

## LITERATURE REVIEW ON THE EFFECTIVENESS OF TRANSFER PRICING REGULATIONS IN REDUCING TAX AVOIDANCE IN MULTINATIONAL CORPORATIONS

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### Abstract

*This research aims to examine the effectiveness of transfer pricing regulations in reducing Tax Avoidance among multinational enterprises. The research utilizes a literature-based approach by reviewing academic studies, policy reports, and international tax governance frameworks such as OECD-BEPS, Country-by-Country Reporting (CbCR), and Automatic Exchange of Information (AEoI). The findings indicate that stringent transfer pricing rules, mandatory documentation, and strengthened audit mechanisms significantly restrict manipulation of intra-group transactions, enhance transparency, and expand the tax revenue base. However, the research also highlights potential unintended effects, including the relocation of business activities to jurisdictions with less strict tax rules if global harmonization efforts are weak or inconsistent. The practical implications suggest that governments should align domestic regulations with international standards, develop auditor competencies, improve benchmarking databases, and adopt digital reporting systems to support real-time supervision. For multinational enterprises, compliance with the arm's length of principle and transparent documentation is crucial in mitigating legal risks and financial penalties. Investors also benefit from improved corporate governance and reduced litigation risk, which strengthen financial stability. The originality of this research lies in its comprehensive synthesis of empirical evidence and its policy-oriented recommendations tailored to the current challenges of global taxation.*

**Keywords:** Automatic Exchange of Information, OECD-BEPS, Transfer Pricing, Tax Avoidance.

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### INTRODUCTION

The trend of profit shifting by multinational corporations is becoming an increasingly strategic issue in international taxation as global economic integration grows. Through Transfer Pricing practices, corporations can shift profits from jurisdictions with higher tax rates to low-tax countries as a strategy for optimizing their global tax expense ([Clauzing, 2012](#)). The mechanism has the potential to cause Base Erosion and Profit shifting (BEPS), which leads to a reduction in tax

revenue in the country where the actual economic activity takes place. Although various supervisory instruments have been implemented, such as the arm's length principle, transfer pricing documentation, and the OECD's BEPS Action Plan, the effectiveness of cross-border regulations varies significantly. Developed countries generally have stronger tax administration capacities than developing countries, resulting in substantial differences in compliance and policy.

Nevertheless, the effectiveness of transfer pricing regulations varies significantly between countries. Developed countries generally have strong tax administration capacities and relatively well-established monitoring systems, while developing countries face challenges in the form of limited resources, inconsistent regulations, and weak law enforcement ([Makers, n.d.](#)). The differences have implications for the level of compliance between multinational corporations and the amount of potential income shifting.

Previous research has shown inconsistent empirical findings. While some studies conclude that tighter regulations can reduce tax avoidance practices ([Eukeria & Mpofu, 2024](#)), other studies find that policy complexity increases compliance costs and reduces cross-border investment ([R. de Mooij & Liu, 2020](#)). Within the Indonesian context, low transfer pricing compliance is largely attributed to weak law enforcement and limited tax administration capacity. This inconsistency indicates a research gap in terms of both empirical findings and the perspective of jurisdictional context (Company et al., 1976).

The objectives of these researches are to compile a Systematic Literature Review (SLR) on transfer pricing regulations to map out how policy mechanisms, monitoring instruments, and state administrative capacity influence the tax avoidance strategies of multinational companies. The SLR approach was chosen because it can comprehensively synthesize empirical evidence and identify patterns of relationships that were not apparent in individual studies ([Tranfield et al., 2003](#)).

Theoretically, this research contributes by integrating several key conceptual frameworks such as Agency Theory, Tax Compliance Theory, and Profit Shifting Theory to explain the mechanism of the relationship among regulation, compliance, and tax avoidance strategies. This integration highlights that the effectiveness of the regulations is not only determined by the design of the rules but is also greatly influenced by institutional factors such as the quality of fiscal governance and administrative capacity in law enforcement ([Kirchler et al., 2008](#)). In practical terms, this research provides policy implications for tax authorities regarding strengthening administrative capacity, harmonizing cross-border regulations, and simplifying documentation so as not to impose an excessive compliance burden.

This research offers novelty through three main aspects. First, the use of a cross-jurisdictional SLR approach, which has not been widely used in previous transfer pricing studies that tend to be empirical and focus on a single country. Second, the integration of agency theory, tax compliance, and profit shifting into a comprehensive framework to explain the effectiveness of transfer pricing regulations. Third, the identification of the moderating effects of regulatory complexity and tax administration capacity, which are important research gaps that have not been systematically mapped in previous literature.

The previous studies generally found that multinational corporations take advantage of regulatory loopholes, tax rate differentials, and weak monitoring to shift profits to countries with lower tax rates ([Network & Republic, 2018](#)). However, empirical evidence also shows that strengthening transfer pricing regulations can suppress such practices by increasing compliance costs and the risk of sanctions ([Profit Shifting : Drivers and Potential Countermeasures Sebastian Beer Jan Loeprick, 2025](#)). Thus, theoretical arguments based on fiscal compliance theory and agency theory indicate that the stronger the regulations implemented, the greater the incentive for corporations to engage in aggressive tax avoidance.

## LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Literature on transfer pricing consistently highlights how Multinational Corporations (MNCs) exploit differences in tax rates between countries to shift profits and reduce their tax expenses. This trend is relevant to Agency Theory, which explains that managers have incentives to maximize shareholder welfare through tax avoidance strategies (Company et al., 1976), including price manipulation of transactions between entities within the same group. Within this context, managers exploit regulatory loopholes and weak enforcement to shift profits to low-tax jurisdictions. In accordance with this, Profit Shifting Theory asserts that differences in tax rates, inconsistencies in policies between countries, and weak monitoring mechanisms create ideal conditions for MNCs to engage in transfer pricing-based tax avoidance ([January, 2022](#)).

Several recent studies reinforce this argument, including findings that strict transfer pricing regulations that are in accordance with OECD standards are effective in reducing income shifting activities, with evidence of a 1.5% decrease in profit shifting for every 1% increase in the effective tax rate ([Beer et al., 2018](#)). Similar findings also show that the implementation of the BEPS Action Plan, CbCR documentation, and Transfer Pricing audits contribute significantly to increased tax compliance ([Eukeria & Mpofu, 2024](#)). Other studies also confirm that countries with strong law enforcement and adequate tax administration capacity demonstrate higher regulatory effectiveness than developing countries. Meanwhile, research conducted in Indonesia shows that there is still a gap among regulations and their implementation, particularly in relation to limited resources, auditor competence, and low legal certainty ([Mukhtaruddin et al., 2025](#)). This emphasizes that the effectiveness of regulations is not only determined by the existence of rules, but also by the quality of their enforcement.

The Tax Compliance Theory framework provides important insights that emphasize that tax compliance is influenced by economic, social, and institutional factors ([Kirchler et al., 2008](#)). In the context of transfer pricing, legal certainty and strict sanctions, as well as credible audit mechanisms have been proven to strengthen the compliance of multinational taxpayers with fair reporting of prices between entities.

Therefore, from a theoretical and empirical perspective, the effectiveness of transfer pricing regulations plays a direct role in reducing the scope for MNCs to engage in tax avoidance. All this literature shows a relatively consistent conclusion that the more effective and structured a country's transfer pricing regulations are, the lower the level of tax avoidance by multinational corporations.

The recent literature from 2023-2025 enriches the understanding of the regulatory dimension and enforcement effectiveness. The OECD peer review report (2024) on Country-by-Country-Reporting confirms that more than 115 jurisdictions already have a legal and administrative framework for CbCR, but there are recommendations for several countries to improve their information exchange frameworks and the appropriate use of reports ([OECD Guidelines for Multinational Enterprises on Responsible Business Conduct, n.d.](#)).

The BEPS policies were also critically evaluated by policy analysis form IDOS ([Teles, 2023](#)), indicating that despite increased global awareness and the implementation of minimum standards, the real impact on tax avoidance remains limited in many countries with low institutional capacity (IDOS). Practical technical guides, such as Taxand Global Transfer Pricing Guide 2024, confirm that documentation compliance varies significantly between jurisdictions and that the compliance expense remains high.

In synthesis, theoretical and empirical evidence consistently shows that the effectiveness of transfer pricing regulations, which not only includes the design of formal rules but also the ability

of countries to enforce rules through audits, information exchange (such as CbCR), and institutional capacity, is an important determinant in reducing the level of tax avoidance by multinational corporations. Therefore, based on the theoretical framework, previous research, and logical arguments, the research hypothesis can be formulated as follows:

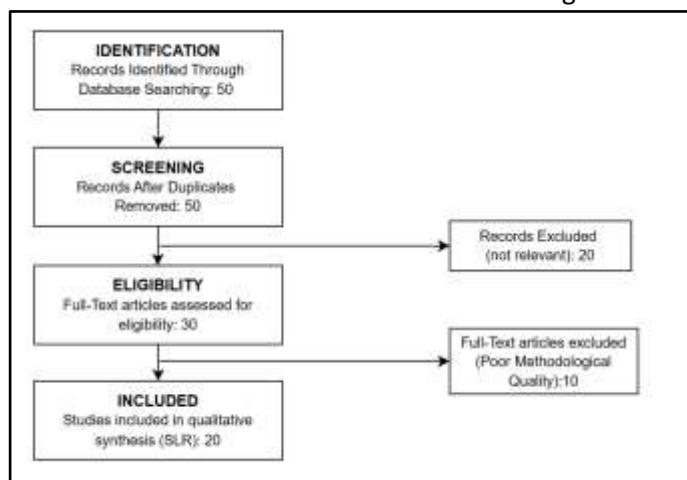
***H1: The effectiveness of transfer pricing regulations (including rule design, CbCR documentation, and enforcement capacity) has a negative impact on the level of tax avoidance by multinational corporations.***

## RESEARCH METHOD

This research uses a Systematic Literature Review (SLR) design with reference to the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) 2020 guidelines. This approach provides a higher level of accuracy compared to Narrative Literature Review ([Snyder, 2019](#)) because it provides a systematic, transparent, and replicable procedure for identifying, selecting, and synthesizing literature related to the effectiveness of transfer pricing regulations in reducing tax avoidance by multinational corporations.

The research population includes all national and international scientific literature discussing transfer pricing regulations, tax avoidance, international taxation policies, and multinational corporate practices. The sample was determined based on inclusion criteria in the form of published literature, nationally and internationally indexed, relevant to the research topic, and having a direct contribution to the evaluation of the effectiveness of transfer pricing regulations. Through searches on the Scopus and Google Scholar databases, 50 initial documents were obtained, which were then further selected based on their relevance and methodological quality, resulting in 20 final selected documents.

Picture 1. The Flow of PRISMA 2020 Diagram



Data collection was conducted using the keywords “transfer pricing regulation”, “transfer pricing”, “tax avoidance”, “multinational corporation”, and “tax regulation effectiveness”. The identification and selection process followed the PRISMA flow, which included the stages of identification, screening, eligibility, and inclusion. To maintain consistency in the selection process, which covers topic relevance, methodological accuracy, level of contribution to transfer pricing regulation issues, and alignment with the theoretical framework of tax avoidance.

The analysis was conducted using a thematic synthesis approach, which involved grouping key findings, identifying themes and recurring patterns, and comparing results across literature to obtain a comprehensive picture of the effectiveness of transfer pricing regulations in reducing tax avoidance. The validity of the results was reinforced through triangulation of sources and audit trail documentation, ensuring that the research process was traceable and replicable.

Table 1. Table of Research on Transfer Pricing and Tax Avoidance

No	Title	Method & Research Type	Theory	Significant Independent Variables (Including Sign)
1	<i>Transfer pricing and Tax Avoidance: A Narrative Review of Global Strategies and Regulatory Challenges</i>	Narrative Review (Qualitative)	Tax Avoidance Theory, Agency Theory	The implemented of <i>arm's length principle</i> (+), Tax Regulation (+), Intangible asset ownership (-) against tax compliance
2	<i>At A Cost: The Real Effects of Transfer pricing Regulations</i>	Experimental Qualitative	Capital Mobility Theory, Profit Shifting Model	The implemented of Tax Regulation (-) regarding MNC affiliate investments; Not significant to the group's total investment.
3	<i>Knocking on Tax Haven's Door: Multinational Firms and Transfer pricing</i>	Empirical	Tax Haven Theory; Arm's Length Principle	Destination country taxes (-) on intra-firm prices, exports to tax havens (+) on transfer price deviations.
4	<i>At A Cost: The Real Effect of Transfer pricing Regulations on Multinational Investment</i>	Qualitative panel data	BEPS Theory; International Tax Competition	<i>Transfer pricing Regulation</i> (-) regarding MNCs Investments; Group Complexity (-) amplify the negative effects
5	<i>The Automatic Exchange of Information for Tax Purposes: Evidence from Transfer pricing Cases in Indonesia</i>	Quantitative – Moderated Regression Analysis	– Agency Theory, Tax Compliance Theory	Primary Adjustment (+), Secondary Adjustment (+), AEoI (ns / not significant)
6	<i>Manipulation of Transfer pricing Rules by Multinational Enterprises in Developing Countries: The Challenges and Solutions</i>	Qualitative – Policy & Literature Review	Institutional Theory	No significant quantitative variables; inhibiting factors: legislative clarity (-), data comparability (-), tax capacity (-)
7	<i>The Effect of Sustainability Reporting, Transfer pricing, and Deferred Tax Expense on Tax Avoidance in Multinational Manufacturing Companies</i>	Quantitative – Panel Data Regression	Agency Theory	<i>Transfer pricing</i> (+), Sustainability Reporting (ns), Deferred Tax Expense (ns)
8	<i>Tax Havens and Cross-Border Licensing with Transfer pricing Regulation</i>	Theoretical – Economic Modeling	– Arm's Length Principle (ALP), Welfare Economics Theory	ALP (+ tax revenue, - domestic welfare)

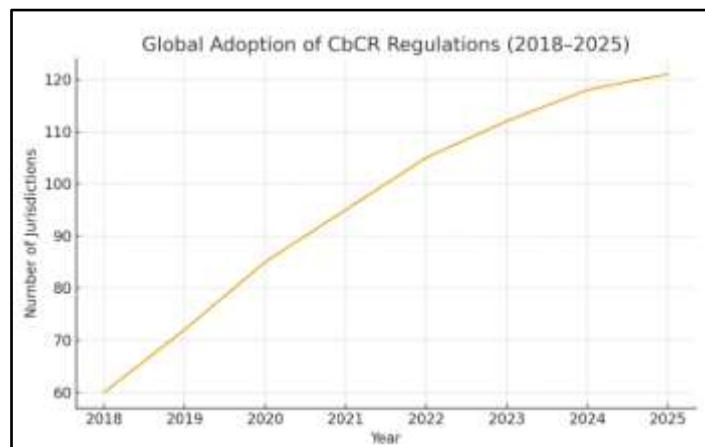
9	<i>Transfer pricing and Tax Avoidance: A Study on Manufacturing Companies Listed in Indonesia</i>	Quantitative Multiple Regression	– Linear	Agency Theory	<i>Transfer pricing (+), Foreign Ownership (moderating +), ROA (+), Firm Size (+)</i>
10	<i>Tax Optimization and Compliance in Global Business Operations: Analyzing the Challenges and Opportunities of International Taxation Policies and Transfer pricing</i>	Descriptive Qualitative – Analysis	Global Compliance & Risk Management Theory	Tax Compliance & Management Theory	Not statistically tested; important variables: Compliance (+), Tax optimization (+), Policy Complexity (-)
11	<i>Monitoring Incentives and Tax Planning – Evidence from State-Owned Enterprises</i>	Quantitative; Empirical analysis using propensity score matching and entropy balancing on 43,496 companies (Orbis data).	Agency Theory & Shareholder Monitoring Theory		Variations in state ownership (+/-); State ownership benefiting from tax breaks → reduces tax planning (-).
12	<i>The Increasing Importance of Transfer pricing Regulations – A Worldwide Overview</i>	Cross-country comparison; Descriptive analysis of 44 countries (2001–2009).	Institutional Theory & International Tax Compliance Theory		Strict transfer pricing regulations (+); Documentation and penalties → increased compliance (+).
13	<i>Transfer pricing Comparables: Preferring a Close Neighbor over a Far-Away Peer?</i>	Quantitative; Regression analysis of 11,000 manufacturing companies in 84 countries (2012–2016).	Arm's Length Principle & Country Risk Theory		Country risk (-); Higher country risk → lower profitability (-). Geographical proximity is not significant.
14	<i>Transfer pricing Regulation and Tax Competition</i>	Theoretical; Two-country economic model (Stackelberg & simultaneous game).	Tax Competition Theory & Welfare Economics		Strict transfer pricing regulations (+); Strict regulations → increased efficiency and consumer welfare (+).
15	<i>Pengaruh Tax Expenses, Tax Haven Utilization, Foreign Ownership dan Intangible Assets terhadap Transfer pricing</i>	Quantitative; Panel data regression analysis (fixed effect model) using Eviews 12 on 7 BEI energy companies during the period of 2018–2022.	Agency Theory & Positive Accounting Theory		Tax Haven Utilization (-); Intangible Assets (-); Tax Expenses (Not significant); Foreign Ownership (Not significant).
16	<i>International Corporate Tax Avoidance: A Review of the Channels, Effect Sizes, and Blind Spots</i>	Systematic Review + Meta-Analysis	Profit Shifting Theory		Tax rate differential (+): lower tax rates increase profit shifting by ~1.5% per 1% reduction

17	<i>What We Know So Far about Transfer pricing: A Bibliometric Analysis (Zagreb International Review of Economics and Business)</i>	Bibliometric Analysis (WoS dataset)	Institutional & Ethical Theory	Research maturity (+): increasing trend of TP studies toward ESG and governance dimensions
18	<i>Transfer pricing Practice on Tax Avoidance and Tax Revenue: A Bibliometric Analysis (Jurnal Informasi, Perpajakan, Akuntansi, dan Keuangan Publik)</i>	Bibliometric Analysis (Google Scholar 2019–2023)	Porter Diamond Theory	Transfer pricing practice (+): positively associated with Tax Avoidance and lower tax revenue
19	<i>The Real Effects of Transfer pricing Regulations: Theory and Evidence (National Tax Association Working Paper)</i>	Theoretical & Empirical (Panel Data Analysis)	Optimal Taxation Theory	Transfer pricing Regulation (-): reduces profit shifting but (-) reduces FDI 10–15%
20	<i>Transfer pricing practices in multinasional corporation and their effects on developing countries tax revenue: a systematic literature review</i>	Systematic Literature Review & Qualitative research (50+ empirical studies)	Agency & Tax Avoidance / Profit Shifting Theory	Transfer Pricing Manipulation (sign: -); Profit Shifting Intensity (sign: -); Regulasi Transfer Pricing / TP Documentation (sign: +)

## RESULTS AND DISCUSSION

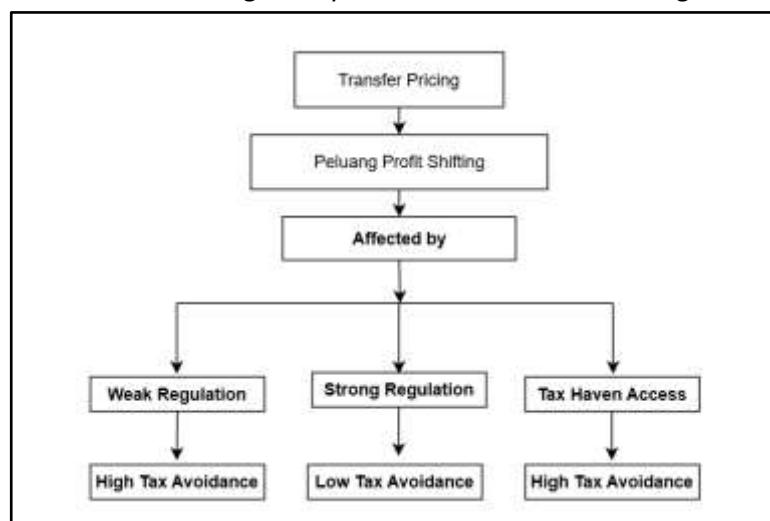
A comprehensive synthesis of more than twenty empirical, theoretical, bibliometric, and policy review research shows a strong pattern that transfer pricing (TP) regulations generally have a negative effect on tax avoidance by multinational corporations (MNCs). Narrative review by transfer pricing and tax avoidance ([Nuraini, 2025](#)) emphasizes that the application of the arm's length principle (ALP) and tax regulations increase compliance, while the existence of intangible assets decreases compliance because they become the main channel for profit shifting. This finding is consistent with the Profit Shifting and Tax Avoidance theories, whereby intangible assets provide broad flexibility in valuation and are difficult to audit, thus enabling their use for tax arbitrage ([Wulandari & Irawati, 2024](#)). Cross-country research conducted as well as meta-analysis 2023-2025 ([Beer et al., 2018; Iriyadi et al., 2024](#)) reinforce the conclusion that TP regulation significantly reduces shifting, but its impact is stronger in developed countries with high audit capacity, while developing countries tend to show weaker effects due to institutional limitations ([Eukeria & Mpofu, 2024; Riedel & Zinn, 2014](#)).

Picture 2. The graph shows the global adoption rate of CbCR regulations from 2018 to 2025



The effectiveness of Transfer Pricing instruments also varies between policies. Documentation through local files, master files, and especially Country-by-Country-Reporting (CbCR) is considered effective in improving cross-jurisdictional transparency ([Riedel & Zinn, 2014](#)). OECD BEPS Action 13 peer review (2024-2025) report emphasizes that more than 120 jurisdictions have already established a CbCR legal framework, and 101 jurisdictions have activated the exchange of information between competent authorities, although the OECD recommends improvements in the quality of administration, data analytics, and confidentiality protection. The implementation of ALP has proven effective in reducing price manipulation, as demonstrated by the research Nocking on Tax Haven's Door ([R. A. Mooij & Liu, 2018](#)), where exports to tax havens increase transfer pricing deviations, but ALP enforcement reduces these deviations. Other instruments such as advance pricing agreements (APAs) demonstrate high effectiveness because they reduce disputes and provide legal certainty ([Kaulwar, 2023](#)), meanwhile, safe harbor rules still show varying effectiveness and can be used if the price range is too wide. The implementation of BEPS actions 8-10 and action 13 has proven to strengthen transparency and reduce the use of intangible assets for shifting ([Iriyadi et al., 2024](#)), although its use remains dependent on the audit capacity of the country concerned.

Picture 3. The Relevance of Regulatory Influence on Transfer Pricing and Profit Shifting

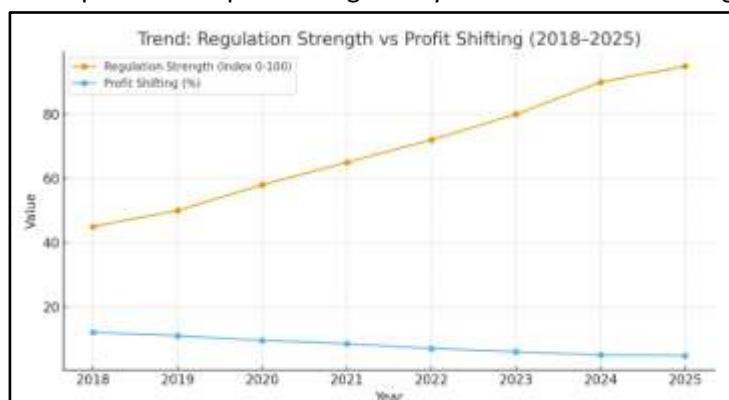


The factors determining the effectiveness of regulations can be divided into internal factors within the country and external factors. Internally, institutional capacity, sophisticated data analysis technology, availability of comparables, and the quality of human resources are the main determinants of the successful implementation of Transfer Pricing ([Eukeria & Mpofu, 2024](#)). The related Indonesian research AEol ([Palupi & Candraningrat, 2024](#)) shows that information exchange mechanisms do not significantly improve compliance if they are not accompanied by strong local enforcement, indicating that international data is only useful if analyzed with adequate audit capacity. Externally, the complexity of MNCs group structures affects their responses to regulations. The research At A Cost: The Real Effect ([R. de Mooij & Liu, 2020](#); [R. A. Mooij & Liu, 2018](#)) shows that the more complex the group structure, the greater the negative effect of regulation on investment, indicating a trade-off between tax control and investment flows. Other Variables such as inter-country tax rate differentials have proven to be the strongest drivers of shifting ([Beer et al., 2018](#)). Where a 1% tariff reduction increases shifting by up to 1.5%, and corporate access to tax havens increases the risk of price deviation ([Choi et al., 2024](#)).

The 2018-2025 global findings further confirm the effectiveness of Transfer Pricing regulations. OECD data records more than 58.000 exchanges of tax ruling information since 2023 (BEPS Action 5), reflecting an increase in global commitment to transparency. Theoretically, this has been proven to reduce shifting but has had negative consequences on FDI of 10-15% ([data.worldbank.org, 2024](#)) ([Beer et al., 2018](#)). For the Indonesian context, quantitative research 2024 ([Iriyadi et al., 2024](#); [Mukhtaruddin et al., 2025](#)) shows that Transfer Pricing is still used as a means of tax avoidance even though documentation is now mandatory, while intangible assets and the use of tax havens remain significant variables in tax avoidance practices ([Wulandari & Irawati, 2024](#)).

However, there are some inconsistencies in findings. Transfer pricing regulations theoretically reduce shifting, but evidence regarding their impact on investment remains inconsistent. Several studies have found significant negative effects ([R. de Mooij & Liu, 2020](#)), while others found no significant effect on total group investment ([R. A. Mooij & Liu, 2018](#)). Developing countries show longer regulatory effectiveness, but so far there has not been much comprehensive research measuring institutional capacity as a moderator. In addition, transfer pricing documentation such as CbCR is not automatically effective if audit quality is low, as reflected in the significant AEol ([Nuraini, 2025](#)). Tax avoidance practices through intangible assets, contract manufacturing, cost sharing agreements, and licensing are growing faster than regulators' capacity to monitor them ([Choi et al., 2024](#); [Wulandari & Irawati, 2024](#)). Bibliometric analyses ([Islam & Tjaraka, 2024](#); [Mijoč et al., 2024](#)) also shows a shift in research focus towards ESG, governance, and the impact of global policies, but empirical research on the role of AI, machine learning, and big-data analytics in transfer pricing audits is still very limited in the 2023-2025 period.

Picture 4. Trend Graph of the Impact of Regulatory Power on Profit Shifting from 2018-2025



The integration of theory and empirical findings reinforces the main hypothesis of the study that the effectiveness of transfer pricing regulations has a negative effect on tax avoidance. Agency theory explains that increased monitoring, penalties, and documentation reduce managers' incentives to engage in shifting. Profit shifting theory emphasizes that tax rate differentials remain the main driver of shifting, and that transfer pricing regulations are effective because they narrow the scope for tax arbitrage. Tax compliance theory shows that compliance increases when regulations are clear and the risk of detection is high, in accordance with the findings of primary and secondary adjustments in Indonesia ([Palupi & Candraningrat, 2024](#)). Regulatory effectiveness is achieved through increased data transparency (CbCR), reduced scope for price manipulation, increased costs of non-compliance, and expanded international cooperation. However, regulations can be ineffective if countries lack adequate audit capacity, MNCs group structures become increasingly complex, intangible assets are difficult to verify, safe harbors are prone to misuse, and international coordination is not yet optimal.

Overall, the integrated results of twenty studies show that transfer pricing regulations can indeed reduce tax avoidance, but their effectiveness depends heavily on institutional capacity, audit quality, data access, and corporate structure characteristics. In accordance with the latest global research trend, there is a need to improve the quality of AI-based analytics, expand comparative databases, strengthen AP, and conduct cross-country empirical research to measure the effectiveness of transfer pricing in developing country tax regimes. Thus, these findings not only support the research hypothesis but also expand the literature on the role of regulation in reducing MNCs tax avoidance behavior in the era of the digital economy and globalization of value chains.

## CONCLUSION

This research presents empirical evidence on the effectiveness of transfer pricing regulations in limiting profit shifting driven by the tax motives of multinational corporations. Overall, the results of the research using a literature review method show that transfer pricing rules that are in accordance with the OECD BEPS framework have a measurable, although heterogeneous, mitigating effect on tax avoidance ([Beer et al., 2015](#); [Dharmapala, 2014](#)). However, the effectiveness of regulations remains dependent on administrative capacity, the intensity of law enforcement, and specific opportunities within the industry ([Network & Republic, 2018](#)). The evidence also suggests that sophisticated multinational corporations may re-optimize their transfer mechanisms, shifting from transfer pricing manipulation to debt shifting or relocation of intangible assets when regulatory pressure increases ([Heckemeyer et al., n.d.](#)). The results of this research contribute to the development of international taxation literature by reaffirming that regulatory credibility and monitoring intensity are key factors in corporate compliance in cross-border transactions.

Practical implications arise for tax authorities seeking to improve their tax-avoidance frameworks. First, the quality of enforcement is at least as important as regulatory design; jurisdictions with strong audit capabilities and risk-based oversight demonstrate a much greater deterrent effect. Second, tax administrations in developing countries can benefit from capacity-building programs that improve audit quality and data analytical capabilities, thereby enhancing the deterrent effect against profit shifting. In addition, standard documentation mechanisms and information exchange such as Country-by-Country-Reporting increase transparency and limit arbitrage between regulatory systems ([Fuest et al., 2021](#)). Third, policymakers should consider complementary rules (e.g., interest restrictions, controlled foreign corporation provisions) to prevent significant substitution effects. For corporate practitioners, these findings underscore the need to adopt defensible transfer pricing policies, supported by solid comparative analysis, to reduce regulatory exposure.

The results of this research also acknowledge the inherent limitations in the existing literature. The results of this research rely on secondary financial data, which may not fully capture the complexity of internal pricing mechanisms in multinational corporations. In addition, strict regulations are operationalized using publicly available indices, which may not reflect small differences in the intensity of law enforcement across jurisdictions. The sample period is also limited by data availability, which may restrict the generalization of conclusions to specific regulatory cycles.

Future research should include qualitative evidence at the company level, including interviews with tax managers or regulators, to improve understanding of behavioral responses to transfer pricing rules. Expanding the analysis to include country-by-country reporting (CbCR) datasets could also provide deeper insights into the geographic patterns of profit misalignment. In addition, a longitudinal design covering multiple regulatory reforms could better isolate causal effects, providing high-resolution evidence on the dynamic interactions between regulatory developments and corporate tax strategies.

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