



Revisiting Transfer Pricing in The Digital Era: A Value-Based Approach Toward Ethical and Sustainable Tax Practices

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ABSTRACT

The rapid expansion of the digital economy has fundamentally transformed global value creation, particularly through the increasing dominance of intangible assets, thereby challenging conventional international taxation systems. Transfer pricing, as a key mechanism for allocating profits across jurisdictions, faces significant limitations in accurately capturing value creation in digitally driven business models. This study aims to revisit transfer pricing practices in the digital era by incorporating an ethical perspective and a value-based approach toward sustainable tax governance. The research employs a Systematic Literature Review (SLR) following a structured protocol, including comprehensive database searches, screening procedures, and qualitative content analysis of 21 selected studies from an initial pool of 730 articles. The findings reveal three major challenges: (1) difficulties in valuing intangible assets and determining the location of value creation, (2) inconsistencies and gaps in international tax regulations, and (3) institutional constraints, particularly in developing countries. The study further demonstrates that integrating ethical considerations into transfer pricing practices enhances transparency, aligns profit allocation with economic substance, and reduces aggressive tax avoidance behavior. A value-based approach encourages companies to incorporate fairness, accountability, and social responsibility into tax decision-making processes. This study contributes to the literature by extending transfer pricing discourse beyond compliance-oriented perspectives toward a more holistic framework integrating ethics and sustainability. The findings provide practical implications for policymakers and multinational enterprises in designing equitable and transparent tax systems that support fiscal sustainability and corporate legitimacy in the digital economy.

1. Introduction

Digital transformation has changed global business models and the way economic value is created ([Hidayatullah & Alijoyo, 2024](#)). Company value now increasingly relies on intangible assets such as software, algorithms, databases, and intellectual property rights [Nuryani & Andry \(2022\)](#), which are the primary sources of competitive advantage in the digital era ([Jao et al., 2023](#)). This finding aligns with [Widnyana et al. \(2021\)](#),

which demonstrates that intangible assets have a significant impact on company value in Indonesia. However, the transferability of intangible assets across jurisdictions poses challenges for tax systems, particularly in transfer pricing practices. The digital economy has created value creation patterns that are no longer tied to physical locations, enabling companies to shift profits to low-tax jurisdictions and reduce tax contributions in the countries where economic activities take

place ([Pemberton & Loerick, 2019](#)). The portion of a company's market value derived from intangible assets increased from 17% in 1975 to around 90% in 2020 ([Tomo, 2020](#)). Estimates that Base Erosion and Profit Shifting (BEPS) practices cause global tax losses of USD 100–600 billion per year ([OECD, 2021a](#)). The impact is particularly felt in developing countries, such as Indonesia, which had a tax-to-GDP ratio of 10.41% in 2023 ([Ministry of Finance, 2023](#)). Tax revenue can hinder fiscal sustainability and national development ([Ajeigbe et al., 2024](#)). Although PPN PMSE has contributed IDR 15.68 trillion since 2020 ([Directorate of General Taxes \(2023\)](#)), this contribution does not yet reflect the enormous economic value created by global digital companies. The current condition highlights the urgency of developing a more contextually relevant transfer pricing framework that reflects the realities of digital economic activities in Indonesia.

This phenomenon is evident in the case of Netflix, which operates in multiple countries without a substantial physical presence. Through royalty payment schemes, licensing, and intellectual property charges transferred to entities in low-tax jurisdictions such as the Netherlands or Luxembourg, companies can minimize their tax burden in their home markets. Although such practices remain within legal boundaries, transfer pricing is often used for tax avoidance, raising concerns about fiscal justice in countries where economic value is generated ([Jakfar & Nuraini, 2025](#)). These issues highlight the limitations of the arm's-length principle in the digital economy, where companies no longer rely on physical presence ([Greil, 2019](#)). Corporate governance (governance pressure) plays a crucial role in preventing transfer pricing abuse and ensuring that the tax approach is not solely oriented towards formal compliance ([Elumilade et al., 2022](#)). Therefore, a value-based approach that emphasizes fairness, accountability, and public interest is needed.

Previous studies show that transfer pricing research continues to focus on

compliance and tax management. [Kumar et al. \(2021\)](#) found that the ethical dimension has not been widely integrated into the transfer pricing literature. Ethics and morality play an important role in shaping tax compliance behavior ([Joel et al. \(2023\)](#)). Tax fairness influence taxpayers' decisions to comply ([Perveen & Ahmad, 2022](#)). Thus, there is a need to develop a transfer pricing framework that is not only legally oriented but also based on ethics and sustainability. This study offers a conceptual contribution by integrating a value-based approach into transfer pricing practices in the digital economy, thereby extending the existing literature beyond compliance-oriented perspectives toward an ethical and sustainability-oriented framework. This study views transfer pricing not only as a pricing instrument but also as part of a company's moral and social responsibility toward fiscal sustainability. From this perspective, transfer pricing is positioned as an instrument to support the equitable distribution of tax revenue, strengthen the legitimacy of fiscal policy, and enhance the sustainability of relationships between companies, the state, and society.

Despite the growing body of literature on transfer pricing, existing studies predominantly focus on technical compliance, regulatory frameworks, and tax minimization strategies ([Kumalasari et al., 2025](#)). In the context of the digital economy, prior research has largely emphasized legal, economic, and policy dimensions, while providing limited attention to broader social and ethical implications ([Nurwanah, 2025](#)). Bibliometric evidence further indicates that dominant research themes remain concentrated on BEPS, digital taxation, and regulatory compliance, with relatively limited exploration of ethical perspectives ([Batubara, 2026](#)). Moreover, most studies have been developed in global or developed country settings, with limited focus on the specific challenges faced by emerging economies such as Indonesia. This creates a gap in understanding how transfer pricing can be reframed not only as a compliance

mechanism but also as an instrument for promoting fiscal justice and sustainability.

The research questions are as follows:

1. What are the dynamics and challenges of transfer pricing practices in the context of a digital economy characterized by the dominance of intangible assets?
2. How can moral and ethical values be integrated into transfer pricing policies and practices to achieve tax compliance and fiscal justice?
3. How can the application of a value-based approach shape transfer pricing practices that are ethical, transparent, and contribute to fiscal sustainability and corporate reputation?

This study aims to provide a comprehensive analysis of transfer pricing practices in the digital economy by incorporating ethical and value-based perspectives. It contributes to the existing literature by extending the discussion beyond technical compliance and regulatory frameworks, highlighting the importance of moral and social considerations in transfer pricing practices. Furthermore, this study offers practical insights for policymakers and practitioners, particularly in emerging economies such as Indonesia, in developing more transparent, equitable, and sustainable tax systems.

2. Literature Review

2.1 Virtue Ethics

Virtue Ethics Theory is rooted in Aristotle's thinking, which emphasizes that good actions depend not only on compliance with rules, but also on individual character and virtue ([Solomon, 1992](#)). In the context of modern business, the concept of virtue has evolved into an assessment of corporate behavior based on moral values and integrity ([Ferrero et al., 2024](#)). In taxation practices, moral considerations influence corporate decisions related to tax compliance and tax avoidance ([Awang & Amran, 2014](#)). Empirical evidence from Indonesia also shows that ethical dimensions significantly affect tax

compliance behavior and corporate decision-making ([Joel et al., 2023](#)). Therefore, Virtue Ethics is relevant to explain how transfer pricing reflects a company's character, integrity, and social responsibility, not just technical fiscal calculations. However, prior studies tend to examine ethics at an individual or compliance level, with limited attention to how ethical values shape strategic decisions such as transfer pricing ([Hardeck & Hertl, 2014](#)). Therefore, Virtue Ethics provides a relevant theoretical lens to explain how transfer pricing practices reflect a company's character, integrity, and social responsibility, particularly in addressing ethical considerations in tax behavior.

2.2 Legitimacy Theory

Legitimacy Theory holds that organizations strive to align their actions with social values and norms to gain public acceptance ([Dowling & Pfeffer, 1975](#)). Reputation and legitimacy are important resources that influence a company's sustainability ([Suchman, 1995](#)). In the context of taxation, aggressive strategies such as transfer pricing can reduce a company's social legitimacy ([Supriyadi et al., 2025](#)). Empirical studies in Indonesia indicate that perceptions of tax fairness and transparency significantly influence public trust and corporate reputation ([Perveen & Ahmad, 2022](#)). However, existing literature tends to focus on legitimacy outcomes without critically examining how legitimacy pressures interact with corporate tax strategies in the digital economy. Therefore, Legitimacy Theory is relevant to explain how transfer pricing practices affect corporate legitimacy and public trust, especially in the context of increasing demands for transparency and fiscal accountability.

2.3 Institutional Theory

Institutional Theory explains how companies adjust their strategies and behaviors in response to normative, coercive, and mimetic pressures originating from institutional environments such as

governments, international organizations, and social norms ([DiMaggio & Powell, 1983](#)). In the context of global taxation, these pressures are evident through the adoption of the OECD Transfer Pricing Guidelines and the BEPS 2.0 initiative, which encourage the transparent valuation of inter-entity transactions that reflect real economic activities ([OECD, 2017](#)). Empirical evidence shows that corporate governance mechanisms and institutional pressures influence the level of transfer pricing aggressiveness ([Elumilade et al., 2022](#)). In developing countries, however, institutional capacity constraints and regulatory gaps often weaken enforcement, increasing the risk of profit shifting ([Beer et al., 2020](#); [OECD, 2021b](#)). Despite this, prior studies often overlook how these institutional differences shape transfer pricing behavior across jurisdictions. Therefore, Institutional Theory provides a useful framework to understand how regulatory pressures and institutional environments influence transfer pricing practices in the digital economy.

2.4 Transfer Pricing

Transfer pricing is the pricing of transactions between entities within a business group that should follow the arm's-length principle, so that profit allocation reflects actual economic activity ([Mpofu & Wealth, 2022](#)). However, in the digital economy, the value of companies is primarily supported by intangible assets such as algorithms, databases, and intellectual property rights, whose valuation and location of value creation are difficult to determine. This creates opportunities for profit shifting to low-tax jurisdictions ([OECD, 2017](#)). Empirical studies in Indonesia show that transfer pricing is often used as a tax minimization strategy and is influenced by managerial incentives and corporate governance structures ([Elumilade et al., 2022](#)). Evidence from developing countries further suggests that transfer pricing practices tend to be more aggressive in environments with weaker enforcement and lower transparency ([Beer et al., 2020](#)). Nevertheless,

much of the existing literature continues to emphasize economic efficiency and regulatory compliance, while giving relatively limited attention to ethical and social implications. Therefore, transfer pricing in the digital economy should be viewed not only as a technical mechanism but also as a strategic practice with broader implications for fiscal fairness and sustainability.

2.5 Tax Ethics

Tax ethics emphasizes that taxation decisions should not only be guided by legal compliance but also by moral values and considerations of corporate social responsibility ([Solomon, 1992](#)). Ethical studies show that a company's moral character influences its tendency to engage in tax avoidance or, conversely, to make a fair contribution ([Awang & Amran, 2014](#)). In the Indonesian context, ethical attitudes and perceptions of tax fairness have been shown to increase compliance and reduce tax avoidance ([Joel et al., 2023](#)). Therefore, tax ethics is an important basis for assessing transfer pricing practices, especially when business decisions have the potential to affect fiscal fairness and the sustainability of state revenue.

2.6 Fiscal Sustainability

Fiscal sustainability refers to a country's ability to maintain its capacity to finance development and public services in the long term without creating an excessive fiscal burden on future generations. The erosion of the tax base due to profit shifting through transfer pricing schemes can reduce the government's fiscal space and hamper development financing, especially in developing countries ([OECD, 2021a](#)). In Indonesia, the low tax-to-GDP ratio poses a significant challenge for fiscal sustainability ([Ajeigbe et al., 2024](#)). Furthermore, research shows that prolonged fiscal pressure can weaken government legitimacy and increase inequality in welfare distribution ([Kalra & Afzal, 2023](#)). Despite increasing attention to fiscal sustainability, prior studies rarely link

corporate tax behavior, particularly transfer pricing, with long-term fiscal outcomes. Therefore, understanding transfer pricing practices from a broader perspective is essential to support sustainable fiscal policy and equitable resource distribution.

2.7 Value-based Approach

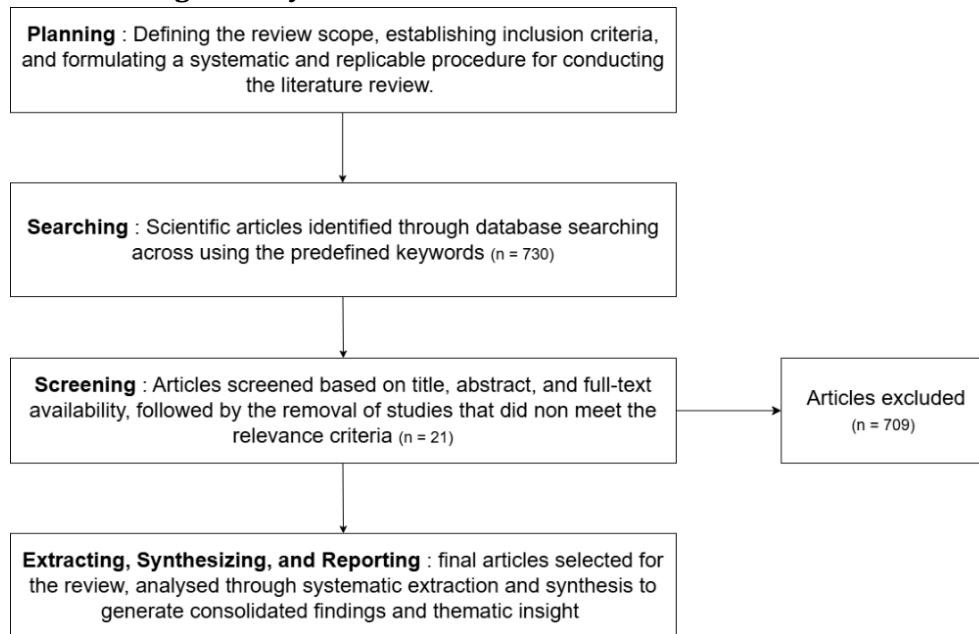
The value-based approach emphasizes that taxation practices should not only focus on formal compliance but also incorporate broader moral values and social objectives such as fairness, transparency, and fiscal sustainability (Ferrero et al., 2024). In the context of transfer pricing, the value-based approach positions companies as actors with social responsibilities to the country and society in which their economic value is created (Solomon, 1992). Empirical studies suggest that companies integrating ethical values into their tax strategies are less likely to engage in aggressive tax avoidance and are more likely to maintain social legitimacy (Awang & Amran, 2014). However, the application of a value-based approach in transfer pricing remains underexplored, particularly in the context of the digital economy and developing countries. Therefore, this approach serves as an integrative framework that connects ethical considerations, institutional pressures, and legitimacy concerns in shaping transfer pricing practices toward more sustainable and responsible outcomes.

3. Research Methods

This study adopts a Systematic Literature Review (SLR) following the PRISMA guidelines to ensure transparency, rigor, and replicability. In line with Tranfield et al. (2003),

SLR is considered an objective and comprehensive method for identifying, evaluating, and synthesizing scientific evidence on a particular topic, thereby providing a structured conceptual understanding. The implementation of SLR in this study followed four main stages, namely: (1) planning, (2) searching, (3) screening, and (4) extraction and reporting. In the planning stage, researchers formulated the study's focus and research limitations and determined the strategy for searching relevant literature. The search strategy was developed using a combination of keywords and Boolean operators to ensure comprehensive coverage of relevant studies. The main search string used was: ("transfer pricing" AND "ethics"). The search was conducted across publications available up to 2025, without restricting the starting year, given the limited number of studies addressing ethical dimensions in transfer pricing.

Next, the screening stage was carried out by assessing the suitability of titles, abstracts, and full texts against predetermined inclusion criteria: articles that discuss transfer pricing in relation to ethics, governance, or the digital economy, are available in full text, and are published in indexed journals. Articles that did not meet these criteria were excluded from the analysis. To enhance the reliability of the screening process, the selection of articles was conducted using a structured evaluation protocol. Consistency in selection was maintained through repeated screening and cross-checking procedures to minimize potential selection bias. In the final stage, namely extraction, synthesis, and reporting, researchers collected key information from selected articles and compiled them thematically to answer the research questions.

Figure 1. Systematic Literature Review Process Flow

Source: Processed data (2025)

After the planning, searching, and screening processes described in the SLR flowchart above, the next stage is to identify the distribution of articles across database sources. The search was conducted across several reputable publishers and academic databases, namely Emerald Insight, Taylor & Francis Online, JSTOR, SpringerLink, Wiley Online Library, ScienceDirect, and IBFD. The initial search results identified 730 articles across all databases. The number of articles found varied across publishers, reflecting differences in research focus, disciplinary coverage, and the accessibility of publications

on each platform. Details on the number of articles in the database are presented below as a basis for the screening and in-depth analysis stages of the SLR process.

This study acknowledges potential limitations related to database selection, keyword restrictions, and inclusion criteria, which may affect the comprehensiveness of the reviewed literature. The use of specific keywords may have excluded relevant studies employing different terminologies, while the focus on indexed and accessible full-text articles may introduce publication bias.

Table 1. Publication Sources and Number of Articles Related to “Transfer Pricing” and “Ethics”

No	Publishers	“Transfer Pricing” AND “Ethics”
1	Emerald Insight	43
2	Taylor and Francis Online	100
3	JSTOR	107
4	Springer Link	117
5	Wiley Online Library	127
6	Science Direct	99
7	IBFD	137
Total		730

Source: Processed data (2025)

The table 2 explains the inclusion criteria used in the article selection process for this study. These criteria were developed to ensure that all literature analyzed was thematically relevant, of high academic quality, and methodologically consistent with the study's focus. This was done to ensure that the literature used was of high methodological

quality, maintained consistency in technical terminology, and avoided distortion of meaning during analysis. By applying these inclusion criteria, this study can produce a more valid, credible, and relevant literature synthesis for the research objectives.

Table 2. Inclusion Criteria in SLR Article Selection

Description	Inclusion criteria
Subject area	Transfer pricing, ethics, digital economy, international taxation
Document type	Article
Source type	Indexed academic sources (Scopus), reputable publishers (Emerald Insight, Taylor and Francis Online, JSTOR, Springer Link, Wiley Online Library, Science Direct, and IBFD)
Search area	Business, management, accounting, and finance
Language	English
Accessibility	Full-text articles accessible for analysis
Publication stage	Published

Source: Processed data (2025)

A systematic review of 21 articles that met the inclusion criteria found that publications on transfer pricing, tax ethics, and the digital economy were published across various reputable international journals. This distribution shows that the topic of ethics in transfer pricing is multidisciplinary and has attracted attention from accounting, management, political economy, and public policy studies. The journal that contributed the most was the Journal of Business Ethics with three articles (14%). In contrast, other journals such as Accounting Forum, Cogent Business & Management, Global Finance Journal, and Social Responsibility Journal contributed 5% each, indicating the diversity of academic

perspectives involved in discussing this issue. Overall, this pattern shows that discussions of ethics in transfer pricing are not limited to accounting or taxation, but have evolved into a cross-disciplinary issue encompassing governance, global political economy, and fiscal sustainability.

In addition to the inclusion criteria, a quality assessment was conducted to ensure the robustness of the selected studies. Articles were evaluated based on relevance to the research objectives, methodological rigor, clarity of findings, and contribution to the topic. Only studies meeting these quality standards were included in the final analysis

Table 3. Number of Articles per Journal in SLR Studies

No.	Journal	Number of articles	Percentage (%)
1	Accounting Forum	1	5%
2	Accounting, Corporate Governance & Business Ethics	1	5%
3	Asian Journal of Accounting Research	1	5%
4	Cogent Business & Management	2	10%
5	Economic Research-Ekonomska Istraživanja	1	5%
6	Global Finance Journal	1	5%
7	International Journal of Intellectual Property Management	1	5%
8	International Trade, Politics and Development	1	5%
9	International Transfer Pricing Journal	2	10%
10	Journal Articles & Papers IBFD	2	10%
11	Journal of Behavioral and Experimental Economy	1	5%
12	Journal of Business Ethics	3	14%
13	Journal of Business Research	1	5%
14	New Political Economy	1	5%
15	Regional & Federal Studies	1	5%
16	Social Responsibility Journal	1	5%
Total		21	100%

Source: Processed data (2025)

The distribution of publication years shows that research on transfer pricing and ethics has developed gradually from the 1980s to 2025. The oldest articles date back to 1984 and 1992 (5% each), which generally discuss the basic concepts of profit allocation and early issues of cross-border tax avoidance. Research began to increase in the 2011–2013 period, marked by two articles in each of those years (10%), in line with growing global attention to the OECD BEPS Action Plan. Significant spikes occurred in 2018, 2021, and 2023, each contributing three publications (14%). This

period coincided with the rapid growth of the digital economy, increased use of intangible assets, and international discourse on fairness, tax morality, and tax transparency. Publications in 2024–2025 continue to appear (5% each), indicating that this topic remains relevant and is evolving. Overall, this temporal trend reflects the evolution of the research paradigm from a technical focus on transfer pricing to an orientation toward ethics, corporate responsibility, and fiscal sustainability.

Table 4. Number of Articles per Year in SLR Studies

Years	Number of articles	Percentage (%)
1984	1	5%
1992	1	5%
2000	1	5%
2006	1	5%
2011	2	10%
2013	2	10%
2018	3	14%
2019	1	5%
2021	3	14%
2022	1	5%
2023	3	14%
2024	1	5%
2025	1	5%
Total	21	100%

Source: Processed data (2025)

Table 5. Research Theme Mapping

Theme	Citations
Transfer Pricing and Intangible Assets	(Kalra & Afzal, 2023; Kumar et al., 2021; Mashiri et al., 2021; Perčević & Hladika, 2017; Rogers & Oats, 2022; Sebele-Mpofu et al., 2021)
Regulatory Gap, BEPS, and International Tax Reform	(Dawson & Miller, 2009; Jameel et al., 2019; Mashiri et al., 2021; Razen & Kupfer, 2023; Sebele-Mpofu et al., 2021)
Ethics, Tax Morality, and Corporate Responsibility	(Alexander & Menicacci, 2025; Ghosh et al., 2011; Islam et al., 2020; Mashiri et al., 2021; Razen & Kupfer, 2023; Sebele-Mpofu et al., 2021; Wang, 2013)
Tax Transparency, Accountability, and Governance	(Dawson & Miller, 2009; Hägg, 1984; Hansen et al., 1992; Kalra & Afzal, 2023; Merle et al., 2019; Petruzzi & Buriak, 2018; Razen & Kupfer, 2023)
Transfer Pricing Abuse, Profit Shifting, and tax Avoidance	(Hansen et al., 1992; Hejazi, 2006; Lesch & McCambridge, 2023; Mashiri et al., 2021; Mehafdi, 2000; Petruzzi & Buriak, 2018; Wang, 2013)
Value-based Approach, Sustainability, Tax Fairness	(Alexander & Menicacci, 2025; Islam et al., 2020; Kalra & Afzal, 2023; Perčević & Hladika, 2017; Razen & Kupfer, 2023; Rogers & Oats, 2022)

Source: Processed data (2025)

The results of the theme mapping show that the issue of transfer pricing of intangible assets is the main focus in most of the articles analyzed. Literature such as [Kalra & Afzal \(2023\)](#); [Kumar et al. \(2021\)](#); [Rogers & Oats \(2022\)](#) consistently emphasize that intangible assets including algorithms, data, software, and

technology licenses are a major source of complexity in the digital economy. Their mobile and difficult-to-assess characteristics render traditional methods such as the arm's length principle increasingly inadequate, posing major challenges in determining fair value and the location of value creation. These

findings reinforce the need to incorporate ethical, transparency, and value-based approaches into the literature selection and analysis process, as the entire dynamics surrounding intangible assets form the conceptual foundation bridging the formulation of RQ1, RQ2, and RQ3 in this study.

4. Results and Discussion

4.1 The Dynamics and Challenges of Transfer Pricing Practices in the Context of the Digital Economy

The development of the digital economy, characterized by high reliance on intangible assets, has fundamentally changed how economic value is created and allocated within multinational companies. The literature in [Hägg \(1984\)](#); [Hansen et al. \(1992\)](#); [\(2000\)](#); [Petruzzi & Buriak \(2018\)](#) emphasizes that digitalization poses a significant challenge by eroding the link between value-creation activities and physical presence, making the arm's-length principle increasingly difficult to apply in cross-border transactions. In the article by [Petruzzi & Buriak \(2018\)](#), for example, it is emphasized that digital business models give rise to the phenomena of user participation, network effects, and multi-sided platforms, which make it impossible to determine the location of value creation based on traditional factors such as the location of factories, offices, or labor. This is reinforced by the findings of [Hansen et al. \(1992\)](#); [Mehafdi \(2000\)](#), which show that assets such as data, algorithms, software, and trademarks are the main drivers of profitability, but do not have a physical form that can be linked to a specific jurisdiction.

This challenge is further complicated by the fact that digitalization allows companies to earn significant revenues from market countries without commensurate tax obligations, as highlighted in [Ghosh et al. \(2011\)](#); [Hägg \(1984\)](#), which illustrate how large digital companies can shift profits to low-tax jurisdictions through licensing and royalty structures. Thus, the literature consistently shows that the first dynamic characterizing

transfer pricing in the digital era is the shift in economic value toward intangible assets that are difficult to measure, verify, and locate, ultimately undermining the effectiveness of the permanent establishment concept and the arm's length principle.

The second challenge that emerges from the literature in [Dawson & Miller \(2009\)](#); [Hejazi \(2006\)](#); [Merle et al. \(2019\)](#); [Petruzzi & Buriak \(2018\)](#); [Wang \(2013\)](#) relates to the misalignment between the international tax regulatory framework and borderless digital business models. The OECD and UN, as examined in depth in [Petruzzi & Buriak \(2018\)](#); [Wang \(2013\)](#), highlight that tax rules designed for the industrial era are no longer adequate to capture the reality of digital business activities. Basic principles such as arm's-length, functional analysis, and risk allocation become difficult to apply when economic functions are performed by technology, automated servers, or algorithms that lack legal capacity to bear risk. Articles in [Merle et al. \(2019\)](#); [Petruzzi & Buriak \(2018\)](#) show that multinational companies can often legally avoid permanent establishment status despite having significant economic activities in other countries' markets through strategies such as contract splitting, commissionaire arrangements, and the use of servers treated as supporting facilities.

[Dawson & Miller \(2009\)](#); [Wang \(2013\)](#) show that regulatory efforts, such as BEPS Actions 1, 7, and 8–10, have not fully resolved the issue of profit attribution in digital economic models that rely heavily on data, big data, and user participation. [Wang \(2013\)](#) conclude that these structural constraints create ample room for companies to engage in profit shifting through intangible-based transactions such as technology licensing, management service payments, and cost contribution arrangements. Therefore, the literature emphasizes that regulatory challenges are not only related to the weaknesses of existing rules but also to the inability of the global taxation framework to accommodate the characteristics of a fast-moving, global digital economy.

The next challenge is institutional aspects, fiscal justice, and supervisory capacity, which consistently arise in [Alexander & Menicacci \(2025\)](#); [Kumar et al. \(2021\)](#); [Lesch & McCambridge \(2023\)](#); [Rogers & Oats \(2022\)](#); [Sebele-Mpofu et al. \(2021\)](#). These articles emphasize the existence of information asymmetry between multinational companies and tax authorities, especially in developing countries with limited resources. [Kumar et al. \(2021\)](#); [Sebele-Mpofu et al. \(2021\)](#) illustrate that digitalization increases dependence on intangible assets that can only be assessed through internal company information, making it difficult for tax authorities to assess the arm's length nature of transfer prices without full access to valuation methods, algorithms, or internal data. Most studies [Lesch & McCambridge \(2023\)](#); [Rogers & Oats \(2022\)](#) find that companies exploit this capacity gap to artificially allocate risks and functions to low-tax jurisdictions through contractual allocations that do not reflect economic substance.

[Alexander & Menicacci \(2025\)](#) highlights that many countries lack adequate regulatory frameworks to oversee cross-border digital transactions, leading to an increase in tax disputes, particularly in cases involving royalty and technology-based transactions. Institutional challenges are also related to the concept of fiscal justice, [Alexander & Menicacci \(2025\)](#); [Lesch & McCambridge \(2023\)](#) state that when companies earn income from market countries but report profits in other jurisdictions, there is an imbalance in tax contributions that can trigger a loss of public legitimacy. While the literature consistently highlights these challenges, there is a tendency to treat them as purely technical issues. In contrast, this study argues that these challenges are also rooted in structural and ethical dimensions, particularly in the misalignment between economic value creation and tax allocation.

These findings have important implications for tax authorities, particularly in developing countries such as Indonesia.

Strengthening the capacity to assess intangible assets, improving access to multinational corporate data, and enhancing international cooperation are critical to addressing profit shifting practices in the digital economy. In addition, regulatory frameworks need to be continuously adapted to reflect the changing nature of value creation, especially in relation to digital platforms and user-based contributions.

4.2 Integrating Moral and Ethical Values into Transfer Pricing Policy and Practice to Achieve Tax Compliance and Fiscal Justice

The integration of moral and ethical values into transfer pricing is becoming increasingly important in the digital economy, characterized by the dominance of intangible assets and vast opportunities for profit shifting. The modern tax governance can no longer rely solely on a legalistic approach, as companies now operate in an institutional environment that demands transparency, accountability, and alignment of values between economic activities and fiscal contributions ([Hejazi, 2006](#); [Merle et al., 2019](#); [Petruzzi & Buriak, 2018](#); [Wang, 2013](#)). From an ethical perspective, transfer pricing is not merely the determination of prices between entities, but a reflection of a company's character whether its orientation is solely to tax efficiency or to integrity and social responsibility. The tax aggressiveness facilitated by intangible assets (such as algorithms, platforms, and data) can create a gap between the economic value created in the market and the tax contributions paid, so transfer pricing practices need to be linked to the principle of fiscal justice ([Alexander & Menicacci, 2025](#); [Dawson & Miller, 2009](#); [Lesch & McCambridge, 2023](#)).

Within the framework of Legitimacy Theory, companies will lose public legitimacy if their tax strategies conflict with public expectations. At the same time, Institutional Theory explains the coercive pressure from OECD BEPS, stricter TP documentation, and global transparency standards that force

companies to review their tax policies. Furthermore, [Hägg \(1984\)](#); [Hansen et al. \(1992\)](#); [Mehafdi \(2000\)](#) emphasize that developing countries face limitations in their capacity to audit complex intangible transactions, so corporate ethical standards need to go beyond minimum compliance to avoid adding to the risk of fiscal injustice. In the context of Virtue Ethics, corporate decisions on transfer pricing must reflect values of honesty and morality, for example, by avoiding internal royalty structures that do not reflect each entity's actual contributions. Thus, integrating ethics into transfer pricing policy requires a combination of institutional pressure, organizational moral awareness, and a broader public value orientation all of which are consistently identified in the reviewed articles.

The application of moral and ethical values in transfer pricing is reflected primarily in the design of documentation, transparency, and the process of assessing intangible assets. [Petruzzi & Buriak \(2018\)](#); [Wang \(2013\)](#) emphasize that documentation structures, such as functional analysis, value chain analysis, and the accurate delineation of transactions, must describe the actual economic contribution, not merely create formal justifications for profit transfer schemes. With the increasingly complex roles of data, digital platforms, and user networks, as described in [Merle et al. \(2019\)](#); [Petruzzi & Buriak \(2018\)](#), companies are required to ensure that intangible-based transfer pricing interpretations reflect realistic values rather than administrative manipulation.

[Alexander & Menicacci \(2025\)](#); [Kumar et al. \(2021\)](#); [Sebele-Mpofu et al. \(2021\)](#) support this by stating that companies can increase public trust through greater tax transparency, such as country-by-country reporting (CbCR), disclosure of tax policies in sustainability reports, and public explanations of profit allocation principles. All of these mechanisms are not only tools for compliance, but also means of demonstrating an ethical commitment to fiscal justice. In addition,

several articles, such as [Dawson & Miller \(2009\)](#); [Ghosh et al. \(2011\)](#); [Hägg \(1984\)](#) highlight that information asymmetry between companies and tax authorities can lead to manipulative practices, underscoring the importance of integrity in documentation for maintaining fairness. From the perspective of Legitimacy Theory, transparency in documentation strengthens the company's image as a responsible actor, while, morally, Virtue Ethics requires companies to prioritize economic substance over legal form ([Jameel et al., 2019](#)). Overall, the literature shows that transparent and accountable documentation is the ideal compromise between business interests and fiscal justice for the state.

The integration of morality and ethics in transfer pricing can also be seen in how companies allocate their global profits and respond to international regulations related to BEPS and the global minimum tax. [Merle et al. \(2019\)](#); [Petruzzi & Buriak \(2018\)](#); [Wang \(2013\)](#) show that moral values can influence profit allocation strategies by encouraging companies to align profits with the locations where economic value is actually created. [Dawson & Miller \(2009\)](#); [Rogers & Oats \(2022\)](#) emphasize that a profit allocation approach that considers fairness can reduce the risk of tax disputes and improve the stability of relationships with authorities. On the other hand, many articles, such as [Alexander & Menicacci \(2025\)](#); [Sebele-Mpofu et al. \(2021\)](#), explain that legalistic compliance, without moral values, often still results in BEPS through the transfer of profits to tax havens that do not significantly contribute to value creation.

Virtue Ethics provides the perspective that tax decisions must consider the common good, not just tax savings. Institutional Theory supports this by showing that global regulations, such as the OECD Pillars 1 and 2, create a normative ecosystem that pressures companies to align their tax strategies with international standards of fairness. Furthermore, [Hansen et al. \(1992\)](#); [Hejazi \(2006\)](#); [Mehafdi \(2000\)](#) show that the application of morals and ethics in developing

countries is crucial due to the lack of fiscal capacity to combat aggressive profit-shifting practices. Thus, integrating moral values into transfer pricing not only improves corporate governance but also strengthens the state's capacity to achieve fiscal justice and revenue sustainability. Although prior studies emphasize the importance of ethics in taxation, they often remain normative and lack practical integration into corporate decision-making processes. This study extends the discussion by positioning ethics as a strategic component of transfer pricing practices rather than merely a compliance-related consideration.

From a policy perspective, integrating ethical considerations into transfer pricing practices requires not only stricter regulations but also the development of soft governance mechanisms, such as transparency requirements, corporate tax disclosures, and alignment with ESG frameworks. For Indonesia, this implies the need to strengthen tax governance through a combination of regulatory enforcement and ethical awareness initiatives among corporate taxpayers.

4.3 Application of the Value-based Approach to Shape Transfer Pricing Practices for Fiscal Sustainability and Corporate Reputation

The application of a value-based approach to transfer pricing practices creates a more progressive tax governance orientation, as companies no longer view taxes as merely a legal obligation but as part of their moral contribution to the country where economic value is created. [Lesch & McCambridge \(2023\)](#) confirms that a value-based approach influences corporate decision-making structures, especially when companies face opportunities for tax avoidance that are legally valid but potentially damaging to social legitimacy. The value-based approach emphasizes that tax decisions must reflect the values of fairness, accountability, and public responsibility, not just financial efficiency. This finding is reinforced by [Ylönen & Teivainen \(2018\)](#), which shows that the arm's length

mechanism has a dual role because, in addition to serving as the basis for legal and formal pricing, it also becomes a strategic instrument for companies in shaping their image and legitimacy at the global level, so that intra-firm trade not only reflects an objective pricing process but also practices that influence the public's moral perception of the company. This aligns with [Kumar et al. \(2021\)](#) findings, which show that rising stakeholder demands for transparency are encouraging companies to adjust their transfer pricing policies to align with societal moral norms.

Companies that adopt the values of honesty and fairness in profit allocation tend to minimize reputational risk, especially in an era of tax information disclosure and CbCR reporting. Furthermore, [\(Perčević & Hladika, 2017\)](#) reveals that companies that align their tax policies with ethical values generally gain stronger institutional legitimacy, as the public, regulators, and investors view taxes not only as numbers but as indicators of corporate integrity. Thus, the value-based approach helps companies respond to moral challenges in the digital economy by committing to values of virtue, legitimacy, and compliance grounded in awareness rather than coercion. This practice strengthens public perception of corporate social responsibility and builds long-term reputation, especially for multinational companies operating across jurisdictions.

The value-based approach also shifts the paradigm of profit allocation in transfer pricing by emphasizing the principle of fair profit allocation, profits should be taxed where economic value is actually created. This concept is particularly relevant in the digital economy, where intangible assets play an important role, making traditional arm's-length mechanisms often fail to capture the economic contribution of algorithms, digital platforms, and user data. The study shows that many countries are promoting profit allocation models that better reflect value creation to address the practice of shifting profits to low-tax jurisdictions ([Wang, 2013](#)). [Razen & Kupfer \(2023\)](#) indicate that a value-based approach

encourages companies to design transfer pricing structures that reflect real activities rather than exploit tax arbitrage. This approach serves as a mitigation against BEPS because companies consider the social impact of aggressive profit shifting.

[Kalra & Afzal \(2023\)](#) emphasizes the importance of ensuring that royalties, licenses, and management services for intangible assets are commensurate with their actual contribution to the creation of global value for the company. This approach also strengthens the position of tax authorities in assessing the fairness of transactions between affiliated entities, as value-based arguments are easier to justify than mere commercial justifications. The value-based approach thus provides a conceptual framework that balances the state's fiscal interests with companies' needs to maintain global efficiency and competitiveness. Value-based profit allocation not only reduces tax disputes but also builds constructive relationships between companies and regulators, creating a stable and equitable tax environment.

The integration of a value-based approach in transfer pricing policy has direct implications for the fiscal sustainability of the state and the reputation of companies. The results of [Mashiri et al. \(2021\)](#); [Sebele-Mpofu et al. \(2021\)](#) analysis show that intangible asset-based profit shifting is one of the leading causes of the weakening fiscal capacity of developing countries, as tax bases decrease even as domestic economic activity increases. By applying a value-based approach, companies can reduce such aggressive practices and ensure more stable tax contributions, thereby supporting long-term development. The findings of [Rogers & Oats \(2022\)](#) confirm that fiscal sustainability is highly dependent on companies' integrity in aligning their tax policies with the principle of distributive justice.

Companies internalize moral values in transfer pricing have been shown to have a more harmonious relationship with tax authorities, lower audit risk, and better cost-

efficiency in compliance. On the other hand, [Islam et al. \(2020\)](#) highlights that a company's reputation in the eyes of the public and investors is greatly influenced by openness and accountability in tax reporting. Tax transparency, as part of a value-based approach, is an important mechanism for building trust and credibility. Companies that demonstrate significant tax contributions commensurate with their economic activities are often viewed as entities with high-quality governance. Thus, the value-based approach not only serves as a tool for strengthening business morality but also as a long-term reputation strategy that simultaneously supports national fiscal sustainability. This approach creates mutual benefits between companies and the state: the state gains fiscal stability, while companies gain social legitimacy and reputational competitiveness.

Despite the strengths of the value-based approach, its implementation is not without challenges. One key limitation lies in the difficulty of operationalizing ethical values into measurable transfer pricing practices, particularly in highly complex multinational structures. Furthermore, there may be tensions between profit maximization objectives and ethical considerations, especially in competitive global markets. While Institutional Theory suggests that regulatory pressures can drive compliance, firms may still engage in symbolic rather than substantive adoption of ethical practices to maintain legitimacy. Therefore, the effectiveness of a value-based approach depends not only on regulatory frameworks but also on genuine corporate commitment to ethical principles.

5 Conclusion

5.1 Summary of Key Findings

This study confirms that transfer pricing in the digital economy should be understood as a multidimensional phenomenon involving economic, regulatory, institutional, and ethical dimensions. The growing dominance of intangible assets has weakened the link between value creation and

profit allocation, challenging the application of traditional principles such as the arm's length standard. In addition, gaps in the international tax framework create opportunities for profit shifting, particularly in developing countries with limited fiscal capacity and high information asymmetry. The findings further highlight that integrating ethical considerations into transfer pricing practices promotes transparency, proportional profit allocation, and greater fiscal fairness. A value-based approach not only enhances corporate legitimacy but also contributes to fiscal sustainability through more stable and equitable tax contributions.

5.2 Theoretical Contributions

This study expands the transfer pricing literature by highlighting the changing dynamics of transfer pricing in a digital economy dominated by intangible assets, which weaken the link between value creation and profit reporting and challenge the application of the arm's length principle. By integrating Legitimacy Theory, Institutional Theory, and Virtue Ethics, this study demonstrates that transfer pricing practices are influenced not only by tax efficiency considerations but also by public legitimacy, global regulatory pressures, and corporate moral values. Furthermore, it advances the literature by shifting the dominant paradigm from a purely compliance-oriented framework toward a more holistic approach that incorporates ethical and social dimensions. This value-based perspective provides a more comprehensive understanding of transfer pricing practices in the digital economy and offers a foundation for future cross-country and comparative research.

5.3 Practical and Policy Contributions

This study offers practical implications for multinational corporations, tax authorities, and policymakers. For companies, transfer pricing policies should incorporate value-based principles by aligning profit allocation with actual economic contributions and enhancing

transparency through comprehensive documentation and public tax disclosures. For tax authorities, particularly in Indonesia, strengthening technical capacity in valuing intangible assets, improving access to multinational data, and adopting advanced audit tools are essential to reduce information asymmetry. For policymakers, the findings highlight the need to complement international frameworks such as BEPS with domestic policies that promote ethical tax behavior, including transparency requirements, ESG-linked tax disclosures, and stronger enforcement mechanisms to ensure fair taxation in the digital economy.

5.4 Limitations of the Study

This study has several limitations. It relies on existing literature and does not incorporate field-based evidence, which limits its ability to capture practitioners' perspectives. As a result, the analysis is primarily based on conceptual and secondary sources, which may not fully reflect the practical complexities of transfer pricing implementation within multinational companies. In addition, the reliance on secondary data may limit the ability to capture dynamic corporate strategies and evolving regulatory responses in real-world settings. Furthermore, the findings may not fully reflect differences in regulatory environments and institutional capacities across countries, particularly between developed and developing economies.

5.5 Directions for Future Research

Variations in regulatory contexts across countries limit the generalizability of the findings. Future research can address this limitation by adopting empirical and comparative approaches to better understand how ethical considerations are implemented in transfer pricing across different jurisdictions. Studies may also explore cross-country comparisons to examine how institutional differences influence the effectiveness of value-based transfer pricing approaches in both

developed and developing economies. In addition, future research can incorporate methods such as interviews, case studies, or surveys involving tax practitioners, corporate managers, and tax authorities to provide deeper insights into the practical application of transfer pricing in the digital economy.

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