

Implications of Transfer Pricing on Taxpayer Compliance and Corporate Tax Avoidance

Rafiriko Siagian¹, Tiolina Evi Nausta Pardede²

^{1,2}Department of Accounting, Faculty of Economic and Business, Universitas Perbanas, Jakarta, Indonesia.
Email: rafrikosiagian@gmail.com¹, tiolina@perbanas.id²

ARTICLE HISTORY

Received: January 07, 2026

Revised: February 01, 2026

Accepted: February 13, 2026

DOI

<https://doi.org/10.52970/grdis.v6i2.2023>

ABSTRACT

Transfer pricing is a strategic issue in corporate taxation, especially for entities that have special relationships and decentralized business structures. On the one hand, transfer pricing serves as a managerial mechanism for cost control, performance evaluation, and internal decision-making. However, on the other hand, transfer pricing has the potential to be used as an aggressive tax planning instrument that has an impact on taxpayer compliance and increasing tax avoidance practices. This study aims to analyze the implications of transfer pricing on taxpayer compliance and corporate tax avoidance through a literature review approach. Data sources were obtained from national and international journals for the 2020–2024 period that are relevant to the topics of transfer pricing, tax compliance, and tax avoidance. The analysis method is carried out through a descriptive-qualitative synthesis of previous research findings. The results of the study show that the implementation of transfer pricing oriented to the principles of fairness and business practice tends to increase the formal and material compliance of taxpayers through transparency and accountability of tax reporting. In contrast, aggressive transfer pricing practices contribute to increased corporate tax avoidance, especially through the mechanism of profit transfer between entities within a single business group. This research provides a conceptual contribution by affirming the dual role of transfer pricing as a management control instrument and tax planning tool, as well as providing implications for tax authorities and corporate management in designing transfer pricing policies that are balanced between efficiency and compliance.

Keywords: Transfer Pricing, Taxpayer Compliance, Tax Avoidance, Corporate Taxation.

I. Introduction

Economic globalization and the development of modern business structures are driving companies to operate in decentralized business groups and units. This situation increases the intensity of transactions between related parties, whether in the form of sales of goods, provision of services, or utilization of intangible assets. In this context, transfer pricing has become a strategic issue in corporate management accounting and taxation because it impacts both internal performance and tax obligations (OECD, 2022; Sutrisno & Daryanto, 2021). Transfer pricing is essentially the pricing of transactions between entities within a business group. From a management control system perspective, transfer pricing is used to allocate costs and revenues, evaluate business unit performance, and support strategic decision-making. Research in Indonesia shows that transfer pricing also serves as a cost control tool and increases operational efficiency (Rahmawati et al., 2024; Wulandari et al., 2021).



However, from a tax perspective, transfer pricing is considered a high-risk area because pricing flexibility can be exploited to shift profits between entities to lower tax burdens. Empirical studies show that aggressive transfer pricing practices are positively correlated with tax avoidance, particularly in manufacturing and multinational companies (Beer et al., 2020; Hidayat & Nugroho, 2020). The issue of transfer pricing has become increasingly prominent with the implementation of the Base Erosion and Profit Shifting (BEPS) agenda developed by the OECD. This agenda emphasizes the importance of implementing the arm's length principle and increasing transparency in affiliated transactions to limit cross-jurisdictional tax avoidance practices (OECD, 2022; OECD, 2023).

II. Literature Review and Hypothesis Development

Transfer pricing is an integral part of a management control system used to reflect the economic contribution of each business unit. A well-designed transfer pricing policy can improve unit manager accountability and the quality of internal decision-making (Rahmawati et al., 2024; Sutrisno & Daryanto, 2021). However, a transfer pricing orientation that focuses too much on internal efficiency without considering tax aspects has the potential to increase the risk of tax disputes (OECD, 2022). Taxpayer compliance encompasses formal and material compliance. Formal compliance relates to fulfilling administrative obligations, including preparing transfer pricing documentation, while material compliance relates to the fairness of tax calculations. Research shows that adequate transfer pricing documentation positively contributes to taxpayer compliance and reduces the risk of fiscal corrections (Sukarno, 2022; Nurhayati & Pratama, 2022). Tax avoidance is a corporate strategy to minimize tax burdens by exploiting regulatory loopholes without explicitly breaking the law. Transfer pricing has been identified as a primary channel for corporate tax avoidance through profit shifting between affiliated entities (Beer et al., 2020; Putri & Wibowo, 2021).

III. Research Method

This study uses a qualitative approach with a literature review method, which aims to analyze and synthesize previous research findings related to the implications of transfer pricing on taxpayer compliance and corporate tax avoidance. The literature review method was chosen because the topic of transfer pricing is a complex and multidimensional issue, encompassing aspects of management accounting, taxation, and public policy, thus requiring a comprehensive conceptual understanding through a review of various relevant scientific sources.

3.1. Analysis of Financial Services Sector Performance: Types and Research Approaches

This research is descriptive-qualitative, focusing on analyzing the concepts, relationship patterns, and implications of transfer pricing as presented in the academic literature. This approach does not aim to statistically test hypotheses, but rather to build an integrated theoretical understanding of the role of transfer pricing as a management control instrument and tax planning tool that impacts tax compliance and avoidance.

3.2. Data Sources and Selection Criteria

The research data consists of secondary data obtained from reputable national and international journal articles, international organization reports, and other academic publications relevant to the research topic. Primary sources include nationally accredited scientific journals and reputable international journals discussing transfer pricing, taxpayer compliance, and corporate tax avoidance. To maintain the relevance and currency of the study, this research applies the following source selection criteria:

- a. Publications must have been published within the last five years (2020–2024), with limited exceptions for applicable international guidelines that serve as primary references, such as the OECD Transfer Pricing Guidelines.
- b. Articles explicitly address transfer pricing, tax compliance, tax avoidance, or the interrelationships between these variables.
- c. Sources must be from scientific journals or institutions with academic credibility and relevance to the field of accounting and taxation.

3.3. Data collection technique

Data collection was conducted through a systematic literature search using keywords such as transfer pricing, tax compliance, tax avoidance, and related-party transactions. The search was conducted in national and international journal databases, as well as the official websites of relevant international organizations. All articles obtained were then selected based on topic suitability and methodological quality.

3.4. Data Analysis Techniques

Data analysis was conducted using content analysis and thematic synthesis. The analysis stages included:

- a. Identifying key concepts and findings from each relevant article.
- b. Classifying the literature based on the focus of the discussion, namely transfer pricing as a management control system, taxpayer compliance, and corporate tax avoidance.
- c. Synthesizing the research findings to identify patterns of relationships, similarities, and differences between previous research results.
- d. Interpreting the synthesis results to comprehensively explain the implications of transfer pricing on taxpayer compliance and corporate tax avoidance.

Through these stages, this research seeks to integrate various perspectives in the literature to produce a more comprehensive understanding of the strategic role of transfer pricing in the corporate tax system.

3.5. Reliability and Validity of the Study

To enhance the reliability and validity of the study, this research employed source triangulation, comparing findings from various international journals and reports. Furthermore, the use of up-to-date and relevant literature is expected to minimize bias and enhance the credibility of the analysis. This approach also allows researchers to draw conceptual conclusions that can serve as a basis for further empirical research.

IV. Result and Discussion

4.1. Transfer Pricing from a Management Control System Perspective

Transfer pricing plays a fundamental role in management control systems, particularly in companies with decentralized organizational structures. In this context, transfer pricing serves as a mechanism to allocate costs and revenues between business units, allowing for more objective evaluation of each unit's performance. Recent research shows that appropriately designed transfer pricing policies can improve managerial accountability and the quality of internal decision-making (Rahmawati et al., 2024; Sutrisno & Daryanto, 2021). In addition to serving as a performance evaluation tool, transfer pricing also plays a role in

promoting operational efficiency. Internal pricing that reflects fair economic conditions allows management to identify efficient business units and those requiring performance improvement. Thus, transfer pricing contributes to the achievement of the company's overall strategic objectives (Wulandari et al., 2021).

However, the literature also emphasizes that a transfer pricing orientation that focuses too much on internal interests can have external consequences, particularly in taxation. The OECD (2022) emphasizes that transfer pricing must be designed with a balance between management control objectives and compliance with tax regulations. An imbalance in the design of transfer pricing policies can increase fiscal risk and the potential for tax disputes. In practice, companies often face a dilemma between internal efficiency and external compliance. Pressure to improve business unit performance can drive management to set optimal transfer prices internally, but this may not necessarily align with the principle of tax fairness. This situation demonstrates that transfer pricing is a strategic policy that requires cross-functional coordination between management, accounting, and taxation. Therefore, the results of this study confirm that transfer pricing should be positioned as part of a management control system integrated with tax policy. This integration is expected to create a balance between operational efficiency, managerial accountability, and long-term tax compliance (OECD, 2022; OECD, 2023).

4.2. Transfer Pricing Documentation Quality and Taxpayer Compliance

Taxpayer compliance in the context of transfer pricing is inextricably linked to the quality of documentation prepared by the company. Transfer pricing documentation serves as the primary tool for proving that affiliated transactions have been conducted in accordance with the principles of fairness and customary business practices. Research in Indonesia shows that adequate documentation significantly contributes to improving formal taxpayer compliance (Sukarno, 2022; Nurhayati & Pratama, 2022). In addition to formal compliance, transfer pricing documentation also impacts material compliance. Comprehensive documentation enables tax authorities to assess the fairness of transfer pricing and minimizes differences in interpretation between taxpayers and the tax authorities. This ultimately reduces the risk of fiscal corrections and protracted tax disputes (Utami & Irawan, 2023).

Recent literature also highlights the role of transfer pricing risk management in improving taxpayer compliance. Companies that actively identify and manage transfer pricing risks tend to be better prepared for tax audits and have higher levels of compliance (Yuliana & Handayani, 2023). This approach demonstrates that tax compliance is not merely reactive but can be proactively managed through internal company policies. Furthermore, the quality of transfer pricing documentation often reflects management's level of awareness of tax risks. Companies with a strong commitment to good governance tend to prepare transfer pricing documentation more seriously and systematically. This indicates that tax compliance is part of the company's organizational culture and sustainability strategy. Therefore, the results of this study confirm that transfer pricing documentation (TP Documentation) is not merely an administrative obligation but a strategic instrument for improving taxpayer compliance. Improving the quality of documentation is expected to create a more cooperative relationship between taxpayers and tax authorities and increase legal certainty in the implementation of tax obligations.

4.3. Transfer Pricing and Corporate Tax Avoidance Practices

Although transfer pricing serves a legitimate managerial function, the literature shows that this practice is also often exploited as a tax avoidance mechanism. Flexibility in pricing affiliated transactions provides companies with the opportunity to shift profits between entities within a business group to legally lower their tax burden (Beer et al., 2020). Empirical research in Indonesia indicates that transfer pricing aggressiveness is positively correlated with corporate tax avoidance levels, particularly in the manufacturing sector and multinational corporations (Hidayat & Nugroho, 2020; Hendi & Hadianto, 2021). This finding suggests that transfer pricing is often used as a tax planning tool oriented towards optimizing after-tax profit.

In addition to business structure factors, the level of tax avoidance through transfer pricing is also influenced by competitive pressures and financial performance targets. Companies facing pressure to maintain profitability tend to be more aggressive in designing transfer pricing policies. This situation reinforces the view that tax avoidance through transfer pricing is the result of an interaction between internal and external factors within a company. However, the literature also confirms that excessive tax avoidance practices can pose reputational and legal risks for companies. In the long term, these risks have the potential to outweigh the tax savings benefits obtained through aggressive transfer pricing. Therefore, companies need to consider the long-term impact of their transfer pricing policies. This study confirms that transfer pricing as a tax avoidance mechanism is a complex and contextual phenomenon. Its effectiveness and impact are highly dependent on the policy orientation of company management and the level of oversight exercised by tax authorities.

4.4. The Role of Corporate Governance in Controlling Transfer Pricing Risk

Corporate governance plays a crucial role in moderating the relationship between transfer pricing and tax avoidance. Literature studies show that companies with strong governance tend to be more cautious in establishing transfer pricing policies and prioritize tax compliance (Kovermann & Velte, 2021). The existence of an independent board of commissioners, an audit committee, and an effective internal control system can limit managerial opportunism in exploiting transfer pricing for tax avoidance purposes. Bratten et al. (2021) show that strengthening corporate governance mechanisms is correlated with reduced tax aggressiveness. Furthermore, corporate governance also plays a role in shaping a culture of tax compliance within an organization. Companies that make compliance a core value tend to design more conservative and transparent transfer pricing policies. This suggests that governance serves not only as a monitoring mechanism but also as a means of shaping organizational behavior. The literature also shows that good corporate governance can improve the quality of transfer pricing documentation and the effectiveness of tax risk management. Thus, corporate governance plays a crucial role in creating a balance between operational efficiency and tax compliance. The results of this study reinforce the argument that strengthening corporate governance is a key strategy for controlling transfer pricing risk and tax avoidance practices. This approach aligns with efforts to create business sustainability and stakeholder trust.

4.5. Trade-Off between Managerial Efficiency and Tax Compliance

A literature synthesis reveals a significant trade-off between managerial efficiency and tax compliance in transfer pricing policies. On the one hand, transfer pricing is designed to improve internal efficiency and business unit performance. On the other hand, pressure to achieve efficiency and optimize profits can drive companies to implement aggressive transfer pricing policies (Putri & Wibowo, 2021; Wahyuni & Prasetyo, 2022). This trade-off demonstrates that transfer pricing policies are inseparable from the strategic orientation of corporate management. Short-term-oriented companies tend to emphasize tax optimization, while long-term-oriented companies prioritize compliance and business sustainability. The literature also emphasizes that a balance between efficiency and compliance can be achieved through the integration of transfer pricing policies with management control systems and tax risk management. This approach enables companies to achieve operational goals without compromising tax compliance.

4.6. Policy Implications for Companies and Tax Authorities

The practical implication of this study's findings is the need for companies to integrate transfer pricing policies with management control systems and tax risk management. This integrated approach is expected to improve operational efficiency without compromising tax compliance (OECD, 2022; OECD, 2023).

For companies, strengthening transfer pricing documentation, corporate governance, and tax risk management is a strategic step to mitigate fiscal and reputational risks. This approach also supports legal certainty and a more cooperative relationship with tax authorities. For tax authorities, these findings underscore the importance of a risk-based approach to transfer pricing oversight. This approach allows tax authorities to focus resources on high-risk taxpayers without hindering legitimate business activities. Furthermore, increasing the capacity of tax auditors and better utilizing data is expected to enhance the effectiveness of transfer pricing oversight. Thus, transfer pricing policy can serve as an instrument to support the sustainability of the tax system and a healthy business climate.

V. Conclusion

Based on the literature review, this study concludes that transfer pricing has significant implications for taxpayer compliance and corporate tax avoidance practices. Transfer pricing designed and implemented in accordance with the principles of arm's length and business practice has been shown to play a role in improving formal and material taxpayer compliance, particularly through reporting transparency and the quality of transfer pricing documentation. These findings confirm that transfer pricing functions not only as an internal management control instrument but also as a crucial mechanism for maintaining corporate tax compliance. On the other hand, this study also shows that transfer pricing has the potential to be used as a means of tax avoidance when the implemented policies are aggressive and oriented towards optimizing short-term tax burdens. Flexibility in pricing affiliated transactions allows companies to shift profits between entities within a business group, thereby legally reducing the tax burden. This situation indicates a trade-off between managerial efficiency and tax compliance, which is strongly influenced by management's strategic orientation and the quality of corporate governance. The implications of this research emphasize the importance of designing a balanced and integrated transfer pricing policy that aligns operational efficiency with tax compliance. Companies are expected to develop transparent transfer pricing policies, supported by adequate documentation, and managed through an effective tax risk management system. Meanwhile, for tax authorities, the results of this study provide a conceptual basis for strengthening risk-based transfer pricing oversight to suppress tax avoidance practices without hindering legitimate business activities, thereby creating a sustainable tax system and a healthy business climate.

References

- Beer, S., De Mooij, R., & Liu, L. (2020). International corporate tax avoidance: A review of the channels, magnitudes, and blind spots. *Journal of Economic Surveys*, 34(3), 660–688. <https://doi.org/10.1111/joes.12305>
- Bratten, B., Gleason, C. A., Larcker, D. F., & Mills, L. F. (2021). Corporate governance and tax avoidance: Evidence from a regulatory shock. *Journal of Accounting and Economics*, 72(1), 101407. <https://doi.org/10.1016/j.jacceco.2021.101407>
- Hendi, & Hadianto. (2021). Pengaruh harga transfer terhadap penghindaran pajak perusahaan. *Forum Ekonomi*, 23(3), 570–581.
- Hidayat, M. A., & Nugroho, R. (2020). Transfer pricing, profit shifting, and tax avoidance in Indonesian manufacturing firms. *Jurnal Akuntansi dan Keuangan Indonesia*, 17(2), 141–156.
- Kovermann, J., & Velte, P. (2021). The impact of corporate governance on tax avoidance: A literature review. *Journal of International Accounting, Auditing and Taxation*, 43, 100382. <https://doi.org/10.1016/j.intaccudtax.2021.100382>
- Kubick, T. R., Lynch, D. P., Mayberry, M. A., & Omer, T. C. (2020). The effects of regulatory scrutiny on tax avoidance. *The Accounting Review*, 95(1), 1–28. <https://doi.org/10.2308/accr-52449>
- Nurhayati, N., & Pratama, A. (2022). Transfer pricing documentation and tax compliance in Indonesia. *Jurnal Akuntansi Multiparadigma*, 13(2), 310–325.

- OECD. (2022). Transfer pricing guidelines for multinational enterprises and tax administrations. OECD Publishing. <https://doi.org/10.1787/0e655865-en>
- OECD. (2023). BEPS action plan: Progress report. OECD Publishing.
- Putri, D. A., & Wibowo, S. S. (2021). Transfer pricing aggressiveness and corporate tax avoidance. *Jurnal Keuangan dan Perbankan*, 25(3), 415–430.
- Rahmawati, D. A., Astriyani, S., Masrurroh, S., Hidayat, M. A., Sinaga, I. B., & Adiyanto, M. R. (2024). Implementasi harga transfer sebagai mekanisme pengendalian biaya. *Jurnal Media Akademik*, 2(11), 1–15.
- Rajagukguk, E., Kesia, T., Saribu, A. D., Banjarnahor, Y., Simamora, N., Simanullang, P. T., Turnip, A. R., & Zebua, I. (2024). Dampak penetapan harga transfer terhadap pajak. *Jurnal Akuntansi Kompetif*, 7(2), 245–254.
- Sari, R. N., & Utami, W. (2020). Related party transactions and tax avoidance in emerging markets. *Asian Journal of Accounting Research*, 5(2), 191–205. <https://doi.org/10.1108/AJAR-02-2020-0010>
- Sukarno, S. (2022). Dokumentasi transfer pricing dan kepatuhan wajib pajak. *Jurnal Pajak dan Keuangan Negara*, 4(1), 45–58.
- Sutrisno, T., & Daryanto, W. M. (2021). Transfer pricing policy and tax compliance behavior. *Jurnal Akuntansi dan Auditing Indonesia*, 25(1), 67–82.
- Utami, W., & Irawan, F. (2023). Tax compliance and transfer pricing risk management. *Jurnal Riset Akuntansi dan Keuangan*, 11(1), 89–104.
- Wahyuni, S., & Prasetyo, A. B. (2022). Determinants of transfer pricing decisions and tax avoidance. *Jurnal Keuangan dan Bisnis*, 14(2), 101–116.
- Wulandari, R., Anisa, D. N., Irawati, W., & Mubarak, A. (2021). Transfer pricing dan determinannya pada perusahaan. *Jurnal Akuntansi Berkelanjutan Indonesia*, 4(3), 321–336.
- Yuliana, I., & Handayani, R. (2023). Transfer pricing risk and taxpayer compliance in multinational firms. *Jurnal Akuntansi dan Pajak*, 23(1), 55–69.
- Busse, C. E., & August, E. (2020). How to Write and Publish a Research Paper for a Peer-Reviewed Journal. In *Journal of Cancer Education* (Vol. 36, Issue 5, p. 909). Springer Science+Business Media. <https://doi.org/10.1007/s13187-020-01751-z>