	The <i>transfer pricing</i> mechanism collectively has a significant influence on financial performance.
(Zarkasih & Maryati, 2023)	There is a direct relationship between <i>transfer pricing</i> and a company's financial performance as measured through <i>Return on Equity</i> (ROE) and <i>Return on Assets</i> (ROA).

source: author (2025)

(Putri et al., 2023) which states that profitability has a negative effect on transfer pricing means that the higher the profit or profit obtained by the company, the less inclined the company is to carry out transfer pricing practices companies with a high level of profitability are able to show good performance and obtain optimal profits, so they do not really need transfer price engineering to reduce tax burdens or move profits. Conversely, companies with low profitability may be more motivated to carry out transfer pricing in order to reduce tax burden and improve their financial position.

On the other hand, when transfer pricing is viewed from research (Hashemi & Hanum, 2013) the mechanism of transfer pricing collectively has a significant influence on financial performance. Judging from Related Party Transaction, refers to the transfer of assets, goods and services, or liabilities of a company between a reporting entity and a related party, whether the entity charges a price or not. The results of the study show that managers use Related Party Transactions to meet the financial needs of the company and increase the company's economic growth.

Transfer Pricing Practices in Multinational Companies

The practice of transfer pricing in multinational companies is defined as the policy of pricing in transactions of goods, services, and intangible assets between companies that have special relationships across countries (OECD, 2017). According to agency theory, management as an agent seeks to maximize its interests through profit management, one of which is by transferring pricing strategies to minimize tax burdens (Jensen & Meckling, 1976). Research (Hashemi & Hanum, 2013) shows that multinational companies tend to transfer pricing with the aim of tax efficiency through the transfer of profits to jurisdictions with low tax rates. Thus, the practice of transfer pricing is not only related to the company's internal management, but also to global strategies in tax management.

However, this practice has significant implications for state revenue. (Nugroho et al., 2024) found that profitability affects the company's decision to carry out transfer pricing, where companies with high profits seek to reduce the tax burden through this mechanism. The results of the study (Putri et al., 2023) also confirm that profitability has a negative effect on transfer pricing, meaning that more profitable companies tend to reduce this practice because they have the ability to meet their tax obligations. Therefore, the OECD through the Base Erosion and Profit Shifting (BEPS) Action Plan recommends the application of the arm's length principle as a basis for supervision, and in Indonesia this is regulated through the obligation to prepare transfer pricing documentation (PMK No. 213/PMK.03/2016).

BEPS is a term used to describe tax planning strategies used by multinational corporations to exploit gaps and discrepancies in tax rules to artificially shift profits to low- or no-tax jurisdictions, thereby reducing their overall tax liability (Hulkó et al., 2023). In line with (Cooper & Nguyen, 2020) who mentioned that tax planning is considered a legal effort used by multinational companies to reduce their tax liabilities often through the transfer of profits to low-tax jurisdictions. In contrast, (Kohlhase & Wielhouwer, 2023) explains that business units strategically allocate trade costs to countries with higher tax rates without including those costs in transfer pricing. This creates significant tax savings. To prevent deviant practices from transfer pricing actions, stricter policies can increase the burden of compliance and reduce the flexibility of tax strategies. Field findings from (Rogers & Oats, 2022) show that transfer pricing actors are adapting to changes at the field level by changing their view of Arm's Length Principle (ALP) as the only sensible mechanism for allocating taxable profits between jurisdictions. ALP or the principle of fairness and business practice is the basis for making international transfers (Akisheva & Fcca, n.d.). Transfer pricing regulations generally regulate the appropriate method of determining transfer pricing, which is called the fair price of transactions with related parties, the obligation of taxpayers to provide relevant information to tax authorities, and tax adjustment provisions (Yoo, 2022) Of the 50 articles taken, there are 10 articles that explain the relationship between transfer pricing in multinational companies.

Table 3. Transfer Pricing Practices in Multinational Companies

No.	Researcher (Year)	Key Independent Variables	Major Dependent Variables	Key Results (Influence)
1.	Akhadya & Ariefiara (2019), Ramadhan & Kustiani (2017),	Taxation, Multinationality, <i>Tunneling Incentive</i>	Transfer Pricing Decision	Taxes and Multinational have a positive and significant effect on Transfer Pricing.

No.	Researcher (Year)	Key Independent Variables	Major Dependent Variables	Key Results (Influence)
	Richardson et al. (2013)			
2.	Dharma (2020)	Pajak, <i>Exchange Rate</i> , <i>Tunneling Incentive</i> , <i>Bonus Plan</i>	Practice Transfer Pricing	Taxes and Tunneling Incentives have a negative and significant effect on Transfer Pricing practices. (There were results that were inconsistent with other studies).
3.	Sari et al. (2022)	<i>Debt Covenant</i>	Decision to Transfer Pricing	Debt Covenant has a positive and significant effect on Transfer Pricing decisions.
4.	Sujana et al. (2022)	<i>Tunneling Incentive</i> , <i>Cash Effective Tax Rate (CETR)</i> , <i>Debt Covenant</i>	Decision to Transfer Pricing	Tunneling Incentive has a significant positive effect. CETR and Debt Covenant have no effect. (There is an inconsistency in the Debt Covenant).
5.	Marheni et al. (2022)	<i>Tunneling Incentive</i> , <i>Corporate Governance</i> , <i>Leverage</i>	Transfer Pricing Aggressiveness	Tunneling Incentive has a significant positive effect on the aggressiveness of Transfer Pricing.
6.	Alfarizi, Sari, & Ajengtiyas (2021)	<i>Transfer Pricing</i> , <i>Profitability</i>	Tax Avoidance	Transfer Pricing does not affect tax avoidance simultaneously. (This result is often inconsistent with other studies).
7.	Iriyadi et al. (2024)	<i>Transfer Pricing</i>	Tax Avoidance	Transfer Pricing has a positive influence on Tax Avoidance.
8.	Widyasari et al. (2024), Hidayah et al. (2024), Amelia et al. (2024)	<i>Transfer Pricing</i>	Tax Avoidance	Transfer Pricing has a negative effect on Tax Avoidance. (Indicates inconsistency of results).
9.	Ilham Teguh Setiawan & Yulis Sarah Rizkya (2020)	Taxes, Profitability, Company Size, Intangible Assets	Transfer Pricing Intensity	Intangible Assets have a significant effect on Transfer Pricing.
10.	Poyda-Nosyk et al. (2023)	<i>Transfer Pricing</i>	Financial Performance (ROE, ROA)	There is a direct relationship between Transfer Pricing and the company's financial performance.

source: author (2025)

The research table above summarizes various studies on the factors that influence transfer pricing practices and decisions and their impact on other variables. Some early studies, such as those conducted by (Ramdhani1 et al., n.d.) and (Taylor & Richardson, 2013) found that taxes and multinationalities have a positive and significant effect on transfer pricing decisions, suggesting that multinationals with a high tax burden are more likely to engage in this practice. However, different results were found by (Darma, 2020) which stated that taxes and tunneling incentives have a negative effect on transfer pricing, thus showing inconsistencies in the findings in the literature.

Other research focuses on debt covenant factors and tunneling incentives. (Sari et al., 2022) shows that debt covenants have a positive effect on the decision to transfer pricing. Meanwhile, (Andayani & Sulistyawati, 2020) found that only tunneling incentives had a significant effect, while CETR and debt covenants had no effect, so the results regarding debt covenants were still inconsistent. Furthermore, (Marheni et al., 2022) emphasized that

tunneling incentives have a positive effect on the aggressiveness of transfer pricing, supported by governance factors and leverage as controlling variables.

On the other hand, there is also research linking transfer pricing to tax avoidance practices. (Sari et al., 2022) stated that transfer pricing had no significant effect on tax avoidance, while (Iriyadi et al., 2024) found the opposite result, namely the positive effect of transfer pricing on tax avoidance. Interestingly, (Widyasari et al., 2024), (Hidayat et al., 2019) and (Marheni et al., 2022) state that transfer pricing has a negative effect on tax avoidance, thus showing a contradiction in the latest research.

In addition, research by (Setiawan & Rizkya, 2020) revealed that intangible assets are a significant factor that drives the intensity of transfer pricing, while other variables such as profitability and company size have little effect. Finally, Poyda-Nosyk et al. (2023) linked transfer pricing to financial performance (ROE and ROA), and found a direct relationship, suggesting that transfer pricing practices can affect a company's overall profitability.

From various previous studies, transfer pricing practices are influenced by various factors, such as taxes, multinationality, debt covenants, tunneling incentives, intangible assets, and corporate governance. In general, taxes and tunneling incentives are often found to have a positive effect on transfer pricing decisions, although some studies have shown negative results that lead to inconsistencies. The relationship between transfer pricing and tax avoidance is also still debated; There are studies that show positive, negative, or insignificant influences. In addition, transfer pricing has also been proven to affect the company's financial performance, especially profitability. Therefore, it can be concluded that research related to transfer pricing still produces diverse and contradictory findings, so further studies are needed by considering contextual variables, differences in methods, and regulatory conditions in each country.

The Effect of Tax Avoidance on the Decision of the Company That Performs Transfer Pricing

Tax avoidance is a company's effort to minimize the tax burden legally by taking advantage of gaps in existing tax regulations without violating the law. In the context of transfer pricing, multinationals take advantage of this mechanism by shifting profits to countries with lower tax rates to reduce the overall tax burden. This practice is often done by setting transfer prices between affiliated companies outside of market fairness, such as selling goods or services to subsidiaries in a "tax haven" country at a price lower than the actual value.

The results of the literature analysis in the article show that tax avoidance has a significant effect on transfer pricing decisions. Companies that are aggressive in tax avoidance are more likely to use transfer pricing as a means to regulate the location of profit reporting. This means that the higher the tax avoidance rate, the more likely the company is to make transfer pricing decisions to reduce the taxes that must be paid in countries with high tax rates.

However, the study also found inconsistencies in the empirical results. Several studies such as by (Widyasari et al., 2024) and (Farkhah Elfa et al., 2022) show that the effect of tax avoidance on transfer pricing can be negative or even insignificant. This is due to strict regulations regarding transfer pricing documentation (e.g. PMK No. 213/PMK.03/2016 in Indonesia), which requires companies to prove the fairness of affiliate transactions. This regulation makes companies more careful, so transfer pricing is not always used for tax avoidance purposes.

Thus, the effect of tax avoidance on transfer pricing decisions is contextual. In countries with weak tax supervision, companies are freer to use transfer pricing as a means of tax avoidance. In contrast, in countries with strong regulation and supervision, this practice could decline due to the increased risk of sanctions and tax scrutiny.

The Influence of Multinationality on the Decision of the Company Transfer Pricing

Multinationality refers to the extent to which a company conducts cross-border business activities, either through the establishment of subsidiaries, joint ventures, or production and distribution branches in various jurisdictions. The higher the level of multinationality, the more complex the transactions between corporate entities in a group, and the greater the opportunity to conduct transfer pricing.

In this context, multinational companies have high flexibility to set selling and buying prices between affiliated entities in different countries, with the aim of optimizing the global tax burden. They can move profits to countries with low tax rates (tax havens) and report greater costs in countries with high tax rates, resulting in smaller total taxes being paid.

Previous research analyzed in this article shows that multinationality has a positive effect on transfer pricing decisions (Taylor & Richardson, 2013). This means that the wider the cross-border operations that the company has, the higher their tendency to carry out transfer pricing practices. This is because companies with global networks are more likely to take advantage of differences in regulations, tax rates, and policies between countries for the sake of tax efficiency.

However, the results of the study also show inconsistencies. Some studies have found a negative or insignificant influence, because in some countries that have strict tax supervision, multinational companies are more careful in transferring profits. International regulatory factors such as the OECD – BEPS (Base Erosion and Profit Shifting) policy and the Arm's Length principle also limit the company's room to move in determining unreasonable transfer prices. Thus, multinationality can be a major driving factor in a company's decision to conduct transfer pricing, but its power of influence is highly dependent on interstate tax regulations, the level of regulatory oversight, and the company's compliance with the principle of fairness of transactions.

The Influence of Profitability on the Decision of the Company That Performs Transfer Pricing

Profitability describes a company's ability to generate profits from its business activities, usually measured through ratios such as Return on Assets (ROA), Return on Equity (ROE), or Net Profit Margin (NPM). Profitability is the main indicator in assessing the company's performance and efficiency in managing assets and capital.

In the context of transfer pricing, the level of profitability of a company has an important influence on management's decision in regulating the price of transactions between affiliated entities. The results of the literature review in the article show that the effect of profitability on transfer pricing is not always in the same direction, there are various results (inconsistent) depending on the company's conditions and strategy.

Several studies show a positive influence, such as (Nugroho et al., 2024) which states that profitability affects a company's decision to carry out transfer pricing. Companies with

high profits tend to use transfer pricing to reduce tax burden and optimize net profit after tax. By moving a portion of the profits to countries with low tax rates, companies can maintain a high level of global profitability.

In contrast, another study (Putri et al., 2023) showed a negative influence between profitability and transfer pricing. This means that the higher the profit that the company gets, the less inclined they are to carry out transfer pricing practices. This is because companies that are already profitable don't need to manipulate transfer prices to reduce taxes, and they tend to maintain reputation and legal compliance.

Research (Hoy et al., 2024) also confirms that the transfer pricing mechanism has a significant influence on financial performance. Transactions between related parties are used to support the financial needs and stability of the company's profits in the long term, not just for tax avoidance.

The difference in results shows that the effect of profitability on transfer pricing is contextual, depending on the management strategy, the organizational structure of the business group, and the level of tax supervision in the country where it operates. In companies with weak oversight and high tax incentives, profitability can be a driver of transfer pricing practices. On the other hand, in companies with good governance and high compliance, profitability decreases this tendency.

This study only uses the Systematic Literature Review (SLR) method without conducting a direct empirical test, so the results depend on the quality and completeness of the articles analyzed. Data sources are limited to articles with the period 2019–2024 and those indexed by Scopus and Sinta, so they do not include other relevant studies but do not meet those criteria. The results of the study show inconsistencies between studies, especially related to the influence of tax avoidance, multinationality, and profitability on transfer pricing, due to differences in industry sectors, country contexts, and control variables. This study has not discussed in depth the impact of recent tax policies, such as the implementation of BEPS or changes in global tax rates that can affect transfer pricing practices. The literature review has not elaborated in detail on corporate governance mechanisms and other non-financial factors that may play a role in transfer pricing decisions.

Research Implications

The results of this study strengthen the theory of Agency Theory which explains that the existence of a conflict of interest between management (agent) and shareholders (principal) can encourage management to carry out transfer pricing practices as an effort to minimize tax burden. In addition, these findings also support the Internationalization Theory and Signaling Theory, where multinational companies with cross-border operations take advantage of differences in regulations and tax rates to optimize profits and provide profitability signals to investors. This research opens up opportunities for academics to conduct follow-up studies with an empirical and cross-country approach, as well as add other variables such as corporate governance, leverage, and thin capitalization. It is important to enrich academic literature regarding the factors influencing transfer pricing decisions in a global context.

CONCLUSION

This study reviewed 50 national and international articles and found that transfer pricing practices in multinational companies are primarily influenced by tax avoidance, multinationality, and profitability, though findings vary across studies. Tax avoidance is the key driver, as companies exploit regulatory loopholes to legally reduce tax burdens by shifting profits to low-tax countries. Multinationality positively affects transfer pricing since companies with extensive cross-border operations have greater pricing flexibility between affiliates, enhancing opportunities for tax-efficient practices. Profitability's impact is mixed; some studies indicate high profitability motivates transfer pricing to preserve net income, while others suggest negative effects due to compliance and reputational concerns. Variations in industry sectors, tax regulations, and corporate governance account for these inconsistencies. Overall, transfer pricing is shaped by both internal corporate factors and external regulatory environments, highlighting the need for strict tax supervision and fair regulatory principles. Future research should explore the role of emerging digital economies and technological advancements in shaping transfer pricing behaviors and regulatory responses.

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