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THE ROLE OF PRUDENCE IN MODERATING THE EFFECT OF BONUS MECHANISM, INTANGIBLE ASSETS, AND INVENTORY INTENSITY RATIO ON TRANSFER PRICING

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Abstract

This study aims to examine prudence's role in moderating the effect of bonus mechanism, intangible asset, and inventory intensity ratio on transfer pricing decisions. This research population is all property, real estate & construction companies, and manufacturing companies listed on the Indonesia Stock Exchange in 2018. The sampling technique uses a purposive sampling method to obtain 109 units of analysis. This study uses moderated regression analysis (MRA), which is processed using IBM SPSS 21. This study proves that the bonus mechanism does not affect, while intangible assets and inventory intensity ratio significantly affect transfer pricing decisions. Prudence is proven to moderate the intangible assets' influence but does not moderate the impact of the bonus mechanism and inventory intensity ratio on transfer pricing decisions. This study concludes that the bonus mechanism does not affect the transfer pricing decision. Prudence is proven to moderate the effect of intangible assets but does not moderate the impact of the bonus mechanism and inventory intensity ratio on transfer pricing decisions.

***Keywords:** Bonus Mechanism, Intangible Asset, Inventory Intensity Ratio, Prudence.*

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INTRODUCTION

Transfer pricing is a scheme that can be carried out in tax planning that can be used to minimize the amount of tax payable that should be paid. Yair & Nagel (2014) define transfer pricing as a policy to determine transfer prices related to transactions between business entities regarding transfers of intellectual property, tangible goods, services, and loans or other financing transactions carried out by companies. The practice of transfer pricing is permissible if it is still under the prevailing tax regulations. However, it has become an international issue that many companies practice transfer pricing that violates tax regulations, causing state losses due to tax

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revenue. In the world of business and economy, international transfer pricing transactions are susceptible because transfer pricing is carried out to determine companies' income and affect the level of tax revenue of a country, either directly or indirectly (Sulistyowati & Kananto, 2019). Choi, Furusawa, & Ishikawa (2020) found that tax-motivated foreign direct investment (FDI) may entail inefficient internal production. The FDI source country will be willing to set a higher tax rate to tolerate some profit shifting to a tax haven country if the regulation is tight enough.

Research that aims to determine the factors that influence transfer pricing decisions has been done a lot, but the results are still not consistent. Fitri et al. (2019) examined the effect of tax management, bonus mechanisms, and foreign ownership on transfer pricing, where the results of all factors showed a positive and significant impact. This finding is in line with Fuadah & Nazihah (2019) and (Hartati et al. (2015), who also found that the bonus mechanism affects the transfer pricing decision. The company owner provides a bonus based on the net profit achieved by management so that this result encourages management to increase the decision to carry out transfer pricing (Fuadah & Nazihah, 2019). These findings differ from the research conducted by Susanti & Firmansyah (2018), Anisyah (2018), and Saraswati & Sujana (2017), which proves that the bonus mechanism does not affect transfer pricing decisions.

The increase in profit can also be affected by the benefits of the company's intangible assets. The public and stakeholders will more easily trust companies that report intangible assets because they are considered superior to goods and services and have a more transparent report. The presentation of intangible assets is also one way to reduce information asymmetry between majority and minority shareholders. Richardson & Taylor (2015) found that intangible assets positively affect tax-haven country utilization decisions with case studies on multinational companies in the United States. Nurhidayati & Fuadillah (2018) conducted a survey whose results also showed that intangible assets positively affected tax haven country utilization with case studies of companies in Indonesia. Profits obtained from ownership of intangible assets are transferred to countries with low tax rates so that the tax costs incurred are less, so companies choose to carry out transfer pricing practices.

Kusuma & Wijaya (2017) have reviewed and proven that intangible assets have a negative effect on transfer pricing. Merle et al. (2019) also examine the determinants that affect a company's intensity in making transfer pricing decisions, namely, effective tax rate, firm size, leverage, and intangible assets. The research results by Merle et al. (2019) show that intangible assets have a negative effect on the intensity of transfer pricing but not significant. Different research results were found by Jafri & Mustikasari (2018) and Ohnuma & Kato (2015), which stated that intangible assets did not affect the company's decision to transfer pricing. The non-impact of intangible assets is because intangible assets are not the main component in the company's main operational activities. They do not directly impact the company's profit (Jafri & Mustikasari, 2018).

The decision to carry out transfer pricing can also be made by regulating the inventory volume ratio. A high inventory level indicates that the company's tax management is still not good enough. Research conducted by Darmadi & Zulaikha (2013) and Delgado et al. (2014) proved that the inventory intensity ratio positively affects the effective tax rate. Putri & Lautania (2016) and Sjahputra (2019) found different results, namely the impact of the inventory intensity ratio on the effective tax rate in a negative direction. This study's results are not in line with research conducted by Andhari & Sukartha (2017), which proves that there is no effect of inventory intensity ratio on the Effective Tax Rate.

This study raises prudence as a moderating variable because applying the precautionary principle will affect the company's net income. The term prudence in IFRS is defined as where a company can recognize revenue even though it is still potentially provided. It meets the criteria to be recognized as income but still considers prudence in its recognition. Bornemann (2018) found that accounting conservatism affects future tax rate cuts. Purwantini (2017) also found the influence of accounting conservatism on the book-tax difference, which shows a significant effect. These findings indicate that there is a possibility that prudence can influence the company's decision to carry out transfer pricing due to the same objective, namely to reduce the tax costs that should be paid.

The purpose of this study is first to determine and find empirical evidence of the effect of a bonus mechanism, intangible assets, and inventory intensity ratio on transfer pricing decisions. Second, to find out and prove whether there is a role for prudence in moderating the effect of bonus mechanism, intangible assets, and inventory intensity ratio on transfer pricing decisions in property and manufacturing companies. Originality in this study adds a moderating variable, namely prudence and combining property and manufacturing companies as research objects.

Positive accounting theory and agency theory form the basis of this research. Positive accounting theory will direct how management decisions in choosing accounting methods that can make profits run high or low according to the company's needs and conditions. Watts & Zimmerman (1990) explained that there are three hypotheses in positive accounting theory. The first is the bonus plan hypothesis. The company will choose an accounting method that can increase profit for the current period. Second, namely the debt covenant hypothesis, if the company gets closer to the debt agreement violation, the accounting method is chosen, shifting profits from the future period to the present period. The third is the political cost hypothesis, wherein a high political cost, the company will choose an accounting method that can delay reported earnings from the present period to the future. Positive accounting theory is used as a basis for explaining the bonus mechanism variable and inventory intensity ratio.

Agency theory explains a conflict of interest in the relationship between shareholders and management so that it requires an alignment of interests between the two parties Jensen & Meckling (1976). The difference in interests between the two parties has caused each party to try to maximize their benefits. Shareholders expect maximum and immediate returns on their investment, while agents expect rewards for their work, accommodating by providing appropriate incentives (Yulia et al., 2019). Agency theory is needed to explain the intangible asset variable.

The company owner gives bonuses to improve management performance to increase annual profit. Fuadah & Nazihah (2019) state that if the company's profits are higher, then the management performance in the eyes of the company owners will look so good, so the bonuses that will be received will be higher. Following the hypothesized bonus plan on positive accounting theory, companies that choose to implement a bonus program will prefer an accounting method that increases accounting profit in the current period. The bonus that management gets is higher. Transfer pricing practice is a choice to support the increase in net income in the current period. Through transfer pricing, companies can determine the value of transfer prices with related parties so that the company is in a favorable condition and can reduce taxes that must be paid. If tax payments can be reduced, the reported net profit after tax will be higher, so that the bonus that will be received by management will also be higher.

Several researchers have reviewed the effect of the bonus mechanism on transfer pricing practices, including Fuadah & Nazihah (2019) and Fitri et al. (2019), whose results show a significant positive effect. These findings are in line with the findings of Hartati et al. (2015) and Lo et al. (2010), which proved that the bonus mechanism has a significant effect on the determination of transfer pricing. In cases where the manager's remuneration is included in the bonus plan, and the bonus is calculated based on reported earnings, the company is more likely to increase profits by manipulating transfer prices to obtain higher personal benefits (Lo et al., 2010).

H1: Bonus Mechanism has a positive effect on the transfer pricing decision.

PSAK 19 (IAI, 2019) defines an intangible asset as an asset with no physical form and has a long economic life that is useful in its operating activities. Intangible assets that are useful for increasing the income obtained from the sale of goods or services, saving costs or efficiency, and other results such as income from leasing, licensing, or other uses obtained from the use of intangible assets. Based on agency theory, agency conflicts can occur in majority shareholders and minority shareholders, where the majority shareholder will take various actions against managers that can increase their prosperity. The presentation of intangible assets can reduce agency costs from gaps in the information received by a majority and minority shareholders. Companies that have intangible assets will benefit more in the form of trust from the public so that the company will reduce transfer pricing actions that lead to fraud or manipulation.

Kusuma & Wijaya (2017) found that intangible assets have a negative and significant effect on transfer pricing practices. This negative effect can occur because most companies do not pay much attention to research and development activities, contributing to the acquisition of high intangible assets. So, it can be understood that the higher the value of intangible assets owned by the company, the lower the company's decision to make a transfer pricing policy. Intangible assets reported in the financial statements will reflect that the company applies transparency, which is the principle of good corporate governance.

H2: Intangible assets have a negative effect on the transfer pricing decision.

The inventory intensity ratio shows how much the company invests in inventory. Companies with high political costs such as tax costs can choose an accounting method that can report lower profits through inventory-related policies. This condition is under the political cost hypothesis in positive accounting theory, which states that companies will reduce current earnings into the future. To mitigate political costs such as taxes, companies will manage to minimize profits so that the political costs they bear are small.

Inventory can be used by management to reduce tax costs, namely with a high inventory value, which will result in new charges such as storage costs, maintenance costs, costs, or financial risks from inventories such as an increase in the expense of uncollectible accounts. If costs are arising from this inventory, the reported profit will decrease so that the tax paid will be less. The emergence of these costs causes companies to reduce other tax avoidance practices that may not necessarily reduce tax costs faster, such as transfer pricing, because the transfer pricing scheme's success requires careful preparation.

Research conducted by Sjahputra (2019) and Putri & Lautania (2016) found that the company's inventory intensity ratio has a negative effect on the significant tax rate decision. This negative effect indicates that a company with a high inventory value will have a low ETR value because of the costs incurred as a result of inventory being a deductible expense.

H3: Inventory Intensity Ratio has a negative effect on the transfer pricing decision.

One of the objectives of the application of the principle of prudence is to minimize the tax burden. The bonus plan hypothesis explains that companies that choose bonus policies will tend to choose accounting methods to increase current period profits. Companies that implement a bonus program can choose the accounting method, namely enforcing prudence. Sundari & Aprilina (2017) reveal that accounting conservatism causes the numbers presented in the financial position statement to be lower. Net assets are set lower, and cumulative profit is also set more down. Companies that apply prudence will recognize expenses or losses as soon as possible. These expenses or losses will reduce the gain, and the tax paid will be lower. If the basis for determining bonus is from net income, applying the precautionary principle will encourage companies to report a higher after-tax profit. The bonus managers will accept it to a higher degree. Thus, using the principle of prudence will moderate the relationship between the bonus mechanism and transfer pricing.

H4: Prudence moderates the effect of the bonus mechanism on the transfer pricing decision.

Agency theory explains the agency conflict between majority shareholders and minority shareholders. Management provides information on intangible assets, making the financial reports more transparent and reliable to reduce this agency conflict. Companies with intangible assets will better protect their company's reputation so that with the right image, it will make management reduce manipulation or fraud practices such as transfer pricing that is not following laws and regulations.

Information asymmetry between majority and minority shareholders can also be reduced by applying the principle of prudence. Although the company has intangible assets, the presentation is presented fairly or not exaggerated. This condition will reduce the asymmetry of information between shareholders and management with financial reports given more reliably that reflect good company performance to increase company value. Sundari & Aprilina (2017) examined the effect of accounting conservatism on tax avoidance, where the results showed a positive impact. The ratio of accounts receivable and sales due to the recognition of revenue from income/profits and accelerating the recognition of costs/losses could reduce large tax profits, thereby making corporate managers tax more expensive. Profitable, reducing the present value of the tax and increasing the value of the company. The company will maintain the economic benefits obtained from these intangible assets by avoiding manipulation or fraudulent practices such as transfer pricing. So, it can be seen that prudence can moderate the relationship between intangible assets and transfer pricing.

H5: Prudence moderates the effect of intangible assets on transfer pricing decisions.

Company inventories are part of current assets that can be used to meet demand and company operations in the long run. Suppose the company increases its investment in assets in the form of inventory. The greater the cost of maintaining, storing, and financial risks from these inventories, such as losing uncollectible accounts from sales. Positive accounting theory explains the political cost hypothesis, in which to reduce political costs such as reducing tax costs by making efforts to report lower taxes. Companies that apply the principle of prudence will present under profits so that the tax to be paid is more downward. The high value of the inventory will cause costs that arise due to higher inventories. Companies with the precautionary principle or prudence will focus on optimizing these costs to obtain tax savings. Companies will be less interested in other tax avoidance schemes that are more complex, but the tax savings are not much more significant, as the practice of transfer pricing.

H6: Prudence moderates the effect of inventory intensity ratio on transfer pricing decision.

Based on the above explanation, the framework can be described as follows:

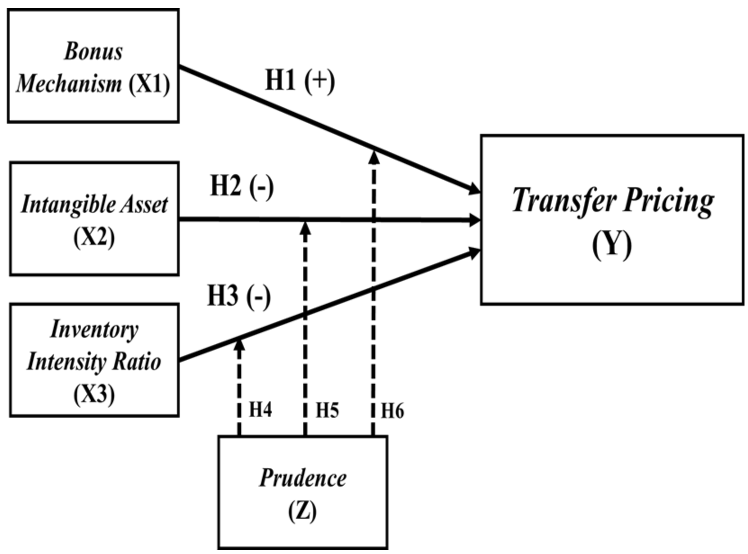

Figure 1. Thinking Framework

RESEARCH METHOD

This study uses a quantitative approach with a hypothesis-testing study design. This study's population was property, real estate & construction companies, and manufacturing companies listed on the IDX (www.IDX.co.id) in the 2018 period consisting of 190 companies. The sampling technique used in this study was purposive sampling to obtain 109 units of analysis. The sample selection criteria are shown in Table 1.

The dependent variable in this study is transfer pricing. The bonus mechanism, intangible assets, inventory intensity ratio, independent variables, and prudence are moderating variables. Table 2 explained the operational definition of each variable.

The data collection method uses the documentation method. Data taken are in annual reports and financial reports of property, real estate & construction companies, and manufacturing companies listed on the IDX for the 2014-2018 period. Hypothesis testing is done by using moderation regression analysis with an absolute difference value test.

Table 1. Sample Selection Criteria

No	Criteria	Total
1.	The property, Real Estate & Construction Companies, and Manufacturing Companies listed on the Indonesia Stock Exchange in 2014-2018	190
2.	Companies that disclose receivables and related debt in 2014-2018	(54)
3.	Companies that do not disclose intangible assets	(96)
4.	Companies that have a positive value of profits during 2014 - 2018	(13)
5.	The company which published Annual Report during 2014-2018	(0)
Number of sample companies		27
Number of research analysis units (5 years x 27 companies)		135
Outlier data were eliminated from the study		(26)
The final number of research units 2014-2018		109

Source: Secondary data processed in 2020

Table 2. Operational Definition of Variables

VARIABLES	DEFINITION	MEASUREMENT
Transfer Pricing	Determination of the transfer price for goods, services, and intangible assets with related parties.	$TP = \frac{RPT\ Asset + RPT\ Liabilities}{Equity} X100\%$ (Utama, 2015)
Bonus Mechanism	The calculation of management bonuses for the achievement of management performance has earned a profit under the target.	$BON = \frac{\text{Net Income for year } t}{\text{Net income for year } t-1}\ x\ 100\%$ (Fuadah & Nazihah, 2019)
Intangible Asset	An asset that has no physical form but has future economic benefits.	$\text{IA} = \frac{\text{Intangible Assets}}{\text{Sales}}\ x\ 100\%$ (Ohnuma & Kato, 2015)
Inventory Intensity Ratio	How much is the company investing its assets in inventory	$IIR = \frac{Total\ Inventory}{Total\ Assets}$ (Andhari & Sukartha, 2017)
Prudence	Recognition of income may be recognized even though it is still in the form of potential. As long as it meets the requirements for revenue recognition, it still uses the principle of prudence in its recognition.	$PRU = \frac{Non\ operating\ accruals\ x\ (-1)}{Total\ assets}\ x\ 100\%$ (Aristiani et al. 2017)

Source: Previous research processed in 2020

RESULTS AND DISCUSSION

Result

Descriptive statistical analysis in Table 3 shows that the average bonus mechanism and inventory intensity ratio variables are more significant than the standard deviation, which means that the distribution of data on these two variables is homogeneous. The distribution of the bonus mechanism data and the inventory intensity ratio has almost the same range of values so that the data sample companies do not differ much. This condition is different from the distribution of data on the transfer pricing, intangible assets, and prudence variables that have a smaller average than the standard deviation value. The data from the company is heterogeneous or spread out.

Table 3. Descriptive Statistical Analysis

	N	TP	BON	IA	IIR	PRU
Mean	109	,0726720	1,0728650	,0244383	,1902729	-,0290916
Median	109	,0341500	1,0695100	,0117800	,1721500	,0134900
Std. Deviation	109	,08288744	,42614523	,03118984	,12713053	,23147340
Minimum	109	,00003	,07497	,00018	,01102	-,58053
Maximum	109	,35846	2,53577	,11609	,54147	,62716

Source: Secondary data processed in 2020

The classical assumption is a test that must be met for the estimator to be free from bias. The one-sample Kolmogorov-Smirnov test is used in the normality test, which shows a significance value of 0,170 and is greater than the 0,05-significance level; it can be concluded that the residual data is normally distributed. The multicollinearity test shows that the bonus mechanism, intangible asset, inventory intensity ratio, and prudence variables have a VIF value <10 and a tolerance value> 0,10. It can be concluded that they are free from multicollinearity. The results of the Watson Durbin test show that the data is free from autocorrelation symptoms as indicated by the dw value of 1,993, which is greater than the upper limit (dU) of 1,7446 and less than 4-dU (2,3683), 1,7446 <1,993 <2, 3683. The white test results show that there is no heteroscedasticity problem seen c^2 count <c^2 table (28,667 <133,257 with a confidence degree of 0,05.

The coefficient of determination shows that the value of Adjusted R Square in this study is 0,120. This value indicates that independent variables can explain the transfer pricing variable proxied by Related Party Transaction Asset and Liabilities in the form of bonus mechanism, intangible assets, inventory intensity ratio, and prudence of 12%. In comparison, other variables influence the remaining 88%. The results of hypothesis testing in this study are presented in table 4.

Table 4. Hypothesis Test Results

No	Hypothesis	B	Significance Value	Conclusion
1.	H1: Bonus Mechanism has a positive effect on the transfer pricing decision.	0,010	0,199	Rejected
2.	H2: Intangible assets have a negative effect on the transfer pricing decision.	-0,024	0,009	Accepted
3.	H3: Inventory Intensity Ratio has a negative effect on the transfer pricing decision.	-0,030	0,001	Accepted
4.	H4: Prudence moderates the effect of the bonus mechanism on transfer pricing decisions.	-0,012	0,225	Rejected
5.	H5: Prudence moderates the effect of intangible assets on transfer pricing decisions.	0,024	0,033	Accepted
6.	H6: Prudence moderates the effect of inventory intensity ratio on the transfer pricing decision.	0,013	0,175	Rejected

Source: Secondary data processed in 2020

Discussion

The Effect of Bonus Mechanism on Transfer Pricing Decision

The first hypothesis states that the bonus mechanism has a positive and significant effect on transfer pricing decisions. This condition can occur because the property, real estate & construction companies, and manufacturing companies prefer to report profits in a stable condition so that there is no extreme increase in bonuses. This result is evidenced by the bonus mechanism's average value, which only increases every year by 7,28%, which indicates that the company is not motivated to obtain high bonuses by conducting transfer pricing.

The absence of the bonus mechanism variable on transfer pricing could be because the company has a suitable stakeholder monitoring mechanism, namely an audit committee's existence. The company has implemented sound corporate governance principles, reducing fraud (Saraswati & Sujana, 2017). This study's results do not support the bonus plan hypothesis that encourages managers to increase profits in the current period. The theory explains that management wants high compensation at each period. In increasing company profits, directors do not always choose transfer pricing to increase company profits to get bonuses. Sundari & Susanti (2016) stated that to reduce the tax burden, and companies might reduce their net profit when located in countries with high-net-income high-taxes rather than high-net-income low-tax rates. The company's decision to carry out transfer pricing is not affected by the bonus mechanism based on net income. This finding is in line with Saraswati & Sujana (2017) and Anisyah (2018). They found that the bonus mechanism variable does not affect the transfer pricing decision.

The Effect of Intangible Assets on Transfer Pricing Decision

The second hypothesis test results, which states that intangible assets have a negative and significant effect, are accepted. The meaning of this test result is that if the company has an increase in intangible assets, then the company will reduce the decision to carry out transfer pricing and vice versa. If a company has low intangible asset value, it will tend to increase transfer pricing practice. This study supports the agency theory that to reduce conflicts of interest between minority shareholders and majority shareholders, one of which is the presence of information on the presentation of intangible assets. A complete presentation of information will show that the company is more transparent so that minority shareholders who only have access to information on a limited company can find out its actual financial position. The availability of information regarding intangible assets will foster the trust of minority shareholders because they will know whether the return on capital provided by the company is correct and correct or not. After all, this company's intangible assets also have economic benefits that can increase company profits.

Firm value can be increased through ownership of intangible assets. Management will strive to maintain the company's value to gain stakeholder trust by reducing transfer pricing practices that lead to manipulation and fraud. Companies that have had intangible assets for a long time will maintain and even increase their value. Research conducted by Kusuma & Wijaya (2017)supports this study's results, which proves that intangible assets have a negative effect on transfer pricing. However, this result contradicts the research conducted by Jafri & Mustikasari (2018), which demonstrates that there is no effect of intangible assets on transfer pricing practices. So, the higher the company's intangible asset value, the lower the transfer pricing practice that the company will carry out.

The Effect of Inventory Intensity Ratio on Transfer Pricing Decisions

The third hypothesis states that the inventory intensity ratio has a negative effect is accepted. When the inventory intensity value increases, the company will decrease the transfer pricing practice decision and vice versa. If the inventory intensity ratio value decreases, the company will increase the transfer pricing decision. This study's results are in line with the political cost hypothesis, which explains that companies will tend to report low earnings by adjusting inventory levels. Suppose the company chooses to invest its assets in inventory. Other costs will arise, such as maintenance, maintenance, and financial risks such as losses due to uncollectible accounts receivable losses, which cause the cost component to be deducted from taxable income so that the profit paid will be lower. This method is considered to be more effective in reducing the cost of taxes that should be paid. The company's carry out transfer pricing decision will be lowered because the transfer pricing scheme requires a more complicated method and agreements from various parties to run smoothly. However, if the inventory intensity ratio is reduced, the company will increase the decision to carry out transfer pricing.

This study's results support the research conducted by Sjahputra (2019), where the results of this study found the inventory intensity ratio had a negative effect on tax avoidance. Sjahputra (2019) states a negative impact of inventory intensity ratio on transfer pricing because inventory is an essential component owned by a company. The company will be cautious in taking actions related to inventory. This caution makes the company reduce actions that lead to tax avoidance related to inventory. This decision mostly does not hurt the company and the loss of opportunity costs in the future. Such as loss of stakeholder confidence. Research conducted by Putri & Lautania (2016) also found that the inventory intensity ratio has a negative effect on the effective tax rate. However, this study's results contradict research conducted by Andhari & Sukartha (2017), which proves that there is no effect of inventory intensity ratio on tax aggressiveness.

Prudence Moderates the Effect of Bonus Mechanism on Transfer Pricing Decisions

The fourth hypothesis that states prudence moderates the effect of the bonus mechanism on the transfer pricing decision is rejected. The impact of the bonus mechanism on transfer pricing has a regression coefficient of 0,010. The regression coefficient of prudence effect moderates the bonus mechanism relationship to transfer pricing decisions by -0,012, which indicates that prudence will weaken the bonus mechanism relationship to transfer pricing decisions, but it is not significant. Prudence not moderating on the relationship between the bonus mechanism and transfer pricing shows that the role of prudence in recognizing expenses immediately and delaying income to reduce tax costs paid does not motivate management to choose transfer pricing practices.

This study's results do not support the Bonus Plan Hypothesis theory, which states that companies implementing the bonus program will choose an accounting method that can make current year profits high to increase bonus earnings. Prudence applied by the company is not aimed at reducing tax costs, but so that the company's financial statements are more reliable and not exaggerated, not only to show good management performance so that profits are high. Prudence is not moderating the relationship between the bonus mechanism and transfer pricing decisions. This result may also be because the company has implemented good corporate governance. There is internal control, which makes the audit committee supervise management to apply the principle of conservatism relatively under applicable regulations.

Prudence Moderates the Effect of Intangible Asset on Transfer Pricing Decisions

The results of testing the fifth hypothesis, which states that prudence significantly moderates the effect of intangible assets on transfer pricing decisions, are accepted. This influence can be seen from the prudence regression coefficient, which mediates the effect of intangible assets on transfer pricing by 0,024, which has a positive direction, which indicates that prudence can weaken the impact of intangible assets on transfer pricing. This condition can occur because when the company's intangible assets are high, the company value will increase, and the company's revenue will also increase. The existence of these tangible assets can create new tax burdens for the company. The company seeks to transfer the profits derived from these intangible assets through transfer pricing.

The economic benefits obtained from intangible assets' existence will increase income and make the taxes paid become high so that companies seek to carry out transfer pricing. This study supports agency theory to reduce conflict between shareholders and management, and intangible assets are presented that make financial reports look more transparent. However, the presentation of the intangible assets will increase the taxable income. This situation encourages management to reduce the tax burden even though, on the other hand, the company must maintain its reputation. Steps that can be taken by companies are to keep presenting intangible assets but record them by applying the precautionary principle so that there will be a delay in recognizing revenues so that the tax paid in the current period can be lower. Besides, companies can take advantage of the weaknesses in identifying and measuring intangible assets to transfer profits from ownership of intangible assets to related companies to reduce tax costs. So, it can be understood that with prudence, management will increase transfer pricing so that prudence weakens the relationship between intangible assets and transfer pricing.

Prudence Moderates the Effect of Inventory Intensity Ratio on Transfer Pricing Decisions
The sixth hypothesis test results, which states that prudence significantly moderates the effect of the inventory intensity ratio on the transfer pricing decision, are rejected. This insignificant effect is because the tax regulations explained that to assess inventory, it is not permissible to use LCOM (Low Cost of Method). The method is a conservative accounting method. After all, inventory is valued at the lowest value between the recorded cost of inventories and their market value (UU Republik Indonesia Nomor 36 Tahun 2008 Tentang Perubahan Keempat Atas Undang-Undang Nomor 7 Tahun 1983 Tentang Pajak Penghasilan Pasal 10 Ayat 6). This method is not allowed to make the company have to make positive corrections so that the tax paid will be higher.

This study does not support the political cost hypothesis in positive accounting theory. If the company earns high profits, the political costs paid must also be high, so the company will prefer an accounting method that can report low profits. The application of this prudence also means that the company has implemented good corporate governance. One of the principles that must be done is the accountability that the reported earnings match those obtained in the current year. So, what can be understood from the results of this study is that the existence of prudence aims to support companies in implementing good corporate governance, not to increase or reduce company decisions in transfer pricing by regulating investment strategies on inventory.

CONCLUSION

The bonus mechanism does not affect transfer pricing decisions, while intangible assets and inventory intensity ratio have a negative effect on transfer pricing. The role of prudence in moderating the impact of intangible assets on transfer pricing results shows a significant positive impact, which means that prudence weakens the relationship between intangible assets and transfer pricing. However, prudence did not moderate the relationship between the bonus mechanism and inventory intensity ratio on transfer pricing. The limitation in this study is that it only uses the property, real estate & construction companies, and manufacturing companies as research objects from all sectors of companies listed on the IDX so that the results of this study are less generalizing. Suggestions for future research are to use another proxy to measure the bonus mechanism, such as management compensation.

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