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The influence of tax rates, profitability, assets, and foreign ownership on transfer pricing in Indonesia's mining sector: ethical implications in Islamic economics

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Abstract

The rapid expansion of multinational enterprises (MNEs) has introduced new challenges in managing cross-border transactions, particularly in transfer pricing –a practice used for pricing goods, services, or intangible assets between related entities within a corporate group. This study aims to examine the influence of tax rates, profitability, company assets, and foreign ownership on transfer pricing decisions among mining companies listed on the Indonesia Stock Exchange. The research adopts a quantitative approach, using multiple linear regression analysis on financial data from 33 companies over five years (2017-2021). Results indicate that tax rates and profitability do not significantly impact transfer pricing behavior, while company assets and foreign ownership exhibit a significant negative effect. These findings suggest that larger companies and those with higher foreign ownership are less likely to engage in transfer pricing. The study contributes to the existing literature by incorporating an Islamic economic perspective, emphasizing ethical principles like justice (*al-'adl*) and social responsibility (*al-amānah*) in business practices. The implications highlight the need for stricter regulations and ethical considerations to combat tax avoidance, ensuring fair wealth distribution in alignment with Islamic values.

Keywords: transfer pricing; tax avoidance; Islamic economics; multinational enterprises; mining sector.

Introduction

The rapid advancement of technology and globalization has dramatically transformed the way businesses operate on a global scale. In the past, many companies functioned solely within national borders, but in recent decades, an increasing number of these firms have expanded their operations across multiple countries, evolving into multinational enterprises (MNEs) (Fahmi, 2014). These developments have brought not only new opportunities but also significant challenges, particularly in managing cross-border transactions. One of the most complex and contentious issues arising from these changes is transfer pricing, which refers to the pricing of goods, services, or intangible assets exchanged between related entities within the same corporate group (Indrasti, 2016).

Transfer pricing itself is a legitimate business practice that serves as a critical tool for allocating costs and revenues among subsidiaries. However, it becomes controversial when used by MNEs as a method for tax avoidance. By manipulating transfer prices, MNEs can shift profits from high-tax jurisdictions to countries with lower tax rates, often referred to as tax havens, thereby minimizing their overall tax burden (Suprianto & Pratiwi, 2017). This practice, while beneficial for MNEs, has serious implications for the countries in which these corporations operate, particularly in developing nations like Indonesia. In Indonesia, where tax revenue forms a crucial part of state income, the use of aggressive transfer pricing strategies has resulted in significant losses for the government (Cahyadi & Noviari, 2018).

Developing nations face substantial challenges in combatting tax avoidance through transfer pricing, largely due to the absence of robust and standardized regulations that govern such transactions. Indonesia's tax authorities often struggle to address these practices effectively, and when transfer pricing disputes reach the courts, MNEs frequently prevail. This not only exacerbates financial losses but also undermines the state's ability to fund essential public services such as infrastructure, healthcare, and education (Bernard, Jensen, & Schott, 2006). The shifting of the tax burden onto domestic firms and individual taxpayers fosters economic inequality and social injustice.

Several factors have been identified as key drivers behind MNEs' transfer pricing decisions. Among these, the most widely acknowledged is the disparity in tax rates between countries, which creates strong incentives for profit shifting (Saraswati & Sujana, 2017). Higher tax rates in a given country often lead MNEs to engage in more aggressive transfer pricing practices to reduce their overall tax liability. Additionally, other factors such as profitability, company size, and foreign ownership are also considered influential in determining the extent to which MNEs employ transfer pricing (Pamela, Suripto, & Harori, 2020; E. P. Sari & Mubarok, 2018) However, the relationship between these factors and transfer pricing behavior remains an area of debate. For example, while some research suggests that high profitability encourages the use of transfer pricing (E. P. Sari & Mubarok, 2018), other studies have found no significant link (Adelia & Santioso, 2021).

Foreign ownership presents another dimension of transfer pricing practices. It is often argued that MNEs with substantial foreign ownership are more likely to engage in transfer pricing to maximize global profits, as foreign investors, particularly those from tax havens, may pressure management to exploit tax loopholes (Kiswanto & Purwaningsih, 2014). However, there is also evidence suggesting that foreign investors may discourage aggressive tax avoidance strategies to protect the long-term sustainability and reputation of the firm (Refgia, 2017).

While economic and legal perspectives dominate much of the discussion on transfer pricing, ethical and social considerations are equally important, especially in the context of countries with large Muslim populations, like Indonesia. The principles of Islamic economics provide a valuable framework for evaluating the moral implications of transfer pricing. Islamic economics emphasizes justice (*al-ʻadl*), transparency, and social responsibility. Practices that harm the public interest, such as tax avoidance through aggressive transfer pricing, are seen as inconsistent with these ethical principles (Moeljono & Holle, 2023). According to the *maqāṣid al-sharʻīah* (the objectives of Islamic law), economic activity should protect wealth (*hifẓ al-māl*) and promote societal welfare (*maṣlaḥah*), ensuring equitable distribution of resources and encouraging fair contributions to the development of society.

In an Islamic framework, tax avoidance through transfer pricing is not only a breach of ethical standards but also constitutes broader social harm. By depriving governments of tax revenues needed to finance essential public services, such practices undermine efforts to foster economic justice and social equity. The moral duty to contribute to collective well-being (zakat), a central tenet of Islamic economics, requires both individuals and corporations to fulfill their financial obligations toward society (Ilmi, Sabrina, & Afriyenis, 2017). Furthermore, Islamic economics prohibits gharar (excessive uncertainty) and manipulation in business dealings. Transfer pricing practices that obscure the true value of transactions between related entities introduce gharar, violating the Islamic principle of trust (*al-amānah*) and further exacerbating social inequities.

This study aims to empirically examine the role of various economic factors, such as tax rates, profitability, company assets, and foreign ownership, in influencing transfer pricing decisions within Indonesia's mining sector. Importantly, it also incorporates an analysis from the perspective of Islamic economics, offering a more comprehensive understanding of the ethical dimensions of transfer pricing practices. By integrating conventional economic analysis with ethical considerations grounded in Islamic principles, this research seeks to provide a holistic framework for assessing the implications of transfer pricing on both the economy and society.

In the context of Indonesia, where a significant proportion of the population adheres to Islamic principles, aligning corporate practices with ethical frameworks that promote social justice and responsibility is particularly pertinent. Through the lens of Islamic economics, this study will provide insights into how multinational corporations operating in Indonesia can balance their financial responsibilities to shareholders with their moral obligations to society at large.

Literature review

Agency theory

Agency theory provides a foundational framework for understanding the dynamics between principals (shareholders) and agents (managers) within a company. The theory explains that principals delegate authority to agents to make decisions on their behalf. However, this delegation often results in conflicts of interest, particularly when the agent's personal goals diverge from the principal's objective of maximizing shareholder wealth. This is exacerbated by the existence of information asymmetry, where agents typically have more detailed knowledge about the company's operations and financial situation than the principals (Jensen & Meckling, 1976).

In the context of multinational companies (MNEs), these conflicts of interest manifest in various ways, one of which is transfer pricing. Transfer pricing refers to the pricing of goods, services, or intangible assets exchanged between related entities within a multinational group. Managers, driven by performance-based incentives or bonuses, may manipulate transfer pricing to shift profits from high-tax jurisdictions to low-tax countries, thus reducing the overall tax burden (Chen, Lu, & Sougiannis, 2012). This profit-shifting behavior benefits managers and shareholders in the short term but often at the expense of the host country's tax revenues, particularly in developing economies like Indonesia, where tax revenues are a major source of public funding (Suprianto & Pratiwi, 2017).

Agency theory is particularly relevant to understanding how the relationship between management and shareholders may foster opportunistic behavior such as transfer pricing. As information asymmetry grows, the agent (management) has greater opportunities to act in self-interest, while the principal (shareholders) remains unaware of the full impact of these decisions. For example, the use of transfer pricing to reduce tax obligations can undermine the company's long-term financial sustainability or damage its reputation if it becomes publicly known (Marfuah & Azizah, 2014).

From the perspective of Islamic economics, such practices are ethically questionable. Islamic economics emphasizes transparency, justice (adl), and the prohibition of exploitation or harm (*gharar*). The *maqāṣid al-sharī'ah*, the objectives of Islamic law, stresses the importance of protecting wealth (*hifẓ al-māl*) in ways that benefit both the individual and the broader society. Transfer pricing, when used to avoid taxes, contravenes these principles by depriving the state of revenue that could be used to support public goods and services, thus violating the ethical obligation of businesses to contribute to societal welfare (Moeljono & Holle, 2023). Islamic agency theory posits that agents must act not only in the best interests of shareholders but also in accordance with moral and ethical standards, ensuring fairness and social responsibility.

Transfer pricing

Transfer pricing refers to the pricing strategies used by multinational corporations when transferring goods, services, or intangible assets between their subsidiaries located in different tax jurisdictions. According to the Organization for Economic Cooperation and Development (OECD), transfer pricing involves setting prices for transactions between associated enterprises in a manner that aligns with the arm's length principle—prices that would be set between unrelated parties in similar conditions (OECD, 2010). The arm's length principle aims to prevent companies from manipulating prices to shift profits and minimize taxes. However, in practice, transfer pricing is often used as a tool for tax avoidance, where profits are transferred from high-tax jurisdictions to low-tax jurisdictions (Suprianto & Pratiwi, 2017).

The issue of transfer pricing is particularly critical in developing countries like Indonesia, where tax revenues are essential for financing public services and infrastructure projects. The lack of robust enforcement mechanisms and standardized regulations has allowed multinational corporations to exploit legal loopholes, resulting in significant losses of tax revenue for the state (Cahyadi & Noviari, 2018). For example, many Indonesian companies engage in transfer pricing by underreporting profits in Indonesia and reallocating them to affiliates in low-tax countries.

$$\text{Transfer pricing} = \frac{\text{Receivables from related parties}}{\text{Total receivables}}$$

In Islamic economics, transfer pricing practices that aim to reduce tax liabilities are seen as morally problematic. Islam promotes the principle of *al-amānah* (trust), which requires that individuals and companies act honestly and transparently in their financial dealings. The manipulation of transfer prices to avoid taxes can be considered a breach of trust between the company and the state, as it deprives the government of necessary resources for societal development. Moreover, the Islamic principle of zakat, which involves the fair distribution of wealth for the benefit of society, contrasts sharply with practices that seek to avoid contributing to public welfare (Ilmi et al., 2017). Therefore, transfer pricing, when used as a mechanism for tax avoidance, violates the ethical foundations of Islamic economic justice.

Tax as a contribution of the people

Taxation plays a vital role in supporting government functions, especially in developing countries like Indonesia, where taxes constitute the largest source of state revenue. Taxes are defined as compulsory contributions levied by the government without direct reciprocity, with the aim of financing public expenditures (Mardiasmo, 2013). Law No. 28 of 2007 outlines that taxes are obligatory payments owed by individuals and businesses, which are used for the greater good of society (Presiden Republik Indonesia, 2007a). In this study, the tax burden is measured using the Effective

Tax Rate (ETR), which compares total tax expenses to pre-tax profits (Yuniasih, Wayan, Rasmini, & Wirakusum, 2012).

$$\text{ETR} = \frac{\text{Income tax expense}}{\text{Profit before tax}}$$

From an Islamic perspective, taxes can be analogized to zakat, which also functions as a redistributive tool designed to alleviate poverty and promote social welfare. Islamic teachings emphasize that wealth must be distributed in ways that ensure the welfare of the broader community, and businesses are expected to fulfill their social responsibilities, including paying taxes. Islamic jurisprudence holds that avoiding tax obligations through mechanisms like transfer pricing violates the principles of justice and fairness, as it shifts the financial burden onto other taxpayers and reduces the state's capacity to provide essential services (Moeljono & Holle, 2023).

Profitability as an indicator of economic performance

Profitability is one of the key indicators used to measure a company's financial performance. It reflects the ability of a company to generate profits using its assets and capital over a certain period (Barus & Leliani, 2013). High profitability often correlates with higher tax liabilities, as profitable companies are required to pay a proportion of their earnings in taxes. In this study, profitability is measured using the Return on Assets (ROA) ratio, which is calculated by dividing a company's pre-tax profits by its total assets (E. P. Sari & Mubarok, 2018).

$$\text{ROA} = \frac{\text{Earnings before tax}}{\text{Total assets}}$$

While companies often seek to maximize profitability, this should not come at the expense of ethical business practices. Islamic economics stresses that profit must be earned in ways that do not harm society or exploit others. The *maqāṣid al-sharīʿah* emphasizes that economic activity should benefit the community at large, and profits should be used not only for the company's own growth but also to contribute to social justice. Practices like transfer pricing, when used to enhance profitability by reducing taxes, undermine the principle of wealth distribution and ethical profit-making (Chapra, 2000).

Company assets

Assets are economic resources that companies use to generate future benefits, both in monetary terms and operational value. Assets play a critical role in a company's ability to operate efficiently and attract investment. Companies with larger assets are often viewed as more stable and capable of generating long-term profits (Prasetyoningrum, 2019). In this study, company assets are measured by the natural logarithm of total assets (Refgia, 2017).

$$\text{Company assets} = \mathrm{L_n}\text{Total assets}$$

In Islamic economics, assets are viewed as a trust from God that must be managed responsibly to benefit both the company and society. The concept of *hifẓ al-māl* stresses the need to protect and manage wealth in ways that are socially responsible. Thus, companies that possess significant assets are expected to use those resources in ways that promote societal welfare, rather than solely for profit maximization. Practices like transfer pricing that exploit asset size to manipulate tax liabilities would be considered unethical, as they violate the principles of stewardship and fairness.

Foreign ownership

Foreign ownership refers to the proportion of shares owned by foreign individuals or institutions in a company. In Indonesia, foreign ownership is governed by regulations that allow foreign entities to invest in domestic companies. Foreign shareholders often exert significant influence over a company's decisions, particularly regarding profit maximization and tax strategies (Kiswanto & Purwaningsih, 2014). Research has shown that companies with higher levels of foreign ownership are more likely to engage in transfer pricing to shift profits to jurisdictions with lower tax rates (Lempert, 2017).

$$\text{Foreign ownership} = \frac{\text{Number of foreign} - \text{owned shares}}{\text{Total outstanding shares}} \times 100\%$$

Islamic economics requires that all business transactions, including those involving foreign shareholders, adhere to ethical standards that promote justice and fairness. The Islamic principle of *al-'adl* (justice) obliges foreign shareholders to respect the laws and ethical norms of the host country. Transfer pricing, when used to avoid taxes, can be seen as a form of exploitation that disadvantages local stakeholders and the wider society. Therefore, from an Islamic perspective, companies with foreign ownership should ensure that their actions align with both local regulations and the ethical principles of fairness and social responsibility.

Hypothesis development

Effect of tax rates (H1) on transfer pricing

Taxes serve as the primary source of state revenue, especially in developing countries like Indonesia, where they significantly contribute to national financing and support various development programs that drive economic growth and national welfare (Pohan, 2016). However, there is a notable divergence in perspective between governments and business entities regarding taxation. While the government seeks to maximize tax revenue to fund public services, businesses often aim to minimize their tax liabilities to maximize profitability (Rifan, 2019).

Multinational companies (MNEs) frequently engage in transfer pricing as a means to reduce their tax obligations. By shifting income to subsidiaries located in low-tax jurisdictions, these companies can effectively reduce their tax liabilities in higher-tax countries. This practice, driven by the need to minimize corporate taxes, allows MNEs to exploit the differences in international tax rates to their advantage. The higher the tax rate in a country, the stronger the motivation for companies to manipulate transfer pricing strategies in order to avoid paying higher taxes (Suprianto & Pratiwi, 2017).

Research conducted by Refgia (2017) shows that taxes have a positive effect on transfer pricing, indicating that companies are more likely to engage in transfer pricing when faced with higher tax rates. Similarly, a study by Pamela, Suripto, and Harori (2020) also demonstrates that tax burdens significantly influence a company’s decision to manipulate transfer pricing practices.

Agency theory, which forms the basis for understanding the conflict between shareholders (principals) and managers (agents), further supports this hypothesis. Managers, acting as agents, may prioritize reducing the company's tax burden to increase short-term profits, as their compensation is often tied to financial performance. This creates a conflict of interest where agents act in their own best interests rather than those of the shareholders (Meckling & Jensen, 1976). Moreover, the existence of information asymmetry –where managers possess more detailed information about the company’s financial strategies than shareholders– further exacerbates this problem (Chen et al., 2012). As a result, the growing tax burden encourages managers to engage in transfer pricing to alleviate the financial pressures on the company, thus benefiting themselves and the company in the short term.

Based on the above discussion, the following hypothesis is proposed:

H1: Taxe rates have a positive effect on transfer pricing.

Effect of profitability (H2) on transfer pricing

Profitability refers to a company's ability to generate income or profit over a period of time using its resources, including both capital and assets (Barus & Leliani, 2013). Profitability is typically measured through financial indicators such as Return on Assets (ROA), which reflects the efficiency with which a company uses its assets to generate profit. Higher profitability often results in higher tax obligations, as taxes are usually based on a company's earnings before tax (Cahyadi & Noviari, 2018).

Companies with high profitability may be motivated to engage in transfer pricing practices to minimize their tax liabilities and protect their profits. Research by Sari and Mubarok shows that profitability has a significant positive effect on transfer pricing, suggesting that more profitable companies are more likely to use transfer pricing to shift profits and reduce tax obligations (E. P. Sari & Mubarok, 2018). Similarly, Junaidi and Yuniarti found that profitability positively influences a company's decision to engage in transfer pricing (Junaidi & Yuniarti, 2020).

Agency theory helps explain the relationship between profitability and transfer pricing. Managers, as agents, are often incentivized based on company performance metrics such as profitability. This creates an incentive for them to minimize taxes to maximize the company's after-tax profits, which in turn enhances their own performance evaluations and potential bonuses (Jensen & Meckling, 1976). Additionally, managers may use transfer pricing to artificially reduce reported profits, shifting income to lower-tax jurisdictions to ensure that the company retains more of its earnings (Chen et al., 2012).

Given these considerations, the hypothesis regarding profitability is as follows:

H2: Profitability has a positive effect on transfer pricing.

Effect of company assets (H3) on transfer pricing

Company assets are economic resources owned by a business that are expected to provide future benefits, either through direct revenue generation or operational efficiency (Komite Standar Akuntansi Pemerintah, 2004). Assets represent a company's financial stability and its potential for generating profits over the long term. Larger companies with substantial assets typically face greater public scrutiny and are more likely to have complex transactions that involve multiple subsidiaries across different tax jurisdictions. As a result, such companies are more likely to engage in transfer pricing (Pamela et al., 2020).

Previous research has shown that company size, as measured by total assets, positively influences transfer pricing practices. Pamela et. al. found that companies with larger asset bases are more likely to engage in transfer pricing to optimize their tax strategies (Pamela et al., 2020). Similarly, Agustina concluded that companies with larger total assets are more capable of engaging in complex transfer pricing transactions due to the scope of their operations (Agustina, 2019).

Agency theory also supports this relationship. Managers of larger companies with significant assets have more opportunities to engage in transfer pricing due to the complexity and scale of the company's operations. As these companies are more diversified, managers may exploit their control over different divisions to manipulate transfer pricing and maximize profitability (Jensen & Meckling, 1976). Furthermore, larger firms often have more complex financial structures, providing managers with greater flexibility to shift profits between subsidiaries in different tax jurisdictions, thus reducing overall tax liabilities.

Based on this reasoning, the following hypothesis is proposed:

H3: Company assets have a positive effect on transfer pricing.

Effect of foreign ownership (H4) on transfer pricing

Foreign ownership refers to the proportion of shares in a company that are owned by foreign individuals or institutions. In many countries, foreign investors hold significant stakes in local companies, giving them considerable influence over management decisions (Presiden Republik Indonesia, 2007b). Research has shown that companies with a higher degree of foreign ownership are more likely to engage in transfer pricing, as foreign shareholders may push for profit maximization through tax minimization strategies, including the shifting of profits to low-tax jurisdictions (Lempert, 2017).

Concentrated ownership, where a small group of foreign shareholders controls a majority of shares, increases the likelihood of transfer pricing, as these shareholders can exert greater control over the company's financial decisions (Refgia, 2017). Foreign controlling shareholders may engage in practices such as selling products from the company they control to their private entities at below-market prices, thus benefiting themselves at the expense of other shareholders (Fitri, Hidayat, & Arsono, 2019).

Agency theory helps explain the conflict of interest that arises in such situations. When foreign shareholders, as principals, prioritize their own interests, managers may feel pressured to engage in transfer pricing to satisfy these shareholders, even if it harms the company's long-term interests (Jensen & Meckling, 1976). This pressure increases with the level of foreign ownership, as foreign shareholders often have greater access to global financial strategies and may push for aggressive tax avoidance measures.

Based on this, the following hypothesis is proposed:

H4: Foreign ownership has a positive effect on transfer pricing.

Reseach methods

This research adopts a quantitative approach to examine the relationships between independent variables (tax, profitability, company assets, and foreign ownership) and the dependent variable, transfer pricing, among mining companies listed on the Indonesia Stock Exchange (IDX) between 2017 and 2021. The study aims to assess the influence of these independent variables on transfer pricing decisions, utilizing secondary data from published financial reports accessed through the IDX website.

The population for this study consists of all mining sector companies listed on the IDX during the specified period, totaling 33 companies. The sample selection was carried out using purposive sampling, where companies were chosen based on predetermined criteria relevant to the research objectives. The selection criteria required that the companies be listed on the IDX throughout the 2017-2021 period, have foreign ownership, publish complete financial statements by December 31 of each year within the research period, and not suffer financial losses during this period. Companies that incurred losses were excluded from the sample, as their tax obligations would not be representative of the research focus. Based on these criteria, eight companies were selected, resulting in a final sample size of 40 observations, as data were collected for each company over five years.

The study uses multiple variables to measure the independent factors influencing transfer pricing. The tax burden is measured using the effective tax rate (ETR), calculated as the ratio of income tax expense to profit before tax. Profitability is measured by the return on assets (ROA) ratio, which is calculated by dividing the company's earnings before tax by its total assets. Company assets are quantified using the natural logarithm of total assets, reflecting the size and financial stability of the company. Foreign ownership is measured as the percentage of shares owned by foreign individuals or institutions relative to the company's total outstanding shares. Transfer pricing, the dependent variable, is measured by the ratio of receivables from related parties to total receivables, following established methodologies in transfer pricing research.

Data analysis was conducted using multiple linear regression analysis with the assistance of SPSS version 25. The analysis aimed to determine the extent to which tax, profitability, company assets, and foreign ownership influence transfer pricing practices. The t-test was used to evaluate the individual significance of each independent variable, while the F-test assessed the collective significance of the independent variables in explaining variations in transfer pricing. Furthermore, the coefficient of determination (R^2) was calculated to measure the proportion of variance in transfer pricing that could be explained by the independent variables. This methodological approach allows for a comprehensive understanding of the factors driving transfer pricing behavior in the Indonesian mining sector during the study period.

Results and discussion

Multiple linear regression analysis

The multiple linear regression analysis was conducted to examine the influence of tax, profitability, company assets, and foreign ownership on transfer pricing. The results are presented in

Table 1, which provides the coefficients, t-values, and significance levels for each independent variable.

Table 1. Multiple linear regression coefficients

Coefficients	Model	Unstandardized Coefficients	Standardized Coefficients	T	Sig
(Constant)	.470	.124		3.779	.001
Tax rates	.424	.213	.263	1.987	.055
Profitability	.411	.344	.163	1.198	.239
Company assets	-2.943E-9	.000	-.278	-2.139	.040
Foreign ownership	-.550	.130	-.557	-4.229	.000

Source: Secondary data processed by the researcher, SPSS 25

Effect of tax rates on transfer pricing

The results indicate that tax rates does not have a significant effect on transfer pricing, as evidenced by a t-value of 1.987 and a significance level of 0.055, which is slightly above the standard significance threshold of 0.05 (see Table 1). While this result suggests that the influence of taxe rates on transfer pricing is not statistically significant, the coefficient remains positive, indicating a potential, albeit weak, relationship.

This finding is inconsistent with the original hypothesis (H1), which proposed that higher tax burdens would encourage companies to engage in transfer pricing to minimize tax liabilities, based on studies such as Refgia (2017) and Pamela et al. (2020). However, the result is consistent with research by Fauziah & Saebani (2018) and Surjana (2020), which showed that taxes do not always significantly impact transfer pricing behavior.

A plausible explanation for this finding could be related to the specific characteristics of the mining sector in Indonesia, where companies may face other strategic and regulatory considerations beyond taxes. Mining companies often engage in long-term contracts and must comply with complex regulations related to environmental sustainability and foreign investment. Therefore, tax savings may not be the primary driver for transfer pricing decisions in this industry.

From an agency theory perspective, while managers may be motivated to reduce tax burdens as agents of shareholders, they may be constrained by external regulatory pressures or the strategic objectives of the company, which prioritize operational efficiency or contractual obligations. Consequently, the impact of taxes on transfer pricing may be limited in this context.

Furthermore, from an Islamic economic perspective, the absence of significant tax-driven transfer pricing behavior aligns with principles of justice (*al-'adl*) and social responsibility. Islamic teachings emphasize the importance of paying fair taxes to support public welfare, and companies adhering to these principles avoid manipulative strategies aimed solely at minimizing tax contributions.

Effect of profitability on transfer pricing

As shown in Table 1, the regression results reveal that profitability does not have a significant effect on transfer pricing, with a t-value of 1.198 and a significance level of 0.239. This suggests that the level of profitability does not influence a company's decision to engage in transfer pricing in the mining sector during the study period.

This result contradicts earlier findings by Sari & Mubarok (2018) and Junaidi & Yuniarti (2020), which indicated a positive relationship between profitability and transfer pricing, where more profitable companies were more likely to engage in such practices. However, the findings of this study are consistent with research by Agustina (2019) and Sari & Djohar (2022), which found no significant effect of profitability on transfer pricing.

One possible explanation for this result is the high level of public and regulatory scrutiny faced by profitable companies, especially in sectors like mining. The political process hypothesis within positive accounting theory suggests that companies with high political costs, such as large, profitable firms, may avoid engaging in aggressive profit-shifting behaviors to protect their reputation and avoid regulatory scrutiny.

From an agency theory perspective, management may prioritize transparency and compliance with regulations over profit-maximizing activities like transfer pricing, especially when facing external pressures. Additionally, companies with high profitability may already be subject to extensive financial audits and public oversight, making them less inclined to engage in activities that could draw negative attention.

In terms of Islamic economics, the absence of a significant relationship between profitability and transfer pricing suggests that companies are not using their profits as an excuse to engage in unethical tax avoidance. Islamic principles advocate for responsible and fair wealth generation, ensuring that profits contribute to *maṣlaḥah* (public welfare) and avoiding practices that could harm societal interests.

Effect of company assets on transfer pricing

The regression results indicate that company assets have a significant negative effect on transfer pricing, as shown by a t-value of -2.139 and a significance level of 0.040 (see Table 1). This finding implies that larger companies are less likely to engage in transfer pricing activities.

This finding contradicts the initial hypothesis (H3), which assumed that larger companies with more complex structures would have more opportunities and motivations to engage in transfer pricing. However, the negative relationship suggests that larger companies may be subject to greater scrutiny and regulatory oversight, making them less likely to engage in transfer pricing practices.

This result aligns with Stewardship theory, which suggests that managers of larger companies may act as stewards, focusing on the long-term sustainability and reputation of the company rather than short-term profit maximization through tax avoidance strategies. By avoiding transfer pricing, these managers seek to maintain transparency and preserve the company's public image.

From an Islamic economics perspective, larger companies are expected to uphold ethical standards and contribute to justice (*al-'adl*) and social responsibility. By refraining from engaging in aggressive tax strategies like transfer pricing, these companies demonstrate a commitment to ethical behavior and contribute to societal welfare, consistent with Islamic values.

Effect of foreign ownership on transfer pricing

The regression results also reveal that foreign ownership has a significant negative effect on transfer pricing, with a t-value of -4.229 and a significance level of 0.000 (see Table 1). This finding suggests that companies with higher levels of foreign ownership are less likely to engage in transfer pricing.

Coefficients	Foreign Ownership	Unstandardized Coefficients	Standardized Coefficients	T	Sig
Foreign Ownership	-.550	.130	-.557	-4.229	.000

Source: Secondary data processed by the researcher, SPSS 25

This finding contradicts previous research, such as Refgia (2017) and Pamela et al. (2020), which suggested that foreign shareholders are more likely to encourage aggressive tax minimization strategies, including transfer pricing. However, the results of this study indicate that foreign shareholders may prioritize the long-term value and reputation of the company, discouraging transfer pricing activities that could result in reputational damage or regulatory penalties.

Stewardship theory helps explain this behavior, as foreign shareholders may act as stewards of the company's long-term interests, prioritizing ethical business practices and compliance with local tax regulations. By discouraging transfer pricing, foreign owners demonstrate a commitment to maintaining the company's reputation and adhering to ethical standards.

In the context of Islamic economics, foreign shareholders are expected to respect local laws and contribute fairly to the public good, even if they are external stakeholders. Their decision to avoid transfer pricing aligns with the principles of *al-amānah* (trust) and fairness (al-'adl), ensuring that the company operates transparently and ethically, regardless of the ownership structure.

Simultaneous significance test (F-Test)

The F-test results indicate that the model as a whole is statistically significant, with an F-value of 6.769 and a significance level of 0.000 (see Table 2). This means that the independent variables (tax, profitability, company assets, and foreign ownership) have a significant combined effect on transfer pricing.

Table 2. Simultaneous significance test (F-Test)

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1.824	4	.456	6.769	.000b
Residual	2.358	35	.067		
Total	4.182	39			

Source: Secondary data processed by the researcher, SPSS 25

This result confirms that, although not all individual variables are significant, the model as a whole explains a substantial portion of the variance in transfer pricing behavior among mining companies.

Determination coefficient (R^2)

The adjusted R-squared value of 0.372 (see Table 3) indicates that 37.2% of the variability in transfer pricing can be explained by the independent variables in this model. The remaining 62.8% is explained by other factors not included in this study, suggesting that future research should explore additional determinants of transfer pricing behavior.

Table 3. Determination coefficient (R^2)

Model	R	R Squared	Adjusted R Squared	Std. Error of the Estimate
1	.660a	.436	.372	.25955006

Source: Secondary data processed by the researcher, SPSS 25

This moderate level of explanatory power suggests that while taxes, profitability, company assets, and foreign ownership play a role in transfer pricing decisions, other external and internal factors also significantly influence such practices.

Conclusion

This research aimed to evaluate the influence of taxe rates, profitability, company assets, and foreign ownership on transfer pricing practices within Indonesia's mining sector. The results indicate that taxe rates and profitability do not have a significant impact on transfer pricing decisions, while company assets and foreign ownership have a significant negative effect. This suggests that larger companies and those with higher levels of foreign ownership are less likely to engage in transfer pricing, contrary to the initial hypothesis that these companies would be more inclined to utilize transfer pricing to maximize profits.

From the perspective of Islamic economics, the study highlights the importance of principles such as justice *(al-'adl*) and social responsibility (*al-amānah*) in business practices, including the management of transfer pricing. Engaging in transfer pricing to avoid taxes is viewed as contrary to these principles as it harms public interests and undermines efforts to achieve fair wealth distribution. In the case of foreign-owned companies, the findings suggest that although they may have the capacity to leverage transfer pricing strategies, foreign ownership tends to prioritize long-term reputation and adherence to local regulations, aligning with Islamic ethical standards.

This study has several limitations, including the sample being restricted to the mining sector and a limited time frame. Future research is recommended to expand the scope to other industries and consider additional variables, such as government regulations and corporate culture, which may influence transfer pricing decisions. Furthermore, subsequent studies could delve deeper into the Islamic economic perspective, exploring the impacts of zakat and wealth distribution on corporate behavior.

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