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Systematic Literature Review: The Impact of Profitability, Leverage, and Taxation on Transfer Pricing in Companies

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ABSTRACT

This study aims to analyze the impact of taxation, profitability, and leverage on transfer pricing using a Systematic Literature Review (SLR) approach. A total of 15 scholarly articles published between 2016 and 2023 were systematically selected and analyzed. The selection process employed inclusion criteria such as: 1. peer-reviewed journal articles; 2. empirical studies focusing on the relationship between at least one of the variables taxation, profitability, or leverage—and transfer pricing; 3. written in English; and 4. accessible in full text through academic databases such as Scopus, ScienceDirect, or Google Scholar. The objective was to identify patterns of relationships between variables as well as research gaps in terms of country coverage, industry sector, theoretical frameworks, and variable measurement methods. The findings indicate that taxation has a significant and positive impact on transfer pricing, as companies facing higher tax rates tend to employ this strategy to allocate profits to lower-tax jurisdictions. Profitability also influences transfer pricing, although the results vary depending on the firm's structure and prevailing tax policies. Meanwhile, leverage is found to have a negative impact on transfer pricing, suggesting that highly leveraged firms exercise greater caution in engaging in transfer pricing to avoid additional tax risks. Beyond the primary factors, this study also identifies corporate governance, managerial bonus mechanisms, and macroeconomic conditions as moderating factors that can influence the relationship between taxation, profitability, and leverage on transfer pricing. The findings provide valuable insights for academics and practitioners in understanding how various factors shape transfer pricing decisions and highlight the importance of tax regulations in overseeing these practices

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INTRODUCTION

Transfer pricing is a corporate policy used to determine the pricing of transactions conducted with related parties, including goods, services, and intangible assets. According to Maria Grasia Sari Soetopo (2023), transfer pricing is commonly practiced by multinational corporations as a legitimate business strategy to allocate resources efficiently. However, in some cases, companies may utilize transfer pricing to shift profits to jurisdictions with lower tax rates, potentially reducing national tax revenues. A study by Yong Tan (2016) found that more than 60% of global trade transactions involve transfer pricing schemes, making it one of the primary issues in international tax regulation. Consequently, governments worldwide have implemented strict regulations to monitor transfer pricing practices and safeguard national fiscal interests.

One of the key drivers of transfer pricing practices is taxation. Differences in tax rates across countries create incentives for firms to shift profits to lower-tax jurisdictions to minimize tax liabilities (Bert Steens et al., 2022). This practice, commonly referred to as tax avoidance, can significantly impact a country's tax revenue. Several studies, including Panagiotis V. Papadeas and Nicos Sykianakis (2024), suggest that taxation has a significant influence on corporate transfer pricing decisions, although some research findings indicate inconsistent effects.

Given these varying findings, it becomes essential to further investigate the determinants of transfer pricing, particularly in the context of developing countries such as Indonesia, where regulatory frameworks are still evolving and tax compliance remains a significant challenge. In Indonesia, transfer pricing has increasingly become a focal point for tax authorities, as it is suspected to contribute to substantial tax revenue losses. According to Maria Grasia Sari Soetopo (2023), aggressive transfer pricing practices in Indonesia have the potential to erode the tax base, especially when companies manipulate intercompany transactions to shift profits abroad. Moreover, emphasize that the complexity of Indonesia's transfer pricing regulations often creates both compliance burdens for taxpayers and enforcement challenges for authorities.

The Directorate General of Taxes (DGT) has responded by strengthening audit mechanisms and mandating detailed transfer pricing documentation, yet the effectiveness of these measures remains limited without a solid understanding of the key factors influencing corporate behavior. Therefore, this study is timely and important, as it seeks to provide empirical evidence on how taxation, profitability, and leverage affect transfer pricing practices among companies listed on the Indonesia Stock Exchange. By identifying the underlying motivations and external pressures that shape transfer pricing strategies, this research aims to contribute to both academic discourse and policy formulation in the field of international taxation (Ainsley Elbra, 2024).

Apart from taxation, profitability also plays a crucial role in transfer pricing decisions. Highly profitable firms tend to adopt transfer pricing strategies to reduce their tax burden (Ainsley Elbra, 2024). By adjusting the selling prices or intercompany costs within a corporate group, management can allocate profits to entities operating in countries with lower tax rates. However, not all studies establish a strong correlation between profitability and transfer pricing. Maximilian Todtenhaupt et al. (2020) found that profitability has a negative impact on transfer pricing, while other studies present mixed findings.

Another influencing factor is leverage, which refers to a company's debt level. Firms with high leverage often have incentives to allocate profits to low-tax jurisdictions to reduce interest expenses on debt (Ludvig Wier, 2020). This is linked to broader tax management strategies, where companies exploit regulatory differences across countries to optimize their capital structure. A study by Fatmah Saeed Alghamdi et al. (2024) highlights leverage as a key determinant in corporate transfer pricing practices.
Although extensive research has been conducted on the factors affecting transfer pricing, the findings remain varied. Some studies emphasize the significant role of taxation, while others highlight the influence of profitability, leverage, and additional factors in shaping corporate transfer pricing policies. Therefore, this study aims to analyze the impact of profitability, leverage, and taxation on transfer pricing, particularly in the context of firms listed on the Indonesia Stock Exchange. Accordingly, this research seeks to identify and analyze the relationship between profitability, leverage, and taxation on transfer pricing practices among companies listed on the Indonesia Stock Exchange (IDX). The primary focus is to understand how these three variables influence corporate decisions in implementing transfer pricing strategies as a means of managing tax burdens and achieving financial efficiency.

Furthermore, the study seeks to examine the extent to which taxation specifically affects corporate decision-making regarding transfer pricing. This includes identifying fiscal incentives and regulatory pressures that drive companies to shift profits to lower-tax jurisdictions, as well as considering the influence of national tax policies on intra-group profit allocation strategies. In addition to the main variables, the study also aims to explore other factors that may influence transfer pricing practices, such as corporate governance, managerial compensation mechanisms, and macroeconomic conditions. By examining these supporting factors, the study is expected to provide a more comprehensive understanding of the dynamics behind transfer pricing decisions among Indonesian firms and to offer insights for the development of more effective tax policies and regulatory oversight of transfer pricing practices.

The findings of this study are expected to provide insights into transfer pricing within the context of corporate tax management and the factors that should be considered in corporate tax strategies. Additionally, this research may highlight research gaps that can serve as a foundation for future studies.

LITERATURE REVIEW

Transfer pricing is one of the strategies employed by companies to optimize operational efficiency and profit allocation within business groups that have special relationships. Transfer pricing is often associated with corporate efforts to reduce tax burdens by leveraging differences in tax rates between countries (Maria Grasia Sari Soetopo, 2023). According to the tax planning theory developed by Hoffman (1961), complex tax structures provide opportunities for companies to regulate their tax policies to enhance financial efficiency. This indicates that companies tend to utilize transfer pricing to legally minimize tax liabilities (Yong Tan, 2016).

From the perspective of the Resource-Based View (RBV) Theory, tax management through transfer pricing can be regarded as a corporate strategy to maintain competitiveness. According to research conducted by Bert Steens et al. (2022), corporate decisions in implementing transfer pricing are influenced by several key factors, including taxation, profitability, leverage, bonus mechanisms, and firm size. Taxation is the primary factor driving companies to engage in transfer pricing to reduce their tax obligations. Companies with high tax burdens tend to seek ways to allocate profits to countries with lower tax rates to minimize tax payments (Bert Steens et al., 2022).

Profitability also plays a crucial role in transfer pricing decisions. Based on research conducted by Maximilian Todtenhaupt et al. (2020), companies with high profitability levels have greater incentives to engage in transfer pricing. By adjusting transfer prices or costs between entities within a corporate group, firms can allocate profits to entities located in countries with lower tax rates to reduce tax obligations. This supports the competitive advantage theory, which states that companies must optimally utilize their internal resources to maintain market competitiveness.

In addition to taxation and profitability, leverage also influences transfer pricing policies. Companies with high debt levels often utilize transfer pricing as a strategy to minimize interest expenses. According to research by Sini Laari et al. (2022), leverage significantly impacts transfer pricing decisions, as highly leveraged companies tend to allocate profits to entities with lower tax burdens to reduce total interest expenses. This aligns with the debt covenant hypothesis, which states that companies tend to increase reported earnings to meet debt agreement requirements.

From the perspective of agency theory, the relationship between principals (shareholders) and agents (corporate management) often has the potential to create conflicts of interest. According to research conducted by Ludvig Wier (2020), corporate management with incentives in the form of bonus mechanisms tends to be more active in employing transfer pricing strategies to increase company profits and obtain higher compensation. Agency theory emphasizes that agents (managers) may make decisions that personally benefit them, even if those decisions do not necessarily align with shareholders' interests (Mohammed Ibrahim Al-Otaibi et al., 2024). Therefore, bonus mechanisms can serve as a driving factor behind transfer pricing practices.

The urgency of research on transfer pricing in Indonesia is highly significant given the increasing complexity of multinational business structures operating within the country. Indonesia, as a developing nation, holds substantial potential for tax revenue; however, it also faces challenges in monitoring transfer pricing practices that could be exploited to shift profits and significantly reduce tax burdens. Considering Indonesia’s unique economic and taxation characteristics, this research is expected to contribute to a better understanding of transfer pricing patterns and impacts, as well as assist tax authorities in formulating more effective policies to prevent manipulative pricing practices between related companies that harm the state. Therefore, this study is not only relevant to strengthening the national tax base but also supports the establishment of a fair and transparent taxation system.

Although various factors have been examined in previous research, findings regarding the influence of taxation, profitability, leverage, and bonus mechanisms on transfer pricing remain inconsistent. Some studies indicate that taxation significantly influences transfer pricing decisions, whereas other studies find that profitability and leverage also play a role in determining corporate transfer pricing policies (Ainsley Elbra, 2024). Therefore, further research is needed to understand the factors influencing transfer pricing and how this policy affects corporate financial strategies

RESEARCH METHODOLOGY

This study adopts the Systematic Literature Review (SLR) method, a systematic approach to reviewing literature related to profitability, leverage, and taxation in corporate transfer pricing practices.

The study examines various national and international research articles to gain a broader insight into the topic. Literature sources were collected from several scientific databases, including, ScienceDirect, and ResearchGate. The selected articles are in Indonesian and English and are fully accessible. To ensure relevance to recent developments, the literature used in this study was published between 2016 and 2025.

Table 1. Prisma Framework

Stage	Description	Number of Articles
Identification	Articles identified through database searching	48
	Duplicates Removed	-20
Screening	Articles screened (based on title and abstract)	28
	Articles excluded (not relevant to topic)	-8
Eligibility	Full-text articles assessed for eligibility	20
	Full-text articles excluded (e.g., not meeting inclusion criteria)	-5
Included	Articles included in the final synthesis	15

In the reference search process, the keywords used include "Transfer Pricing," "Tax Avoidance," and "Leverage and Profitability." Since transfer pricing is often linked to a company's financial structure, the analyzed articles also cover other aspects that may moderate the relationship between taxation and transfer pricing, such as earnings management, tax policies, corporate governance, and macroeconomic factors. From this search, a total of 48 articles were initially identified. After removing 20 duplicates and 8 irrelevant articles based on title and abstract screening, 20 full-text articles were assessed for eligibility. Following full-text review, 5 articles were excluded for not meeting the inclusion criteria (e.g., outside the 2019–2025 range, not peer-reviewed, or lack of empirical focus), resulting in 15 articles that were included in the final analysis.

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RESULIT AND DISCUSSION

Journal and Article Sources

Table 1 below presents the identification results, indicating that the literature used originates from various journals with the following proportions:

Table 2. Journal and Article Sources

No.	Journal Name	Index	Source	Quantity
1.	Journal of International Accounting, Auditing and Taxation	Q1	ScienceDirect	1
2.	Journal of International Financial Markets, Institutions & Money	Q1	ScienceDirect	1
3.	Heliyon	Q1	ScienceDirect	1
4.	Russian Law Journal	Q1	RussianLawJournal	1
5.	Journal of Economic Behavior and Organization	Q1	ScienceDirect	1
6.	Journal of Public Economics	Q1	ScienceDirect	1
7.	International Journal of Innovation Studies	Q1	ScienceDirect	1
8.	Resource Policy	Q1	ScienceDirect	1
9.	European Economic Review	Q1	ScienceDirect	1
10.	Procedia Economics and Finance	Q1	ScienceDirect	1
11.	International Review of Financial Analysis	Q1	ScienceDirect	1
12.	Energy Strategy Reviews	Q1	Science Direct	1

13.	Journal of Cleaner Production	Q1	ScienceDirect	1
14.	China Journal of Accounting Research	Q1	ScienceDirect	1
15.	International Review of Economics and Finance	Q1	ScienceDirect	1

Based on Table 1, it is evident that the articles originate from various journals. The highest number of articles was found in the ScienceDirect database, with a total of 14 articles, followed by RussianLawJournal with 1 article. All 15 articles reviewed are indexed in Scopus Q1, reflecting their high credibility, academic excellence, and relevance to the research topic.

Research Country

From a geographical perspective, research on this topic has been conducted in various countries. The findings indicate that the literature originates from various countries, with the United States contributing the most with 2 articles. Meanwhile, Austria, the United Kingdom, Saudi Arabia, Italy, South Africa, Australia, Greece, Germany, Finland, Indonesia, Iraq, the Netherlands, and China each contributed 1 article.

This highlights a research gap in several countries that have been less studied in relation to transfer pricing, profitability, leverage, and taxation. Therefore, further research in other regions is needed to obtain a broader perspective on this topic.

Table 3. Research Country

No.	Country	Quantity
1.	Austria	1
2.	UK	1
3.	Saudi Arabia	1
4.	Italy	1
5.	United States	2
6.	South Africa	1
7.	Australia	1
8.	Greece	1
9.	Germany	1
10.	Finland	1
11.	Indonesia	1
12.	Iraq	1
13.	Netherland	1
14.	China	1

Research Sector

The following is a list of sectors or companies that have been the subject of previous studies. It is evident that most research has been conducted on multinational corporations (6 studies), followed by the banking sector (3 studies), publicly listed companies (2 studies), and one study each on manufacturing firms, mining companies, trade sector enterprises, and the automotive industry. This indicates that the majority of studies focus on large-scale corporations that are generally required to maintain financial reporting transparency. These findings suggest that research primarily targets limited liability companies operating under stricter tax regulations and corporate governance frameworks.

Table 4. Research Sector

No.	Sector	Quantity
1.	Multinational Corporations	6
2.	Banking	3
3.	Publicly Listed Companies	2
4.	Manufacturing	1
5.	Mining	1
6.	Trade	1
7.	Automotive Industry	1

Theories in Research

In conducting research, various researchers utilize foundational theories to support and develop their studies. The theories commonly applied in research related to transfer pricing, profitability, leverage, and taxation include Agency Theory, Institutional Theory, Stakeholder Theory, Legitimacy Theory, Profitability Theory, Leverage Theory, Taxation Theory, and Transfer Pricing Theory. As shown in Table 4, the classification results reveal that the relationships among these variables are predominantly interpreted through Agency Theory, which explains how tax management and transfer pricing practices are influenced by the dynamics between company owners and management. However, other theories such as Institutional Theory and Stakeholder Theory are also employed to explain regulatory influences and stakeholder pressures, while Legitimacy Theory addresses how companies align their tax and transfer pricing practices with societal expectations. Meanwhile, Profitability Theory, Leverage Theory, Taxation Theory, and Transfer Pricing Theory provide more specific analytical lenses focused on financial performance, capital structure, tax burden, and pricing mechanisms across entities.

Table 5. The Theory Used

No.	Theory	Researchers
1.	Agency Theory	Maria, G. S. S. (2023); Yong, T. (2016); Bert, S., Thibaut, R., Sébastien, G., Christof, B., & Matthias, P. (2022); Mohammed, I. A., Normaziah, M. N., Yusniyati, Y., & Nedaa, G. (2024).
2.	Institutional Theory	Teresa, L., Luca, E. F., & Patrick, M. (2025); Ludvig, W. (2020); Jean, C. K., & Simplice, A. A. (2022); Ainsley, E. (2024).
3.	Stakeholder Theory	Panagiotis, V. P., & Nicos, S. (2024); Maximilian, T., Johannes, V., Lars P. F. D. M. R., & Ulrich, S. (2020); Sini, L., Philipp, W., Juuso, T., & Tomi, S.(2022).
4.	Legitimacy Theory	Fatmah, S. A., Baban, E., Satam, S. H., Lien, D., & Grantley, T. (2024); Biyun, X., Su, L., Chunxiao, W., & Boming, S. (2025).
5.	Profitability Theory	Yong, T. (2016); Fatmah, S. A., Baban, E., Satam, S. H., Lien, D., & Grantley, T. (2024); Sini, L., Philipp, W., Juuso, T., & Tomi, S.(2022).
6.	Leverage Theory	Mohammed, I. A., Normaziah, M. N., Yusniyati, Y., & Nedaa, G. (2024); Panagiotis, V. P., & Nicos, S. (2024).
7.	Taxation Theory	Teresa, L., Luca, E. F., & Patrick, M. (2025); Ludvig, W. (2020); Jean, C. K., & Simplice, A. A. (2022); Maximilian, T., Johannes, V., Lars P. F. D. M. R., & Ulrich, S. (2020).
8.	Transfer Pricing Theory	Maria, G. S. S. (2023); Yong, T. (2016); Bert, S., Thibaut, R., Sébastien, G., Christof, B., &

		Matthias, P. (2022); Ainsley, E. (2024); Biyun, X., Su, L., Chunxiao, W., & Boming, S. (2025).

Measurement and Influence of Variables

This section will categorize the research findings from the variables studied by the researchers. The variables tested also have different measurement methods, allowing an understanding of the various methods that can be used to measure each variable. Table 5 shows the measurements used for the dependent variables, such as Transfer Pricing, Tax Avoidance, and Tax Aggressiveness, as well as the independent variables, including Profitability and Leverage. Table 6 presents the influence of the independent variables on the dependent variables based on the results of previous studies.

Table 6. Variable Measurement

Independent Variables	Measurement	Researchers
Profitability	ROA (Return on Assets)	Maria, G. S. S. (2023); Yong, T. (2016); Mohammed, I. A., Normaziah, M. N., Yusniyati, Y., & Nedaa, G. (2024); Sini, L., Philipp, W., Juuso, T., & Tomi, S.(2022); Fatmah, S. A., Baban, E., Satam, S. H., Lien, D., & Grantley, T. (2024).
	ROE (Return on Equity)	Panagiotis, V. P., & Nicos, S. (2024); Biyun, X., Su, L., Chunxiao, W., & Boming, S. (2025).
	Net Profit Margin (NPM)	Bert, S., Thibaut, R., Sébastien, G., Christof, B., & Matthias, P. (2022); Ludvig, W. (2020); Jean, C. K., & Simplice, A. A. (2022).
Leverage	Debt to Equity Ratio (DER)	Maria, G. S. S. (2023); Fatmah, S. A., Baban, E., Satam, S. H., Lien, D., & Grantley, T. (2024); Panagiotis, V. P., & Nicos, S. (2024).
	Debt to Asset Ratio (DAR)	Biyun, X., Su, L., Chunxiao, W., & Boming, S. (2025); Mohammed, I. A., Normaziah, M. N., Yusniyati, Y., & Nedaa, G. (2024).
	Interest Coverage Ratio (ICR)	Yong, T. (2016); Sini, L., Philipp, W., Juuso, T., & Tomi, S.(2022).

From the table above, it can be seen that profitability is often measured using ROA (Return on Assets) and ROE (Return on Equity), while leverage is frequently measured using the Debt to Equity Ratio (DER) and Debt to Asset Ratio (DAR). This indicates that in previous studies, ROA and ROE are the primary indicators for measuring profitability, while DER and DAR are commonly used measures for leverage.

Table 7. Previous Research Findings

Research Variables	Positive Influence	Negative Influence	No Influence
Transfer Pricing	Maria, G. S. S. (2023); Mohammed, I. A., Normaziah, M. N., Yusniyati, Y., &	Ludvig, W. (2020); Ainsley, E. (2024); Yong, T. (2016).	Bert, S., Thibaut, R., Sébastien, G., Christof, B., & Matthias, P. (2022); Jean, C. K., & Simplice,

	Nedaa, G. (2024); Panagiotis, V. P., & Nicos, S. (2024); Fatmah, S. A., Baban, E., Satam, S. H., Lien, D., & Grantley, T. (2024); Biyun, X., Su, L., Chunxiao, W., & Boming, S. (2025).		A. A. (2022); Teresa, L., Luca, E. F., & Patrick, M. (2025); Maximilian, T., Johannes, V., Lars P. F. D. M. R., & Ulrich, S. (2020).
Tax Avoidance	Fatmah, S. A., Baban, E., Satam, S. H., Lien, D., & Grantley, T. (2024); Biyun, X., Su, L., Chunxiao, W., & Boming, S. (2025); Yong, T. (2016); Maria, G. S. S. (2023); Mohammed, I. A., Normaziah, M. N., Yusniyati, Y., & Nedaa, G. (2024).	Ludvig, W. (2020); Panagiotis, V. P., & Nicos, S. (2024); Ainsley, E. (2024).	Sini, L., Philipp, W., Juuso, T., & Tomi, S.(2022); Bert, S., Thibaut, R., Sébastien, G., Christof, B., & Matthias, P. (2022); Jean, C. K., & Simplice, A. A. (2022); Teresa, L., Luca, E. F., & Patrick, M. (2025); Maximilian, T., Johannes, V., Lars P. F. D. M. R., & Ulrich, S. (2020).
Tax Aggressiveness	Maria, G. S. S. (2023); Yong, T. (2016); Fatmah, S. A., Baban, E., Satam, S. H., Lien, D., & Grantley, T. (2024).	Bert, S., Thibaut, R., Sébastien, G., Christof, B., & Matthias, P. (2022); Jean, C. K., & Simplice, A. A. (2022); Sini, L., Philipp, W., Juuso, T., & Tomi, S.(2022).	-
Foreign Direct Investment	Ludvig, W. (2020); Yong, T. (2016); Jean, C. K., & Simplice, A. A. (2022).	Fatmah, S. A., Baban, E., Satam, S. H., Lien, D., & Grantley, T. (2024); Bert, S., Thibaut, R., Sébastien, G., Christof, B., & Matthias, P. (2022).	Sini, L., Philipp, W., Juuso, T., & Tomi, S.(2022); Ainsley, E. (2024); Biyun, X., Su, L., Chunxiao, W., & Boming, S. (2025); Maximilian, T., Johannes, V., Lars P. F. D. M. R., & Ulrich, S. (2020)

Based on the table above, it can be seen that Transfer Pricing is the most frequently studied variable with a positive influence across various studies. This suggests that transfer pricing practices tend to have a positive impact on tax optimization and a company's financial strategy. When companies implement transfer pricing, they can manage their tax burdens more efficiently, which ultimately contributes to increased profitability. This can occur when transfer pricing is implemented without considering the applicable tax regulations or when other factors such as financial reporting transparency and strict oversight by tax authorities are present (Maria Grasia Sari Soetopo, 2023; Yong Tan, 2016; Bert Steens et al., 2022). Additionally, factors such as corporate governance, involving internal control mechanisms and the role of the board of directors, can also influence the relationship between transfer pricing and company performance (Biyun Xiao et al., 2025). Thus, while transfer pricing often yields positive outcomes, contextual factors such as tax policies and corporate governance can lead to different findings in research.

Supporting Factors

Tabel 8. Supporting Factors

No.	Supporting Factors
1.	Taxation
2.	Company Profitability
3.	Leverage
4.	Bonus Mechanisms
5.	Agency Theory
6.	Corporate Governance
7.	Tax Regulations and Oversight
8.	Capital Structure
9.	Internationalization of the Firm
10.	Innovation and Intangible Assets

The supporting factors above are derived from articles related to the topic being discussed, although some of them do not directly examine the influence of profitability and leverage on transfer pricing. Table 7 shows that in transfer pricing practices, there are other factors that can be considered, such as taxation, company profitability, tax compliance, tax regulations, earnings management policies, corporate ownership structure, capital structure, tax regulations and oversight, internationalization of the firm, and innovation and intangible assets. These factors, while interrelated, provide a broader understanding of the dynamics between transfer pricing and corporate financial strategies.

DISCUSSION

Research Gaps

Research on the relationship between profitability, leverage, taxation, and transfer pricing has been conducted across various sectors and regions, but several research gaps remain. Many studies have primarily focused on traditional sectors like mining, manufacturing, and energy, with limited exploration in industries such as financial services, technology, and logistics, which also present opportunities for transfer pricing practices (Steens et al., 2022; Tan, 2016). Furthermore, the majority of existing studies have concentrated on publicly listed companies, particularly those on the Indonesia Stock Exchange (IDX), leaving a significant gap in understanding how private companies, cooperatives, and SMEs approach transfer pricing (Al-Otaibi et al., 2024; Wier, 2020). This gap suggests the need for future research to broaden its scope to include these business entities and gain deeper insights into their transfer pricing strategies.

Additionally, the theoretical frameworks used in previous studies have largely relied on Agency Theory (Kouam & Asongu, 2022; Alghamdi et al., 2024), which, while valuable, does not fully capture the complexities of transfer pricing in the global context. Other theories, such as Hoffman's Tax Planning Theory and the OECD's Base Erosion and Profit Shifting (BEPS) Theory, offer alternative perspectives that have not been sufficiently explored in relation to transfer pricing, especially in developing countries (Rufus & Schreiber, 2020). Incorporating these theories could provide a more comprehensive understanding of how companies manage their tax liabilities.

Moreover, the measurement methods used to evaluate the relationship between taxation and transfer pricing have predominantly focused on the Effective Tax Rate (ETR), while alternative metrics such as Cash Effective Tax Rate (CETR), Net Profit Margin (NPM), and Debt to Asset Ratio (DAR) have been suggested but remain underexplored (Merle et al., 2019; Alghamdi et al., 2024). Exploring these alternative methods could offer more accurate insights into transfer pricing practices. Another significant gap is the underrepresentation of research in developing countries. Much of the literature comes from developed nations like the U.S., South Korea, and France, whereas developing countries, including Indonesia, face distinct challenges due to less stringent tax regulations (Papadeas & Sykianakis, 2024; Tan, 2016). Focusing on these regions could shed light on how multinational companies exploit tax loopholes in different regulatory environments.

Furthermore, the role of corporate governance in transfer pricing practices remains underexamined. Research on how internal control systems and the board of directors influence transfer pricing decisions is limited (Lackner et al., 2025; Elbra, 2024). Additionally, the impact of corporate ownership structure, such as family-owned businesses versus publicly traded companies, on transfer pricing strategies is another area that warrants further investigation (Saeed et al., 2024). Finally, the internationalization of companies and its influence on transfer pricing strategies, particularly in emerging markets, has not been adequately addressed. Global operations present unique challenges and opportunities for implementing transfer pricing strategies, and understanding these dynamics is crucial for improving our understanding of global tax strategies (Laari et al., 2022; Papadeas & Sykianakis, 2024).

In summary, addressing these research gaps by broadening the scope of studies across industries, incorporating diverse theoretical frameworks and measurement methods, and focusing on developing countries and corporate governance structures will significantly enhance our understanding of the factors influencing transfer pricing practices and their impact on business strategy.

The Influence of Taxation on Transfer Pricing

Taxation is a critical determinant in multinational companies' decision to implement transfer pricing strategies, especially considering the varying tax rates across jurisdictions. Transfer pricing allows companies to allocate profits to countries with lower tax rates to minimize overall tax obligations, aligning with the Base Erosion and Profit Shifting (BEPS) theory. This theory suggests that multinational corporations often exploit differences in tax regulations across borders to engage in tax avoidance while adhering to legal frameworks (Papadeas & Sykianakis, 2024). A study by Wier (2020) reveals that firms operating internationally tend to engage in transfer pricing to optimize tax payments, particularly when operating in countries with favorable tax policies. Similarly, a study conducted by Merle et al. (2019) on companies listed in France's CAC-40 index highlights the prevalence of transfer pricing practices among entities with significant international operations, indicating that multinational companies are more likely to allocate profits to subsidiaries in low-tax jurisdictions.

The implementation of transfer pricing practices has significant implications for national tax revenues, leading many countries to introduce regulations to curb tax avoidance. In response to concerns over tax revenue erosion, the arm's length principle (ALP) has become a cornerstone of transfer pricing regulations worldwide, requiring transactions between related entities to be priced as if they were conducted between independent parties (Kouam & Asongu, 2022). For example, Indonesia's regulation through the Ministry of Finance Regulation No. 213/PMK.03/2016 mandates that companies engage in affiliated transactions to provide Transfer Pricing Documentation (TP Doc), ensuring greater transparency in tax reporting (Saeed et al., 2024). Despite these regulations, however, research by Laksono & Witono (2025) suggests that monitoring challenges remain, with multinational companies continuing to find ways to shift profits to jurisdictions with more favorable tax rates.

In contrast, some studies have found inconsistent results regarding the relationship between taxation and transfer pricing. For instance, Alghamdi et al. (2024) observed that, in the context of companies in the energy sector in Indonesia, taxation did not significantly influence transfer pricing decisions. The researchers suggest that companies in this sector may prioritize other factors such as profitability, capital structure, or long-term strategic goals when determining their transfer pricing policies. Similarly, research by Putra (2025) on Indonesian companies suggests that the tax burden is not always the primary determinant in transfer pricing decisions, with factors such as expansion plans and debt management playing more significant roles in shaping corporate tax strategies.

While a significant number of studies, such as those by Tan (2016) and Steens et al. (2022), show a clear connection between tax rates and transfer pricing practices, variations in these findings underscore the need for further research into the moderating factors that influence this relationship. These factors may include industry-specific characteristics, corporate governance structures, and the overall complexity of tax systems in different countries. Additionally, future studies should explore the effectiveness of current tax regulations in mitigating aggressive tax avoidance and their capacity to deter the use of transfer pricing as a means of profit shifting.

Overall, while the relationship between taxation and transfer pricing is widely acknowledged in the literature, the findings vary depending on the specific context of the study, including industry, business scale, and the tax environment of the country. Therefore, further research is required to comprehensively understand the moderating variables in this relationship and evaluate the effectiveness of existing regulations in preventing tax avoidance through transfer pricing strategies.

Supporting Factors of Transfer Pricing

Corporate governance plays a critical role in shaping the implementation of transfer pricing policies, ensuring they align with regulatory requirements and prevent aggressive tax avoidance. Strong governance frameworks, including transparent oversight mechanisms, are essential for companies to adhere to the arm's length principle (ALP) and maintain accountability. Research by Sebele-Mpofu, Mashiri, & Schwartz (2021) suggests that companies with robust corporate governance structures are more likely to adopt transfer pricing practices that comply with tax regulations and avoid tax avoidance schemes. In contrast, companies with weak governance structures face increased risks of manipulating transfer pricing for tax aggressiveness. Similarly, Putra (2025) emphasizes the role of boards of directors and audit committees in ensuring that transfer pricing practices are transparent and not solely driven by tax minimization motives, helping prevent potential legal challenges related to improper tax strategies.

In addition to corporate governance, managerial incentives and bonus mechanisms are influential in shaping transfer pricing policies. Performance-based incentives often push executives to maximize after-tax profits by utilizing transfer pricing as a tool for profit shifting. Zahri et al. (2025) found that companies with aggressive incentive schemes tend to engage more actively in transfer pricing strategies to allocate profits to lower-tax jurisdictions, aiming to boost financial performance. This observation aligns with agency theory, which suggests that conflicts of interest between shareholders (principals) and managers (agents) can lead to decision-making that benefits the latter, such as employing transfer pricing for personal gain (Tarigan et al., 2023). However, the research by Laksono & Witono (2025) reveals that bonus mechanisms alone do not necessarily correlate with aggressive transfer pricing practices, particularly in companies that have stringent internal control policies governing the implementation of incentive schemes.

Macroeconomic conditions also influence transfer pricing strategies, particularly in a globalized business environment. Factors such as exchange rate fluctuations and international tax reforms can affect the decisions multinational companies make in setting transfer prices. Merle, Al-Gamrh, & Ahsan (2019) demonstrate that exchange rate volatility can create opportunities for companies to adjust their transfer pricing policies to manage financial structures more effectively. This is especially true for companies with cross-border operations, where currency fluctuations may impact the profitability of subsidiaries in different countries. Additionally, Park, Park, Sun, & Woo (2016) highlight the influence of global tax reforms, particularly the OECD's Base Erosion and Profit Shifting (BEPS) Action Plan, which has led companies to rethink their transfer pricing policies in order to avoid penalties and ensure compliance with evolving international tax regulations.

Furthermore, factors such as tax compliance and the complexity of tax regulations play a significant role in determining the transfer pricing strategies companies adopt. As countries tighten tax laws to combat tax avoidance, companies may find it increasingly difficult to manipulate transfer pricing without facing regulatory scrutiny. A study by Yudiman, Muslimah, & Asma (2025) in Indonesia's energy sector illustrates that, while tax rates are a crucial consideration, companies may sometimes prioritize other factors like capital structure and market expansion strategies in their transfer pricing decisions. This shows that while tax-related factors remain significant, companies are influenced by a broader range of considerations in shaping their transfer pricing policies.

In conclusion, the supporting factors of transfer pricing are multifaceted, involving internal corporate governance, incentive mechanisms, macroeconomic factors, and the overall regulatory environment.

Strong governance frameworks, well-managed incentive schemes, and awareness of global tax dynamics can help companies implement transfer pricing strategies that are not only tax-efficient but also comply with the relevant legal frameworks. These factors are critical in ensuring that transfer pricing policies align with both corporate objectives and national tax compliance requirements, while minimizing the risks of tax penalties and legal challenges.

Conclusion

This study adopts the Systematic Literature Review (SLR) approach to explore the factors influencing transfer pricing decisions, focusing on tax, profitability, leverage, and other supporting factors. By analyzing various academic literatures, this research provides insights into research gaps that can be further explored, particularly in terms of country scope, industry sectors, theories used, and variable measurement methods. The SLR approach allows for the identification of patterns in previous research, enabling future researchers to utilize this information to discover relevant research gaps and enrich the development of studies on transfer pricing.

In addition to identifying research gaps, the findings of this study also emphasize that differences in tax rates between countries are a key factor in the transfer pricing strategies implemented by multinational companies. In some cases, companies use transfer pricing as a tax avoidance mechanism by exploiting countries with lower tax rates to allocate profits. However, increasingly stringent tax regulations, such as the implementation of the arm's length principle (ALP) and the OECD BEPS Action Plan, impose limits on transfer pricing practices aimed at aggressively reducing taxes. Other factors such as corporate governance, managerial bonus mechanisms, and macroeconomic conditions also contribute to influencing transfer pricing policies, with companies having better governance systems tending to have higher transparency in their transfer pricing reporting.

Although this study provides various relevant findings, there are several limitations to consider. One of the main limitations is that the number of literatures used in this analysis may not cover all perspectives that could affect transfer pricing policies, particularly in the context of private companies, cooperatives, and SMEs, which have not been extensively discussed in previous research. Additionally, the methods for measuring variables in previous studies still vary, so future studies could further explore alternative measurements that are more suited to different industry contexts. Therefore, future research is expected to expand the literature scope, examine sectors that have not been widely researched, and consider a more comprehensive methodological approach to obtain a deeper understanding of transfer pricing and corporate tax strategies.

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