DETERMINANTS OF TRANSFER PRICING DECISION

IN MALAYSIAN MULTINATIONAL COMPANIES

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ABSTRACT

This study done is to investigate the determination namely debt covenants, foreign ownership, tax avoidance and company size of transfer pricing decision in Multinational companies in Malaysia. In order to achieve this, the study applied descriptive study and secondary sources were used to collect data. The study used hypothesis testing research using 30 samples data gained from Bursa Malaysia during year 2020 and 2021. The results of this study conclude that none of the determination namely debt covenants, foreign ownership, tax avoidance and company size have significant relationship towards transfer pricing decisions in Multinational companies in Malaysia. This research aims to assist investors, auditors, and the policy makers in identifying factors that will lead multinational company to engage in transfer pricing practices and knowing which areas they should focus on when making investment decisions, during audit procedures, and for the government to improve transfer pricing regulations in Malaysia.

Keywords: Transfer pricing, debt covenant, foreign ownership, tax avoidance, company size, multinational companies.

ABSTRAK

Kajian ini dilakukan untuk mengkaji penentu atau faktor iaitu perjanjian hutang, pemilikan asing, pengelakkan cukai dan saiz syarikat terhadap keputusan pindaan harga dalam kalangan perusahaan multinasional di Malaysia. Untuk mendapatkan kepastian seperti dinyatakan, kajian ini menggunakan diskriptif dan data sekunder untuk mengumpul data. Pengajian ini juga mengunakan kaedah ujian hipotesis berpandukan 30 sampel data yang diperoleh daripada Bursa Malaysia pada tahun 2020 dan 2021. Keputusan kajian ini dapat disimpulkan bahawa kesemua penentu atau faktor iaitu perjanjian hutang, pemilikan asing, pengelakkan cukai dan saiz syarikat mempunyai kaitan terhadap keputusan pindaan harga dalam kalangan perusahaan multinasional di Malaysia. Kajian ini juga bermatlamat untuk membantu pelabur, juruaudit, dan juga pembuat polisi dalam mengenalpasti faktor yang mempengaruhi perusahaan untuk terlibat dalam pindaan harga dan mengetahui aspek yang mereka seharusnya memberikan perhatian ketika membuat keputusan pelaburan, proses audit, dan kerajaan Malaysia untuk membaikpulih peraturan pindaan harga di Malaysia.

Kata Kunci: Harga pindaan, perjanjian hutang, pemilikan asing, pengelakkan cukai, saiz syarikat, perusahaan multinasional.

DECLARATION

I certify that except where due acknowledgement has been made, the work is that of the author alone; the work has not been submitted previously, in whole or in part, to qualify for any other academic award; the content of the thesis is the result of work which has been carried out since the official commencement date of the approved research program; and any editorial work, paid or unpaid, carried out by a third party is acknowledged.

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LIST OF ABBREVIATIONS

Abbreviation	**Description of Abbreviation**
Bursa Malaysia	Bursa Malaysia Stock Exchange
Arms' Length	Arm's Length Method
DEBTCOV	Debt Covenant
FOWNER	Foreign Ownership
ETR	Effective Tax Rate / Tax Avoidance
SIZE	Company Size
TF	Transfer Pricing
OECD	Organisation for Economic Co-operation and Development
BEPS	Base Erosion and Profit Shifting
IRS	Internal Revenue Service
MFRS	Malaysia Financial Reporting Standard
IRBM	Inland Revenue Board of Malaysia
GDP	Gross Domestic Product

CHAPTER ONE: INTRODUCTION

1.1 Introduction

Globalization has created huge impacts on multinational companies, mainly on its international trade and company growth. Globalization can be defined as the process where the companies or businesses develop or expand their operation into the international scale. In the last few decades, globalization has transformed countless multinational companies in terms of efficiency and productivity and growth of power and control (Kyove, Streltsova, Odibo and Cirella, 2021). The international trade faced continuous challenges due to increase in uncertainty of economic events but the impacts of globalization era in transforming multinational enterprises' growth cannot be denied. Rapid changes of these multinational companies' growth have been prevalent during the COVID-19 pandemic, where many companies were forced and chose to involve with technology-based businesses, which then allowed businesses to have business transactions across the country. The elimination of corporate territorial jurisdictional restrictions by globalization has made it simpler to form trusts, affiliate joint ventures, subsidiaries, and other business entities in countries that offer favourable tax haven circumstances according to (Amidu, Coffie and Acquah, 2019). Multinational companies gain countless benefits from the international trade, transfer of technology, economic growth and increased taxes. To maximize the benefits gained from globalization, many studies reveal that companies tend to involve with transfer pricing manipulation in archiving those benefits. Transfer pricing determines by Yulia, Hayati and Daud (2019) as the amount of price occurs due to transfer of goods, services and technology between subsidiaries company or companies with special relationships. Transfer Pricing is a firm policy that determines the transaction of transfer pricing,

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APPENDIX

Appendix 1

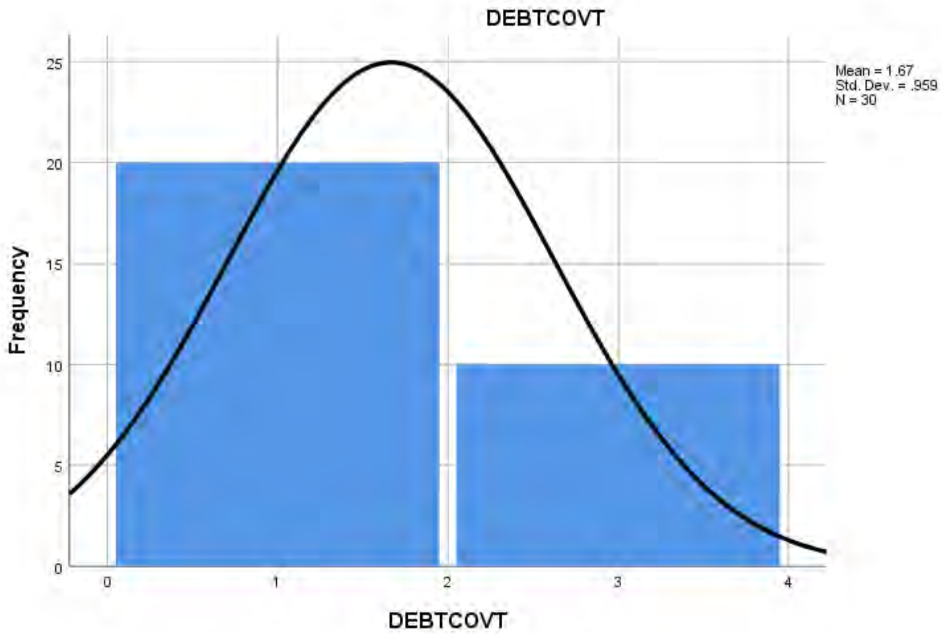
NO	Multinational Companies in Malaysia
1	Air Asia X Berhad
2	Berjaya Assets Berhad
3	Carimin Petroleum Berhad
4	Eco World Development Groud Berhad
5	Gamuda Berhad
6	GD Express Carrier Berhad
7	Genting Berhad
8	KPJ Healthcare Berhad
9	Nestle Malaysia Berhad
10	Panasonic Manufacturing Malaysia Berhad
11	Petronas Gas Berhad
12	Sunway Berhad
13	Tenaga Nasional Berhad
14	Top Glove Corporation Berhad
15	YTL Land and Development Berhad

Appendix 2

The following are the definitions of the items utilized in this study:-

- Multinational Company (MNC): The entity or company that has established two or more overseas branches or subsidiaries as part of its operation.
- Debt Covenant: The agreement or bond between lenders and borrower upon the loan deal under certain requirement and conditions.
- Foreign Ownership: The percentage of common stocks owned by foreigners can be used to measure foreign ownership.
- Tax Avoidance: The effort of tax payer to minimize the amount of taxable income or tax paid to the government in legal way.
- Company Size: The scale or volume of business operations and can be determine by various method such as sales revenue, number of employees and market shares.
- Transfer pricing: The pricing arrangements between related parties for the transfer of products, services and intangibles.
- Arm's Length Principle: The guideline where the pricing term between related firms or companies in the exchange of goods and services should realize same result as if they are unrelated

Appendix 4.2.1



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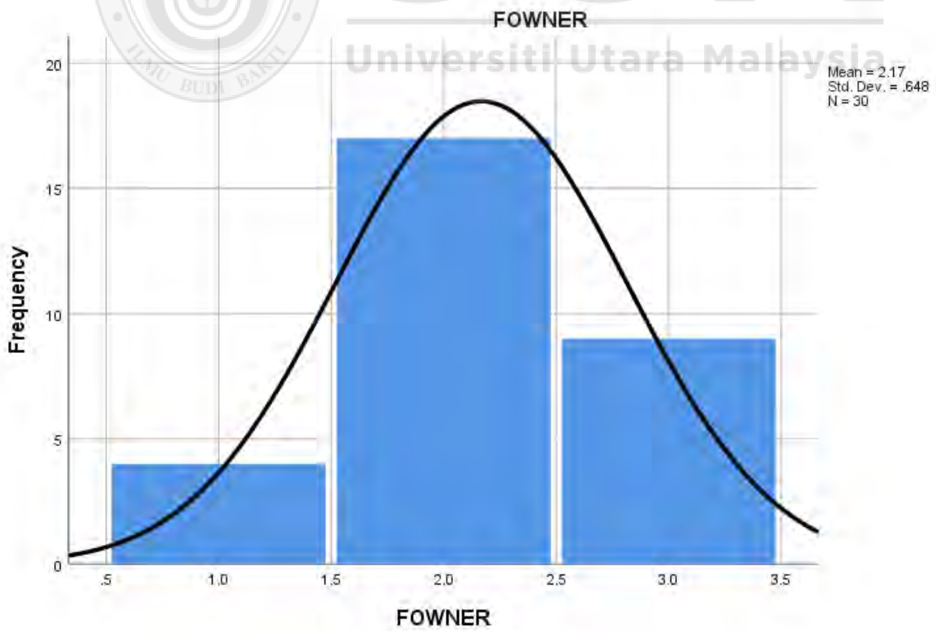

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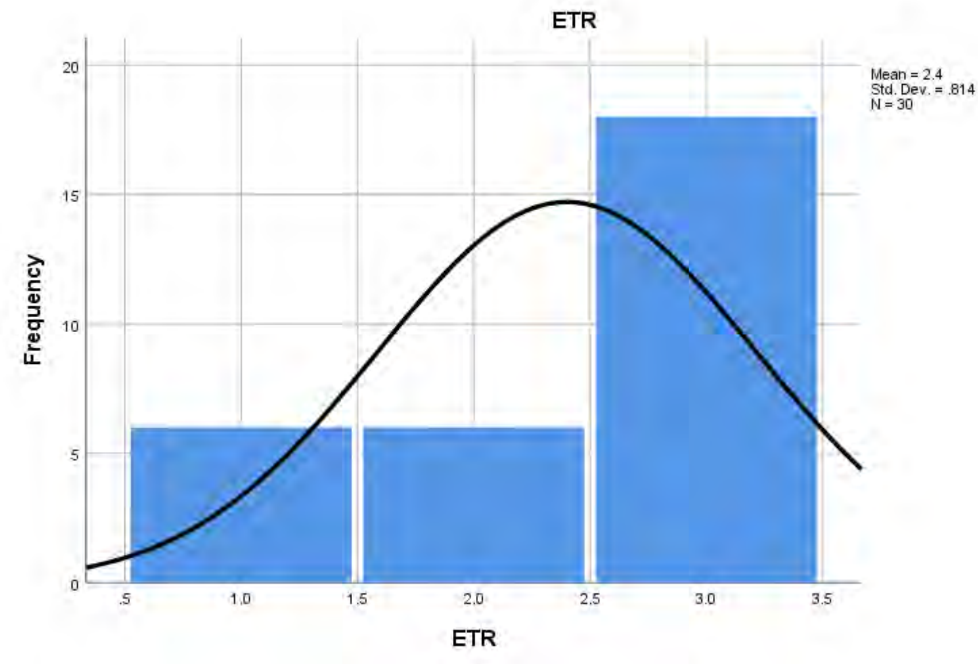

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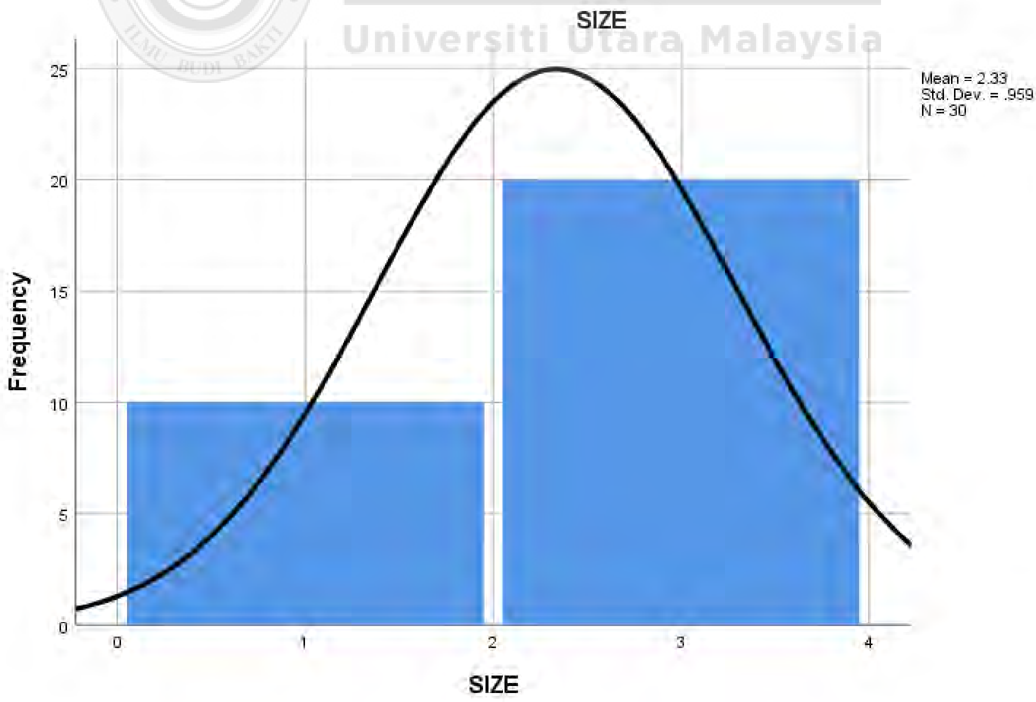

Appendix 4.2.5