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Research paper

Transfer Pricing and Tax Avoidance: A Study on Manufacturing Companies Listed in Indonesia

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Abstract

Tax avoidance (TA) is the practice of taxpayers taking advantage of gaps in tax laws to lower or minimize their tax liability. The purpose of this study is to investigate how transfer pricing (TP) affects TA practices. All manufacturing companies listed on the Indonesia Stock Exchange between 2019 and 2023 make up the research population. Purposive sampling was used to determine the sample, and 17 companies with a 5-year observation period were selected, yielding 85 observations in total. Regression analysis is the method employed. The impact of TP on TA can be managed by factors such as foreign ownership (FO), business complexity (BC), return on assets (ROA), firm size (FS), return on equity (ROE), and total employees (TE). In the meantime, the relationship between TP and TA practices can be moderated by the variable FO. To lessen the possibility that businesses will engage in TA practices, the government, as the tax regulator, must be able to monitor how TP is used by businesses. It is anticipated that affiliated businesses will not use TP to reduce their tax liabilities, as this would be harmful to the state. The government audited TP implementation periodically and strengthened TP documentation requirement to ensure the company compliance to the regulation.

Keywords: *transfer pricing, related parties, tax avoidance, tax regulation, multinational company*

1. Introduction

Indonesia's government needed a lot of money to national development process costs, the government explored the potential revenue from variety of sources. Continuous development can be aided by the establishment of a sound tax structure. The largest source of income is tax revenue, which means that it is crucial for funding national development (Adhitama & Joshua, 2023; Senopati & Fitriani, 2021). At first, taxes were voluntarily given to the head of state as tribute. But as time has gone on, everyone is now required to pay taxes (Ariffin & Sitabuana, 2022). Since taxes are a nation's primary source of income, it is critical that taxpayers are aware of their tax obligations. This is so because public facilities, education, health, and infrastructure development are all funded by the taxes that are collected. Taxpayers must thus be aware of their duty to pay taxes and comprehend the significance of taxes to the government. Some taxpayers hold different opinions (Widiyantoro & Sitorus, 2019).

From a fiscal standpoint, taxes are the primary source of funding for the survival of the state and nation, but businesses see them as a burden. This situation creates a conflict of interest between the tax authorities and companies. Companies, acting as agents, aim to reduce tax payments, while tax authorities, acting as the principal, seek the highest possible tax revenue from taxpayers (Olivia & Dwimulyani, 2019). According to Indonesia's tax collection phenomenon, the tax industry generates a substantial amount of revenue, and taxes account for more than 80% of the state budget between 2019 and 2023. In 2022, the realization of tax revenue surpassed 14% of the target, continuing the trend of annual increases in tax revenue realization. The tax ratio may improve as a result of higher tax revenue, and Indonesia's economy will gain from this improvement. Macro economically speaking, increased government spending will follow an increase in a nation's income; however, if the increased spending is allocated to the domestic sector, a multiplier effect will occur, raising the gross domestic product above the level of government spending (Amara, 2022).

Indonesia's tax revenue remains low when compared to other nations, particularly those in ASEAN (Putra, 2022). The tax ratio is the same as the tax revenue ratio. In 2020, Indonesia's tax ratio was 8.33%; by 2021, it had risen to 9.11%. The economic recovery of Indonesia and the accomplishment of tax revenue goals are the causes of this increase. In the meantime, the tax rates in the majority of ASEAN nations exceed 12%. One of the factors that contributes to Indonesia's low tax ratio is closely linked to TA practices. Businesses take advantage of tax law loopholes to boost their earnings. Companies use TA to lower their tax liabilities by taking advantage of loopholes in a nation's tax laws. TA is one of the steps that businesses take (Wijaya & Rahayu, 2021).

TA strategies that reduce tax obligations by taking advantage of tax law loopholes are legal because they do not violate tax laws (DDTC, 2016). A transaction can be classified as TA if it satisfies one of three requirements: the taxpayer must attempt to use a fair interpretation of the tax code to pay less tax than they should; the taxpayer must request that taxes be applied only to the declared profit and not to the actual profit earned; and the taxpayer must attempt to postpone paying taxes that are due on time (Palan, 2002).

The self-assessment method is used in Indonesia's tax collection system, and taxpayers are fully trusted to determine, account for, pay or deposit, and report the amount of tax due within the time frame allowed by tax laws. The self-assessment system's existence permits taxpayers to commit TA (Wahyuni, 2011). TA is measured by The Cash Effective Tax Rate (CETR). According to Law Number 36 of 2008, a business is deemed to be participating in TA if its CETR percentage is less than 25% (Nurrahmi & Rahayu, 2020). Different causes of TA exist in many countries. One of the factors driving TA and attracting multinational corporations to invest in these nations is the existence of tax havens, where the government levies extremely low tax rates (Panjalusman et al., 2018; Omar & Zolkaklil, 2015).

Because multinational corporations use TP to transfer profits between affiliates in different nations, frequently in an effort to lower tax obligations, TP and TA are closely related. Businesses can transfer profits to tax havens to lower tax burdens in high-tax nations by establishing internal transaction prices that defy the Arm's Length Principle (ALP) (Ashburn & Bhalla, 202; Eden, 1998). Multinational corporations frequently use TP, which is the practice of using transfer prices between affiliates to move income from high-tax nations to tax havens with low or no tax rates (Kolondam & Permatasari, 2024; Thirosa, 2024; Cruz & Jesus, 2020). By lowering taxable profits in their home country and raising profits in tax haven nations by establishing irrational TP, businesses can reduce their worldwide tax burden. This has been a focus of the Base Erosion and Profit Shifting (BEPS) project since 2013. In order to lower their tax obligations, multinational corporations utilize BEPS strategies to shift income to nations with low or no taxes, also known as tax havens. BEPS strategies allow businesses to lower their tax base by taking advantage of loopholes in international tax legislation (OECD, 2013).

TP practices can exacerbate economic inequality because they allow companies, especially multinational corporations, to shift profits from high-tax countries to low-tax or even tax-free countries (Andinanti, 2025; Farizi, 2023; Sugihati & Machdar, 2023). This leads to a reduction in the country's tax revenue and decreases the funds available for social and development programs. The practice of TP has effect to the economic inequality, such the loss of potential tax revenue, injustice in wealth distribution, widening economic gap and reduction of public spending. Therefore, the government needs to have clear and effective regulations to govern transfer pricing, as well as conduct strict supervision to prevent tax evasion practices that harm the country. This is important to maintain tax fairness, increase state revenue, and reduce economic inequality.

Examples of TP cases in Indonesia include PT Toyota Motor Indonesia, the biggest Japanese auto factory, which also uses TP techniques to cut expenses. PT Toyota Motor Indonesia was accused by the Taxes Institution of using TP to evade paying Rp 1.2 trillion in taxes. Since the last hearing in 2013, this case has actually been pending in the Tax Court (Sugianto, 2014). PT Nestle is another business that uses transfer pricing. In order to boost central profits, PT Nestle used TP techniques in 2013, which produced a sizable cash flow in its financial statements. This intentional action was taken by PT Nestle to lower tax obligations and product acquisition costs. Rp 800 billion has been estimated to have been lost by the state (JPNN, 2015).

Because multinational corporations can shift their tax obligations by minimizing the selling prices among companies within the same group and transfer profits to companies based in countries with lower tax rates, TP may result in a decrease in a nation's potential tax revenue from the government's point of view (Pratama & Larasati, 2021; Omar & Zulkaflil, 2015). TP actions are influenced by multinational corporations that exhibit a predominance of FO tendencies. Arkhadya & Arieftiara (2018) found that FO influences business decision-making and the global networks they have, which results in a propensity for TP practices.

One of the main sectors contributing to Indonesia's GDP is the manufacturing sector. A review of preliminary data, Indonesia's manufacturing sector will be the primary engine of the country's economy in 2023, accounting for roughly 18.67 percent of its GDP. Next in line are the agricultural sector, retail, and wholesale trade. One of the nations with the biggest economies in the world, Indonesia is rich in resources (Siahaan, 2024). Because they frequently engage in import-export operations, manufacturing firms are more susceptible to TP pricing schemes. This is because cross-border transactions, which can be used to transfer profits to nations with lower taxes, commonly take place between entities that are part of the same business group (Prayoga et al., 2019).

A number of regulations have been issued by Indonesia with the goal of limiting TA by multinational corporations and controlling TP. The Indonesian Regulation Number 172/2023, which governs TP, is one method. Companies are required by this regulation to gather documentation demonstrating the price equivalency of transactions between related entities. This policy seeks to lessen BEPS strategies employed by multinational corporations by shifting income to nations with lower tax rates. Additionally, Indonesia takes part in international cooperative projects like the BEPS Inclusive Framework, which is led by the OECD and aims to enhance the global tax system (Kemenkeu, 2023).

TP and TA have been connected in a number of earlier domestic and international studies. According to research by Prayoga et al. (2019), Nurrahmi & Rahayu (2020), and Putri & Mulyani (2020), TP positively affects TA. But according to Liu et al. (2017), Widiyantoro & Sitorus (2019), Irawan & Suhendra (2020), and Kolondam & Permatasari (2024), TP has a detrimental effect on TA. According to Pratama & Larasati (2021), Laila et al. (2021), and Napitupulu et al. (2020), TP has no effect on TA. In the meantime, TP was found to have a positive impact on TA practices in international studies by Amidu et al. (2019), Davies et al. (2018), and Barker et al. (2017).

The author is interested in changing the research by including eight moderating variables because of the inconsistent results from earlier domestic and international studies. Businesses can use TP to set prices for goods and services that are exchanged between their affiliated entities, frequently in an effort to reduce their overall tax liability. Indonesian manufacturing firms are frequently engage in international export-import transactions, as well as a number of actual case studies that have taken place, such as TP cases of PT Toyota Motor Manufacturing Indonesia and PT Nestle.

Jensen & Meckling (1976) explained the connection between the principal and the agent is essentially explained by agency theory. As the business's owner, the principal often wants to maximize profits and raise the company's worth. Agents may, however, have different personal motivations than the company's management, such as higher personal remuneration or lower risks, which might cause them to make decisions that aren't necessarily in the best interests of the shareholders. Jensen & Meckling (1976) stated that agency expenses may be divided into three categories: residual loss, bonding cost, and monitoring cost. Bonding and monitoring expenses are examples of agency costs that might occur in the context of TP and TA. When the principle spends extra money to keep an eye on and supervise management's use of TP and TA tactics, monitoring costs result. This tactic has the danger of being abused for management's gain, which is contrary to what shareholders want. Bonding costs occur when agents try to persuade shareholders that their choices (such using TP) are made for the company's benefit rather than their own. Aggressive transfer pricing for TA objectives may also result in residual loss for shareholders, which is the loss sustained if the approach causes long-term legal or reputational problems that hurt the business. Agency theory offers a framework for comprehending how management may implement tactics that serve their own interests while not necessarily aligning with that of the owners in respect to TA. TP techniques, for instance, can be used to reduce taxes, but if they are not handled correctly, the firm may be subject to penalties from tax authorities, which would ultimately be detrimental to the business (Armstrong et al., 2012).

A company's capacity to balance the interests of all stakeholders—rather than only concentrating on increasing profits for shareholders—is crucial to its long-term success (Freeman, 1984) In this situation, every business decision must take into account how it will affect all

parties involved to ensure that they feel included and treated properly. As opposed to concentrating just on financial earnings, the firm may better preserve business continuity and build long-term value by taking stakeholders' interests into account. The stakeholder theory explained that businesses should consider the interests of several stakeholders in addition to generating profits for shareholders. Every choice must take into account how it will affect all parties involved, including the government and tax authorities, who receive the taxes that are needed to pay for public services. The broader public as recipients of public services, infrastructure, and economic justice are funded by the company's taxes. If the corporation suffers legal repercussions for extensive TA, employees may suffer. Long-term financial gains and the company's positive reputation are of importance to investors (Harmoni, 2013). According to the stakeholder theory, businesses must take into account how TP and TA policies will affect different stakeholder groups in addition to shareholders. Companies that consider the interests of their stakeholders will be cautious not to employ tactics that damage society, the government, or their own reputation, even though TP and TA may boost short-term profitability. Therefore, the stakeholder theory highlights the significance of ethics and social responsibility in the use of TP and TA techniques.

TA is a tactic employed by taxpayers to lawfully take advantage of tax law gaps in order to reduce their tax liabilities (Pohan, 2014). Despite being allowed by law, this practice frequently leads to ethical discussions since it is thought to be harmful to the state, which depends on tax money for growth. Although TA represents businesses' attempts to lower their tax liabilities without violating the law, it nonetheless goes against the spirit of tax laws (Sikka, 2017). Businesses participate in TA for a variety of reasons. First, to boost post-tax earnings, which can improve shareholder returns? Second, multinational corporations frequently encounter the intricacies of global tax structures, which provide them the chance to transfer earnings to countries with lower tax rates (Dyreng et al., 2017). In order to benefit from reduced tax rates in tax havens, businesses commonly employ TP, which involves transferring income across entities within the corporate group (Richardson et al., 2016). Businesses employ TP as one of several strategies to lower their tax obligations. The adoption of Taxes Regulation Number PER-32/PJ/2011, which governs TP, or transactions between corporations and related persons, is one of the measures the Indonesian government has put in place to restrict the flexibility of businesses in TA.

Businesses try to avoid paying taxes by using TP (Thirosha, 2024; Putri & Mulyani, 2020). The government views TP as having the ability to lower a country's tax revenue because corporations shift their tax burden to associated enterprises by lowering selling prices and allocating earnings to related entities. ALP is the cornerstone of TP, claims Chandra (2024). Transactions involving related parties should have prices or profits that are comparable to or somewhat higher than those of transactions involving independent parties in the same situation, according to the ALP. The goal of implementing this concept is to stop TP manipulation as a means of TA. Applying the ALP begins with a comparability analysis (Ashburn & Bhalla, 2023). At this stage, an investigation is conducted to find relevant parallels between transactions between connected parties and those conducted by independent parties. The optimal strategy for determining the transfer price is then determined using the results of the comparability research. The method chosen must be appropriate for the situation and current status of the transaction being examined. The final stage is documentation, where every action taken to determine the fair price or profit must be meticulously recorded in accordance with the applicable tax regulations.

TP is regulated by a number of laws to ensure that transactions between linked parties are conducted in accordance with the fairness concept. Based on Tax Regulation Number PER-43/PJ/2010 on TP guidelines, which was later updated with Tax Regulation Number PER-32/PJ/2011, Indonesian TP regulations were established. This regulation requires companies to document the TP strategies they use and provide evidence that their pricing are in line with the ALP (Hasyim et al., 2022). The incentive to dodge taxes increases in low-tax countries with the number of firms involved in TP with connected parties. This implies that companies commonly use TP as a strategy to reduce their tax liabilities (Pratomo & Triswidyaria, 2021).

TP is an attempt by a business to evade paying taxes (Putri & Mulyani, 2020). Because businesses move their tax burden to linked firms by decreasing selling prices and transferring profits to affiliated companies, the government believes that TP may result in a decrease in a nation's tax income. Consequently, the parent company's tax burden is lessened. Managers of the firm may be motivated to use aggressive TP in order to boost the company's worth and profitability. Higher TA practices may result from this. TP is frequently used by multinational corporations to transfer earnings from high-tax nations to low-tax nations. Businesses can lower their tax obligations by establishing pricing in intercompany transactions that are not in line with market value (Irawan & Suhendra, 2020).

Agents can use TP activities to lower their tax obligations and boost profits, claims agency theory. The business establishes sales transactions with associated firms at below-market pricing when compared to independent parties. Fairness and commercial conventions are disregarded in the deal. In order to reduce the amount of taxes paid, the original firm aims to minimize business circulation. The targeted business benefits from decreased tax rates, which lowers its tax burden (Wijaya & Rahayu, 2021). The following is the theory put out in this study:

H: Transfer pricing has effects on tax avoidance.

2. Methods

The research population consists of all manufacturing firms listed on the Indonesia Stock Exchange between 2019 and 2023. The sample, which consisted of 17 firms throughout a 5-year observation period and produced a total of 85 observations, was chosen by some criteria (a) listed in observation period, (b) have affiliation company during observation period and (c) got profit during observation period. The analysis techniques used include linear regression analysis and three research models. Each of the research models is as follows:

The first model

Simple linear regression is a statistical method for analyzing the connection between a single independent variable and a single dependent variable (Sugiyono, 2021). In this analysis, the relationship between the two variables, represented by a linear relationship, is predicted or explained by the independent variable.

$$CETR_{it} = \alpha + \beta_1 TP_{it} + e_{it} \quad (1)$$

The second model

The regression equation in the second model makes use of control variables. In order to ensure that the influence of the independent variable on the dependent variable is unaffected by unstudied external factors, control variables are typically defined as variables that are purposefully kept constant or under control (Sugiyono, 2021; Mutira, 2017). In research, control variables are frequently employed for comparison. FO, FS, SG, DER ROA, ROE, TE, and BC are the control variables that are employed. The following is the regression equation with control variables:

$$CETR_{it} = \alpha + \beta_1 TP_{it} + \beta_2 FO_{it} + \beta_3 FSit + \beta_4 SG_{it} + \beta_5 DER_{it} + \beta_6 ROA_{it} + \beta_7 ROE_{it} + \beta_8 LnTE_{it} + \beta_9 LnBC_{it} + e_{it} \quad (2)$$

The third model
In the regression equation of the third model, a moderating variable is used. The direct correlation between the independent and dependent variables can be strengthened or weakened by the moderating variable (Sugiyono, 2021). The variable that affects the direction of the association between variables is known as the moderating variable. Depending on the moderating variable, the connection between independent and dependent variables may be positive or negative. DER ROA, ROE, TE, BC, FS, SG, and FO are the moderating factors. The following is the regression equation that makes use of the moderation variables:

$$CETR_{it} = \alpha + \beta_1 TP_{it} + \beta_2 FO_{it} + \beta_3 FSit + \beta_4 SG_{it} + \beta_5 DER_{it} + \beta_6 ROA_{it} + \beta_7 ROE_{it} + \beta_8 LnTE_{it} + \beta_9 LnBC_{it} + \beta_{10} TP*FO_{it} + \beta_{11} TP*FSit + \beta_{12} TP*SG_{it} + \beta_{13} TP*DER_{it} + \beta_{14} TP*ROA_{it} + \beta_{15} TP*ROE_{it} + \beta_{16} TP*LnTE_{it} + \beta_{17} TP*LnBC_{it} + e_{it} \quad (3)$$

There are four categories into which moderating factors fall. First, when the equation's coefficient b10 is statistically significant but the coefficient b2 is not, a pure moderator—a sort of moderation variable—can be found. Second, both coefficients b2 and b10 are statistically significant, showing a true moderating effect, which characterizes the quasi moderator. Third, when both coefficients b2 and b10 are reported to be statistically insignificant, suggesting possible moderation with no discernible effects, the homologize moderator takes place. Lastly, a large b2 coefficient but an insignificant b10 coefficient implies a sort of moderation known as the predictor moderator, which indicates that the variable acts more as a predictor than a pure moderator (Solimun, 2011).
The following table shows the definition and measurement of each variable used in this study:

Tabel 1: Variable definition and measurement

Variable	Definition	Measurement
Tax Avoidance (TA)	The efforts made by the company to minimize the tax burden legally in accordance with tax regulations (Suandy, 2016)	CETR = Tax Expense : Earning before tax
Transfer Pricing (TP)	The company's action to set transfer prices between affiliated companies to shift income from countries with high tax rates to countries with lower or no tax rates. (Kolondam & Permatasari, 2024)	TP = Account Receivable in Affiliation company : Total Account Receivable
Foreign Ownership (FO)	The proportion of company share ownership by foreign investors or foreign entities (Nur, et al., 2021)	FO = Total share owned by foreign : total outstanding share
Firm's size (FS)	The indicator used to determine the scale of a company, as shown by the total assets owned by the company (Rantika dkk., 2022)	Ln Total Assets
Sales Growth (SG)	Changes in the company's sales from one period to the next (Nasir, 2021)	$SG = (Sales_{it} – Sales_{it-1}) : Sales_{it-1}$
Debt to Equity Ratio (DER)	Ratio to assess the company's ability to pay debts from the equity owned by the company (Supyati et al, 2023)	DER = Total debt : Total equity
Return on Assets (ROA)	Ratio to assess the percentage of profit obtained from the use of company assets (Singh et al, 2024)	ROA = Earning after tax : total assets
Return on Equity (ROE)	Ratio that shows the level of profit obtained in the management of the company's equity (Sinurat et al, 2025)	ROE = Earning after tax : total equity
Total Employee (TE)	The number of people working with job specifications under the company's orders within a certain period who receive compensation and guarantees. (Hasibuan, 2014)	Ln total employee
Business Complexity (BC)	The growth of the company is demonstrated by the increase in branches and subsidiaries with new types of businesses both domestically and internationally. (Sulistiyani & Fasya, 2024)	Ln number of company business

3. Result and discussion

Three models have been used by the organization to handle data throughout the past five years. The impact of TP on TA is examined in the first model. The control variables in the second model are FO, TA, GS, DER, ROA, ROE, TE, and BC. The moderating factors in the third model are FO, TA, GS, DER, ROA, ROE, TE, and BC. The following table displays the test results for the three research models:
The following is the regression equation for each model.
Model 1

$$CETR = 27.392 – 0.122TP$$

From the results of the first model regression equation, it shows that without the influence of TP and other conditions remaining unchanged, TA practices amount to 27.392 units. TP regression coefficient shows a negative of -0.122, which means that for every one-point increase in the practice of manipulating TP methods, TA practices decrease by 0.122 points.
Model 2

$$CETR = 105.614 – 0.077TP + 0.200FO – 3.090FS – 0.005SG + 0.010DER – 1.624ROA + 0.341ROE + 2.857TE – 14.586BC$$

From the results of the second model regression equation, it shows that without the influence of TP, the eight control variables and other conditions unchanged, TA practice is 105,614 units. TP coefficient has a negative. The variables FO, DER, ROE, and TE have positive coefficients. This indicates that FO, DER, ROE, and TE are variables that can ensure the established model functions well as expected. Thus, the model used is valid, providing reliable and trustworthy results (Mutira, 2017). Meanwhile, FS, SG, ROA, and BC have negative coefficients, which mean that these variables function to reduce or control the effects of other variables that might interfere with the main analysis, but have a negative impact. These negative coefficients indicate an inverse relationship between the two variables; if the control variable increases, the TA practice variable tends to decrease, assuming a linear relationship.

Table 2: The result of data processing

	Model 1			Model 2			Model 3		
	β	t_{value}	Sign	β	t_{value}	Sign	B	t_{value}	Sign
(Constant)	27.392	16.395	.000	105.614	3.480	.001	50.347	1.027	.308
TP	-.122	-2.300	.024**	-.077	-1.527	.131	1.204	.526	.601
FO				.200	3.247	.002**	-.010	-.107	.915
FS				-3.090	-2.314	.023**	-.473	-.225	.823
GS				-.005	-.085	.933	-.026	-.354	.724
DER				.010	.249	.804	-.010	-.153	.879
ROA				-1.624	-3.307	.001*	-1.861	-2.425	.018**
ROE				.341	1.867	.066***	.544	1.591	.116
TE				2.857	2.363	.021**	3.592	2.279	.026**
BC				-14.586	-3.336	.001*	-23.903	-3.874	.000*
TP*FO							.005	2.039	.045**
TP*FS							-.045	-.572	.569
TP*GS							.001	.539	.592
TP*DER							.000	-.058	.954
TP*ROA							-.006	-.110	.912
TP*ROE							-.008	-.344	.732
TP*TE							-.074	-1.018	.313
TP*BC							.322	.714	.477
Adjusted R^2		0.049			0.397			0.443	
F_{value}		5.289			7.133			4.928	
Significant		0.024**			0.000*			0.000*	

*significant 0.01
**significant 0.05
***significant 0.10

Sources: Data Processing, 2025

Model 3

CETR = 50.347 + 1.204TP - 010FO – 0.473FS – 0.026SG -0.010DER – 1.861ROA + 0.544ROE + 3.592TE -23.903BC + 0.005TP*FO – 0.045TP*FS + 0.001TP*SG + 0.000TP*DER – 0.006TP*ROA - 0.008TP*ROE – 0.074TP*TE + 0.322TP*BC

From the results of the third model regression equation, it shows that without the influence of TP, the eight moderating variables and other conditions unchanged, TA practice is 50.347 units. TP coefficient has a positive, while the control variables, namely the interaction coefficients TP*FO, TP*SG, TP*DER, and TP*BC, also have positive, and the interaction coefficients TP*FS, TP*ROA, TP*ROE, and TP*TE are negative. This indicates that FO, SG, DER, and BC are moderating variables that weaken the relationship between TP and TA practices. Meanwhile, FS, ROA, ROE, and TE are moderating variables that strengthen the relationship between TP and TA practices.

The model 1 test findings indicate that 4.90% of changes in TA are due to changes in TP, with the other 95.10% being impacted by factors not included. This indicates that variations in TP have relatively little bearing on variations in TA. Every 1% change in TP causes a 0.122 drop in TA, according to the negative TP coefficient. The result of the TP-TA effect test was 0.024, which is less than 0.05. This suggests that there is a substantial and adverse relationship between TP and TA.

Businesses must prepare TP documentation by the Minister of Finance's Regulation in order to demonstrate the fairness of their transactions as taxpayers with special relationship transactions (Hidayah & Puspita, 2024). TP documentation must be prepared and kept up to date by taxpayers who engage in affiliate transactions with affiliates based in nations with lower income tax rates than Indonesia. Businesses that fail to prepare TP documentation could face penalties. In nations with lower income tax rates, businesses typically steer clear of TP with linked businesses (Hidayah & Puspita, 2024). Since there is no difference in tax rates, this is demonstrated by the fact that businesses in the study's sample engage in more domestic affiliate transactions, which prevents them from lowering their tax burden (Hidayah & Puspita, 2024).

Significant legal problems, such as tax audits, penalties, and a damaged reputation, might result from the aggressive use of TP in TA (Islami & Paulus, 2022). Nowadays, a lot of countries are looking more closely at the TP policies of multinational corporations and have systems in place to determine if the TP practices are consistent with the fair market value concept. Unbalanced income distribution between nations can result from improper TP practices, which disadvantage nations with higher tax rates while benefiting nations with lower tax rates or tax havens. This can lead to unfairness in the international tax system and worsen economic inequality worldwide.

The study's conclusions are consistent with those of Taylor & Richardson (2012), Lovena et al. (2022), Sari & Kurnianto (2022), and Sebele-Mpolu et al. (2021). This indicates that the company's TA activities are reduced as a result of the engineering of TP systems. The use of TP in multinational corporations, however, increases the company's actions to engage in TA, according to research by Adiguna & Ritonga (2024); Anggiyanti & Sormin (2024); Hardianingrum & Sudaryono (2024); Pratomo & Triswidyaria (2021); Nurrahmi & Rahayu (2020), Amidu et al (2019), and Anour & Houria (2017). The usage of TP has no effect on TA practices, according to Hanifah & Saepuloh's (2024) investigation.

One of the many reasons for the discrepancies in this study's findings is (1) variations in TP measurement. Comparable uncontrolled pricing, the resale price technique, the cost plus method, the profit split method, the transactional net margin method (Besdy et al., 2024), related party transactions (Farkhah et al., 2022; Lo et al., 2010), and (2) variations in TA measurement are a few possible approaches. There are twelve ways to quantify of TA, according to Hanlon & Heitzman (2010). These include GAAP ETR, Current ETR (Barokah & Sari, 2024; Amidu et al, 2019; Anouar & Houria, 2017; Dyreng et al, 2017; Taylor & Richardson, 2012), Cash ETR (Adiguna & Ritonga, 2024; Mukhtaruddin, et al, 2023), Long-run Cash ETR, ETR Differential, DTAX, Total BTD, Temporary BTD, Abnormal BTD, Unrecognized Tax Benefits, Tax Shelter Activity, and Marginal Tax Rate, and (3) Differences in the sorts of sample industries. Related businesses employ the TP and TA processes for various sorts of transactions due to differences in industry types.

By including the control variables FO, FS, GS, DER, ROA, ROE, TE, and BC, the second model is tested. The purpose of adding control variables is to remove any other factors that may be influencing how TP affects TA that haven't been investigated (Sugiyono, 2021). These factors serve to avoid skewed computation outcomes. With the inclusion of these control variables, the second model's adjusted R2 rose from 4.90% to 39.70%. TP strongly influences TA at the 1% level using the control variables FO, FS, GS, DER, ROA, ROE, TE,

and BC. BC and ROA at the 1% level, FS, FO, and TE at the 5% level, and ROE at the 10% level are the important control variables that separate the impact of TP on TA.

By including moderating factors such as FO, FS, GS, DER, ROA, ROE, TE, and BC, the third model is tested. The purpose of adding moderating factors is to see how they affect the connection between TP and TA, both positively and negatively (Sugiyono, 2021). The second independent variables are also known as FO, FS, GS, DER, ROA, ROE, TE, and BC. The corrected R2 is rising from 4.90% to 44.30% as a result of the inclusion of moderations. TP significantly influences TA practices at the percentage level when the moderating factors FO, TA, GS, DER, ROA, ROE, TE, and BC are used. FO functions as a pure moderator and is the only factor that can significantly impact and increase the link between TP and TA (Lutfitriyah, 2021). FO can be a moderating factor in the relationship between TP and TA for several reasons. First, companies with FO tend to have more complex operational structures, which can create opportunities for aggressive TP practices. Second, FO can influence the company's TP, especially if foreign investors have an interest in minimizing the tax burden in the countries where they invest. Third, companies with high FO may have better access to resources and knowledge in implementing TA strategies. Multinational manufacturing companies with subsidiaries in high-tax and low-tax countries can set higher TP for goods sold from subsidiaries in high-tax countries to subsidiaries in low-tax countries. This will reduce taxable profits in high-tax countries and increase profits in low-tax countries, thereby overall reducing the company's tax burden (Widyasari et al, 2024).

Due to their increased access to global financial frameworks, firms with FO are more likely than domestic enterprises to be able to take advantage of TP strategies. Given the wider cross-border links, FO can also make the use of TP approaches more complicated and flexible. Strict rules imposed on businesses with FO, however, may restrict their TA options (Arkhadya & Arieftiara, 2018). According to Indrasti (2016), a company's potential for TP practices increases with its FO. Agency theory states that the principal tends to push managers to maximize profits, particularly in businesses with FO. Stakeholder theory states that businesses with FO have the power to control TP activities in a way that puts profitability ahead of other stakeholders.

In the meanwhile, the homologized moderators are the FS, SG, DER, and ROE. This indicates that while FS, SG, DER, and ROE do not interact with TP and are not substantially correlated with either TP or TA, they do not affect the strength of the association between TP and TA. FS, GS, DER, and ROE are types of moderators that do not have a significant effect on the relationship between TP and TA and do not interact with TP. This means that there is no change in the relationship between TP and TA when the moderator variables are present. FS, GS, DER, and ROE also do not have a direct influence on TA.

The predicted moderators are BC, TE, and ROA. Based on these findings, it can be concluded that ROA, TE, and BC are not moderation variables but rather intervening, exogenous, antecedent, or independent factors that only function as independent variables in the established relationship model. BC, TE, and ROA are moderation variables that play the role of independent variables in the constructed relationship model. BC, TE, and ROA behave like independent variables, not just as variables that moderate the relationship. The main distinction between moderation predictors and other types of moderation lies in the role of the variable within the relationship model. Moderation predictors have a direct influence on the dependent variable, while other types of moderation only affect the strength or direction of the relationship between the independent and dependent variables.

The relationship TP-TA in the three models can be seen in the following table;

Table 3: The relationship TP-TA in three models

	Model 1	Model 2	Model 3
B	-0.122	-0.077	1.204
Sign	0.024	0.131	0.601
	significant	insignificant	Insignificant

Source: Data processing, 2025

The above table indicates that in model 1, TP has a significant effect on TA, but in models 2 and 3, it does not significant effect. The addition of control and moderation variables, namely FO, FS, SG, DER, ROA, ROE, TE, and BC, causes the relationship between TP and TA to become insignificant for several reasons. First, control variables can eliminate the influence of TP because they are interrelated. Second, moderation variables can change the direction or strength of the relationship between TP and TA, making the relationship insignificant or even opposite. Control variables are variables that are controlled in research to ensure that the influence of TP on TA is not affected by other factors. If TP and control variables have a strong relationship, then the effect of TP on TA could be nullified or diminished because it is concentrated on the control variables. Moderating variables are variables that affect the strength or direction of the relationship between TP and TA. If the moderating variable has a significant influence on the relationship between TP and TA, then that relationship could become insignificant or even change direction. For example, if the moderating variable is the level of tax compliance, then in companies with a high level of compliance, TP might not significantly affect TA, because those companies are more compliant with regulations. Therefore, it is important to consider relevant control and moderation variables in the research to gain a more accurate understanding of the relationship between TP and TA.

4. Conclusion

Companies engage in TA activities by taking advantage of tax law gaps, which lowers their tax liabilities. The state suffers as a result of this move as tax income declines. One strategy used by businesses to evade paying corporate taxes is the establishment of a TP for businesses with unique connections or affiliations. According to this study, TA procedures are significantly impacted negatively when corporations adopt TP methods for their international affiliates with varied tax rates. It has been demonstrated that the usage of control and moderation factors affects how strongly the company's TA activities and the application of TP approaches are related. The control and moderating variables include FO, SG, ROA, ROE, DER, TE, and BC. It has been demonstrated that the variables of FO, ROA, ROE, TE, and BC function as control factors in the connection between TP and TA. Furthermore, FO can mitigate the effects on the link between TP and TA. When TP practices are used in international corporations, the government's tax restrictions must be closely watched. Businesses must correctly apply the regulations to avoid lowering or avoiding tax payments. Businesses that pay taxes on time contribute to the prosperity of the country. By extending the industrial sectors, future research may build on this study and ascertain whether there may be variations in outcomes within each industry. Additionally, more investigation is required on the variations in TP strategies employed by businesses. Different TP approaches are used, which results in different TA procedures being used by businesses. Another approach to measure TP used the cost-plus method and TA used the tax-book different. Further research should also be more detailed in the documentation requirements and BEPS implementation that are more suited to the conditions of each existing industry, and consider the related international regulations. With these BEPS standards, they can be used for a global TP framework.

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