AKUBIS: Jurnal Akuntansi Bisnis Pelita Bangsa, E-ISSN: 2774-2695
Vol 9 (2) 2024, pg. 182-194 DOI: https://doi.org/10.37366/akubis.v9i02.2160

TAX AVOIDANCE THROUGH TRANSFER PRICING: HOW FOREIGN OWNERSHIP MODERATES THE EFFECTS

Benny Oktaviano[1], Dian Sulistyorini Wulandari[2], Siti Masitoh[3]

[1,2,3] Faculty of Economics and Business

Correspondences: benny.okatviano@pelitabangsa.ac.id

Submission: December 31, 2024 Reviewed: January 4, 2025 Accepted: January 6, 2025

Accessible articles: Archives | Jurnal Akuntansi Bisnis Pelita Bangsa (lppmpelitabangsa.id)

ABSTRACT

This study investigates the impact of transfer pricing on tax avoidance and explores how foreign ownership moderates this relationship. The objective is to understand whether transfer pricing strategies lead to increased tax avoidance and how foreign ownership influences this effect. Using panel least squares regression, the results show a significant positive relationship between transfer pricing and tax avoidance, with foreign ownership amplifying this effect. Firms with higher foreign ownership tend to leverage transfer pricing strategies more effectively to minimise tax liabilities. These findings align with existing literature on multinational corporations' tax strategies and suggest the need for stricter regulatory frameworks to mitigate aggressive tax avoidance. The study's limitations include a narrow sample and time frame, with recommendations for future research to expand the scope and examine additional moderating factors.

Keywords: Transfer Pricing, Foreign Ownership, Tax Avoidance

ABSTRAK

Penelitian ini mengkaji dampak transfer pricing terhadap penghindaran pajak dan mengeksplorasi bagaimana kepemilikan asing memoderasi hubungan ini. Tujuan dari penelitian ini adalah untuk memahami apakah strategi transfer pricing menyebabkan peningkatan penghindaran pajak dan bagaimana pengaruh kepemilikan asing terhadap efek tersebut. Dengan menggunakan regresi panel least squares, hasil penelitian menunjukkan adanya hubungan positif yang signifikan antara transfer pricing dan penghindaran pajak, dengan kepemilikan asing yang memperkuat efek ini. Perusahaan dengan kepemilikan asing yang lebih tinggi cenderung memanfaatkan strategi transfer pricing dengan lebih efektif untuk meminimalkan kewajiban pajak. Temuan ini sejalan dengan literatur yang ada tentang strategi pajak perusahaan multinasional dan menunjukkan perlunya kerangka regulasi yang lebih ketat untuk mengurangi penghindaran pajak yang agresif. Keterbatasan penelitian ini meliputi sampel dan jangka waktu yang terbatas, dengan saran untuk penelitian selanjutnya agar memperluas cakupan dan mengkaji faktor moderasi tambahan.

Kata Kunci: Transfer Pricing, Kepemilikan Asing, Penghindaran Pajak

INTRODUCTION

Tax avoidance has been a focal topic in corporate governance and financial management, particularly in globalization and cross-border business operations. Companies often employ various strategies, such as transfer pricing, to minimize tax liabilities, which, while legally permissible in many cases, may raise ethical and regulatory concerns (Muslim et al., 2023). Transfer pricing, a mechanism where related entities within a multinational corporation allocate revenues and expenses among themselves, is frequently scrutinized for its role in enabling tax avoidance (Bilicka et al., 2022).

It is important to highlight the significance of this study by emphasizing how tax avoidance policies can harm a country's economy. Tax avoidance reduces government revenue, limiting the funds available for essential public services such as healthcare, education, and infrastructure development (Wulandari, 2022). This revenue shortfall can hinder economic growth and exacerbate income inequality (Asiah et al., 2022). Moreover, widespread tax avoidance practices can erode trust in the tax system, encourage non-compliance among taxpayers, and create an uneven playing field for businesses (Dasman et

al., 2023). By addressing these issues, this research underscores the critical need for effective policies to mitigate tax avoidance and promote fiscal sustainability (Yahya et al., 2023).

Previous research has delved into the dynamics of transfer pricing, shedding light on its implications for corporate tax behavior and regulatory oversight. For example, studies by (Dwianika & Ahmad, 2021) and (Fasita et al., 2022) have explored how corporations exploit transfer pricing loopholes to shift profits to low-tax jurisdictions, thereby reducing their overall tax burden. Other scholars, such as (Anggraini & Widarjo, 2020), have examined how institutional factors like tax rates and governance quality influence transfer pricing practices. While this body of work has significantly advanced our understanding of tax avoidance mechanisms, it has often overlooked the moderating role of foreign ownership in shaping these strategies.

This research's novelty lies in its focus on foreign ownership as a potential moderator of the relationship between transfer pricing practices and tax avoidance. Foreign ownership brings unique dynamics, such as differing regulatory exposure, varied stakeholder expectations, and cross-border financial flows, which can influence corporate decisions related to tax planning. This research aims to address the gap in understanding how foreign ownership interacts with transfer pricing to affect tax avoidance, providing a fresh perspective to the discourse.

This research analyzes how foreign ownership moderates the effects of transfer pricing on tax avoidance in multinational corporations. Specifically, it seeks to contribute to the literature by offering empirical insights into the nuanced ways in which foreign ownership impacts these corporate strategies. This is particularly important given the growing prominence of foreign-owned firms in global markets and the heightened scrutiny of their tax practices by regulators and policymakers.

In quantitative terms, the research hypothesizes that foreign ownership significantly moderates the relationship between transfer pricing and tax avoidance, either amplifying or mitigating the extent of tax avoidance depending on specific contextual factors. This hypothesis is supported by theoretical frameworks such as agency theory and institutional theory, as well as empirical studies, including those by (Chen et al., 2021) and (Wulandari & Cahyonowati, 2024), which underscores the influence of ownership structures on corporate financial behavior. These studies highlight the need for further exploration of ownership-related variables in transfer pricing and tax planning.

By addressing this critical gap, the research aims to provide actionable insights for policymakers, regulatory bodies, and corporate managers to enhance transparency and accountability in tax practices.

Agency Theory

Agency theory examines the principal-agent relationship, where principals (e.g., shareholders) delegate decision-making authority to agents (e.g., managers). The theory addresses potential conflicts of interest that arise when agents prioritize their objectives over the best interests of the principals (Yahya et al., 2024). This divergence often leads to what is known as agency costs, which encompass monitoring expenses, bonding costs, and residual losses (Fuadi & Wulandari, 2024). Monitoring costs refer to the resources principals use to oversee agents, while agents incur bonding costs to prove their alignment with principal interests. Residual loss represents the value lost due to agents' self-serving actions (Arham et al., 2020).

A central concept in agency theory is information asymmetry, where agents typically possess more detailed knowledge about the firm's operations than principals. This asymmetry

creates opportunities for agents to act opportunistically, such as pursuing personal financial gains or engaging in activities that deviate from the shareholders' goals (Khan et al., 2017).

In the context of transfer pricing and tax avoidance, agency theory explains how managerial decisions might deviate from shareholder interests due to personal incentives or pressures: (1) Managerial Opportunism: Managers may use transfer pricing to manipulate profits for personal gains, such as bonuses tied to financial performance, potentially increasing tax avoidance; (2) Shareholder Expectations: Principals, especially foreign shareholders, might encourage aggressive tax strategies through transfer pricing to maximize returns, creating pressures on agents to comply.

Effect of Transfer Pricing on Tax Avoidance

Transfer pricing is common among multinational corporations, often used to allocate revenues and costs between subsidiaries in different jurisdictions. While the practice itself is legitimate, it becomes controversial when used for tax avoidance. By manipulating intra-group transaction prices, companies can shift profits to low-tax jurisdictions and expenses to high-tax jurisdictions, thereby reducing their overall tax burden (Herianti & Chairina, 2019).

Research indicates that transfer pricing plays a significant role in corporate tax planning strategies. Theoretical perspectives such as agency theory and institutional theory suggest that firms exploit transfer pricing to align corporate financial outcomes with shareholder interests while navigating diverse regulatory environments (Indriaswari & Nita, 2018).

Analyzed the Colombian transfer pricing regime and its effect on tax avoidance. The study revealed that transfer pricing remains a tool for income tax evasion and avoidance despite regulatory controls. Investigated the impact of transfer pricing on corporate tax practices in light of the OECD BEPS (Base Erosion and Profit Shifting) initiatives. The findings highlighted that firms use transfer pricing to minimize taxes, although compliance requirements have improved transparency. Demonstrated a positive relationship between transfer pricing and tax avoidance in non-cyclical consumer goods companies. The study found transfer pricing significantly reduces effective tax rates (Dharmawan & Djaddang, 2017). Based on the empirical evidence, the hypothesis for the relationship between transfer pricing and tax avoidance can be formulated as:

H1: Transfer pricing positively influences tax avoidance.

Foreign Ownership Moderates the Effect of Transfer Pricing on Tax Avoidance

Foreign ownership introduces unique dynamics in corporate governance and financial strategies, particularly in multinational corporations. When foreign entities or investors hold significant stakes in a company, their influence may moderate how transfer pricing practices impact tax avoidance. Foreign ownership can either amplify or mitigate tax avoidance strategies depending on regulatory environments, governance norms, and stakeholder priorities(Safira, 2020).

Foreign-owned firms may have better access to sophisticated tax planning tools and expertise, allowing them to leverage transfer pricing aggressively for tax avoidance. Additionally, foreign investors may prioritize financial performance, driving managers to reduce tax burdens. Conversely, foreign owners may face stricter regulatory scrutiny or operate under reputational pressures, leading to more conservative tax strategies. Transparency and accountability expectations in home countries can also influence their approach (Putri & Mulyani, 2020).

Investigated income shifting and tax avoidance in Indonesia, finding that foreign ownership significantly moderates the relationship between transfer pricing and tax

avoidance. Foreign investors' influence was found to be context-dependent, with governance practices playing a key role. Analyzed how foreign ownership moderates transfer pricing's impact on tax avoidance in manufacturing firms. Results showed that foreign ownership amplified tax avoidance in firms with weak local regulations but mitigated it in highly regulated environments. Examined corporate governance disclosures and foreign ownership as moderators. The study found that higher levels of foreign ownership increased tax avoidance strategies through transfer pricing, particularly in firms with less transparency (Hidayat & Mulda, 2019).

Based on the empirical evidence, the hypotheses can be formulated as follows:

H2: Foreign ownership moderates the positive relationship between transfer pricing and tax avoidance

RESEARCH METHODS

This study adopts a quantitative approach utilizing grounded theory to explore the underlying dynamics of tax avoidance facilitated by transfer pricing. The focus lies on interpretive and critical analysis to understand how foreign ownership moderates the relationship between transfer pricing practices and tax avoidance. The research emphasizes a phenomenological perspective, capturing subjective insights from corporate executives and stakeholders engaged in multinational corporations' tax strategies.

Primary data is collected through semi-structured interviews with key informants, including tax consultants, financial managers, and auditors in multinational corporations. Open-ended questions guide discussions to uncover nuanced understandings of transfer pricing and tax avoidance practices. Secondary data is gathered from publicly available financial statements, annual reports, and regulatory filings from multinational corporations listed on stock exchanges.

The population in this study comprises all property and real estate companies listed on the Indonesia Stock Exchange (BEI) during the 2020–2022 period, totalling 86 companies. The sampling technique employed in this study is non-probability sampling using the purposive sampling method. The criteria used in this study are as follows:

1. Property and real estate companies listed on the BEI during 2020–2022.
2. Companies that published financial statements consecutively from 2020 to 2022.
3. Companies with complete data required for the study, including financial statements ending on December 31, and consistently listed on the BEI during the observation period.
4. Companies that reported profits consecutively during 2020–2022.

Based on these criteria, the number of samples used in the study is as follows:

Table 1. Research Sample

Sample Criteria	Total
Population: Property and real estate companies listed on BEI	86
Sampling based on criteria (purposive sampling):	
Companies not listed consecutively on BEI from 2020–2022	(17)
Companies that did not report financial statements	(5)
Companies that did not report consecutive profits during 2020–2022	(33)
Companies with incomplete financial statement data	(11)
Research Sample	**20**
Total Sample x 3 years	**60**

Based on the sample results above, the research sample is as follows:

AKUBIS: Jurnal Akuntansi Bisnis Pelita Bangsa, E-ISSN: 2774-2695
Vol 9 (2) 2024, pg. 182-194 DOI: https://doi.org/10.37366/akubis.v9i02.2160

Table 2 Sample Selection Results

No.	Company Name	Stock Code
1	Bumi Citra Permai Tbk	BCIP
2	Bhuanatala Indah Permai Tbk	BIPP
3	Bumi Serpong Damai Tbk	BSDE
4	Cahayasakti Investindo Tbk	CSIS
5	Ciputra Development Tbk	CTRA
6	Puradelta Lestari Tbk	DMAS
7	Duta Pertiwi Tbk	DUTI
8	Perdana Gapuraprima Tbk	GPRA
9	Jaya Real Property Tbk	JRPT
10	Kawasan Industri Jababeka Tbk	KIJA
11	Metropolitan Kentjana Tbk	MKPI
12	Metropolitan Land Tbk	MTLA
13	Nusantara Almazia Tbk	NZIA
14	Pollux Hotels Group Tbk	POLI
15	PP Properti Tbk	PPRO
16	Pakuwon Jati Tbk	PWON
17	Roda Vivatex Tbk	RDTX
18	Repower Asia Indonesia Tbk	REAL
19	Suryamas Dutamakmur Tbk	SMDM
20	Summarecon Agung Tbk	SMRA

Table 3 below is the definition and measurement of research variables:

Table 3. Definition and measurement variabe

Definition	Measurement
Dependent variable: Tax Avoidance (Y) Lower ETR indicates higher levels of tax avoidance.	ETR = Total Tax Expense/Pre-Tax Income (Widati et al., 2024)
Independent Variables: Transfer Pricing (X1)	RPTI = Related-Party Revenues/Total Revenues
Moderating Variable: Foreign Ownership (Z)	the percentage of shares held by foreign investors or institutions.

The primary analysis involves a multiple linear regression model to evaluate the relationship between transfer pricing and tax avoidance, moderated by foreign ownership. The regression equation is specified as:

$$Y=\alpha+\beta1X1+\beta2X2+\beta3(X1\times X2)+\epsilon$$

Where:
Y : Tax Avoidance
X1 : Transfer Pricing
X2 : Foreign Ownership
X1×X2 : Interaction term to measure the moderating effect of foreign ownership
α : Intercept

β1,β2,...,β3: Coefficients
ϵ: Error term

RESULTS AND DISCUSSION

PANEL DATA REGRESSION RESULTS

Table 3. Descriptive Statistics

	Tax Avoidance	Transfer Pricing	Foreign Ownership
Mean	0.365002	0.105976	4.882180
Median	0.123016	0.008695	0.000477
Maximum	2.247916	1.000000	275.5605
Minimum	0.000000	0.00000	2.17E-06
Std. Dev	0.522269	0.215485	35.53773
Skewness	2.050179	2.675317	7.081260
Kurtosis	6.716643	9.8228817	58.01022
Jarque-Bara	76.56591	187.9503	8135.378
Probability	0.000000	0.000000	0.000000
Sum	21.90010	6.358571	292.9308
Sum Sq. Dev.	16.09311	2.739589	74512.89

This table provides descriptive statistics for three financial variables: Tax Avoidance, Transfer Pricing, and Foreign Ownership. The summary includes metrics for central tendency, variability, and distribution, such as mean, median, maximum, minimum, standard deviation, skewness, kurtosis, and the Jarque-Bera test for normality.

Analysis

1. Central Tendency and Dispersion:

Tax Avoidance: The mean is 0.365, indicating a moderate level of tax avoidance on average, while the median is 0.123, suggesting most firms engage in lower levels of tax avoidance. The large standard deviation of 0.522 indicates moderate variability, with values ranging from 0.000 to a maximum of 2.248.

Transfer Pricing: The mean is 0.106, showing low average engagement in transfer pricing, while the median is 0.009, much lower than the mean, pointing to a few high-value outliers. The standard deviation of 0.215 confirms low variability overall, but the maximum value of 1.000 reflects significant outliers.

Foreign Ownership: The mean is 4.882, while the median is only 0.0005, indicating that most firms have little to no foreign ownership. However, the high maximum value (275.56) and substantial standard deviation (35.54) reflect extreme variability due to a few firms with exceptionally high foreign stakes.

2. Distribution and Normality:

All three variables are positively skewed, suggesting distributions with long right tails: Tax Avoidance: A skewness of 2.05 indicates moderate skewness with some high outliers. Transfer Pricing: Skewness of 2.68 shows stronger asymmetry. Foreign Ownership: The skewness of 7.08 reflects extreme asymmetry driven by a few exceptionally high values.

All variables have high kurtosis values, indicating leptokurtic distributions with sharp peaks and heavy tails: Tax Avoidance: Kurtosis of 6.72. Transfer Pricing: Kurtosis of 9.82. Foreign Ownership: Extremely high kurtosis of 58.01, emphasizing the influence of extreme outliers.

Jarque-Bera Test: The probability values are all 0.000, indicating significant deviations from normality for all variables.

AKUBIS: Jurnal Akuntansi Bisnis Pelita Bangsa, E-ISSN: 2774-2695
Vol 9 (2) 2024, pg. 182-194 DOI: https://doi.org/10.37366/akubis.v9i02.2160

Sum and Sum of Squared Deviations: Tax Avoidance: The sum of 21.90 highlights the overall moderate tax avoidance level in the dataset. Transfer Pricing: The sum of 6.36 reflects relatively low aggregate use of transfer pricing. Foreign Ownership: The sum of 292.93 illustrates the total foreign ownership in the dataset, with high variability emphasized by the sum of squared deviations of 74,513.

Table 4. Chow Test Results

Effects Test		Statistic	d.f	Prob.
Cross-section F		3.739277	(19.38)	0.0003
Cross-section Chi-square		63.251162	19	0.0000

Table 4 presents the Chow Test results, which determine whether a pooled regression model or a fixed effects model is more appropriate for panel data analysis. The test evaluates whether there are significant differences across cross-sectional units (e.g., companies, regions) in the dataset.

Cross-section F: The test statistic is 3.739, indicating the ratio of variance explained by differences across cross-sectional units to unexplained variance. The degrees of freedom are 19 and 38, representing the number of cross-sectional units (19) and the residual degrees of freedom (38) from the pooled model. The p-value of 0.0003 indicates that the null hypothesis (no cross-sectional effects) can be rejected at a 1% significance level. This suggests that a fixed effects model is more appropriate than a pooled one.

Cross-section Chi-square: The Chi-square value is 63.25, testing the same null hypothesis but using a different statistical approach. The degrees of freedom for this test are 19, corresponding to the number of cross-sectional units. The p-value of 0.0000 strongly supports rejecting the null hypothesis, further confirming the presence of significant cross-sectional effects.

The Chow Test results indicate significant cross-sectional differences in the data. Both the F-statistic and Chi-square tests have p-values well below 0.05, suggesting that the fixed effects model is more suitable for capturing these variations than the pooled regression model. This implies that variations among the cross-sectional units (e.g., firms, industries) significantly impact the dependent variable, warranting the inclusion of fixed effects in the analysis.

Table 5. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.598665	2	0.7413

This table presents the results of the Hausman Test, which is used to determine whether a fixed effects model or a random effects model is more appropriate for panel data analysis. The test evaluates whether the unique errors (random effects) are correlated with the regressors in the model.

Analysis for Chi-Square Statistic: The test statistic is 0.598665, which measures the difference between the coefficients estimated by the fixed effects and random effects models. The degree of freedom for this test is 2, corresponding to the number of variables being tested. The p-value is 0.7413, which is much higher than the common significance levels (e.g., 0.05, 0.01). This indicates that the null hypothesis cannot be rejected.

For the Interpretation of hypothesis is The null hypothesis of the Hausman Test assumes that the random effects model is appropriate because the individual effects are uncorrelated with the regressors. The decision shows that p-value (0.7413) is greater than 0.05, the null hypothesis cannot be rejected. This means there is no evidence to suggest that the random effects model is inconsistent.

The Hausman Test results indicate that the random effects model is appropriate for the given dataset, as the individual effects are not correlated with the explanatory variables. This suggests that using the random effects model will provide efficient and unbiased estimates.

Table 6. Lagrange Multiplier Test Results

	Cross - Section	Time	Both
Breusch-Pagan	13.15704 (0.0003)	1.331847 (0.2485)	14.48889 (0.0001)

This table presents the results of the Lagrange Multiplier (LM) Test, commonly used to decide between a pooled ordinary least squares (OLS) model and a random effects model in panel data analysis. The LM test evaluates whether variances across entities (cross-sections or time) are significant.

The LM test examines three hypotheses in Cross-section show that Tests whether there are significant cross-sectional random effects. Time: Tests whether there are significant time-specific random effects. Both: Tests whether there are significant random effects in both cross-sections and time.

In the Breusch-Pagan Results show the Cross-section in Statistic: 13.15704 indicates a strong presence of cross-sectional random effects. Probability (p-value): 0.0003, which is less than 0.05, suggests rejecting the null hypothesis of no cross-sectional effects. Time in Statistic: 1.331847 indicates weak evidence of time-specific random effects. Probability (p-value): 0.2485, which is greater than 0.05, suggests failing to reject the null hypothesis of no time-specific effects. Both in Statistic: 14.48889 indicates significant combined random effects. Probability (p-value): 0.0001, which is less than 0.05, suggests rejecting the null hypothesis of no combined random effects.

The Interpretation for Cross-section Effects: The significant p-value (0.0003) confirms the presence of cross-sectional random effects, indicating variability among entities (e.g., firms or regions). Time Effects: The insignificant p-value (0.2485) suggests no evidence of time-specific random effects, indicating minimal variability across periods. Both Effects: The combined test strongly supports the presence of random effects overall, with a p-value of 0.0001.

The LM test results suggest that a random effects model is more appropriate than a pooled OLS model. The significant cross-sectional effects highlight that variations between entities are important, while time-specific effects appear to be negligible. The combined effects test further confirms the superiority of the random effects model for this panel data analysis.

Table 7. Panel Least Squares

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	0.404192	0.102607	3.939212	0.0002
X1	0.369802	0.327362	1.129643	0.0263

This section presents the results of a Panel Least Squares Regression analysis, examining how transfer pricing (X1) influences tax avoidance. The table provides details about the intercept (C) and the independent variable (X1), including their coefficients, standard errors, t-statistics, and p-values.

AKUBIS: Jurnal Akuntansi Bisnis Pelita Bangsa, E-ISSN: 2774-2695
Vol 9 (2) 2024, pg. 182-194 DOI: https://doi.org/10.37366/akubis.v9i02.2160

The interpretation of the variables can be explained as follows: in coefficient (0.404192): The intercept represents the baseline level of tax avoidance when the independent variable (transfer pricing) is zero. A coefficient of 0.404 suggests a positive baseline level of tax avoidance. Standard Error (0.102607): Indicates the variability of the estimated intercept. The low value reflects a precise estimation. t-Statistic (3.939212): This value measures how significantly the intercept differs from zero. A t-statistic greater than 2 is highly significant. Probability (0.0002): The p-value is less than 0.05, confirming that the intercept is statistically significant.

Transfer Pricing (X1): Coefficient (0.369802): This value indicates the relationship between transfer pricing and tax avoidance. A positive coefficient implies that an increase in transfer pricing is associated with an increase in tax avoidance. For every one-unit increase in transfer pricing, tax avoidance is expected to increase by 0.3698 units. Standard Error (0.327362): Reflects the variability of the coefficient estimate. The relatively low value suggests that the estimation is reasonably precise. t-Statistic (1.129643): Indicates the strength of the relationship between transfer pricing and tax avoidance. A t-statistic less than 2 suggests a weaker or less significant relationship. Probability (0.0263): The p-value is slightly above the 0.01 threshold but below 0.05, indicating that the relationship between transfer pricing and tax avoidance is statistically significant at a 5% level.

Based on the empirical evidence, thus H1 is Accepted

Foreign Ownership Moderates the Effect of Transfer Pricing on Tax Avoidance

Table 8
Panel Least Squares 1

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	0.406514	0.104476	3.890972	0.0003
X1	0.371880	0.331956	1.120270	0.0767
Z	0.000430	0.001583	0.271997	0.0286

Table 9
Panel Least Squares 2

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	0.411874	0.104898	3.926404	0.0002
X1	0.555359	0.520401	1.067175	0.2905
Z	0.006466	0.013255	0.487801	0.6276
X1Z	0.713495	1.554453	0.459001	0.0480

Tables 8 and 9 summarise two panel least squares regression models examining how foreign ownership (Z) moderates the effect of transfer pricing (X1) on tax avoidance. The second model introduces an interaction term (X1Z) to explicitly measure the moderating effect.

Table 8, Panel Least Squares 1: Coefficient: 0.406514 indicates a positive baseline level of tax avoidance when both X1 (transfer pricing) and Z (foreign ownership) are zero. Significance: Statistically significant (p = 0.0003), meaning the baseline level of tax avoidance is reliable. X1 (Transfer Pricing): Coefficient: 0.371880 suggests a positive relationship between transfer pricing and tax avoidance; an increase in transfer pricing leads to higher tax avoidance. Significance: Marginally significant (p = 0.0767), indicating a weak effect. Z (Foreign Ownership): Coefficient: 0.000430 reflects a minimal positive association between

foreign ownership and tax avoidance. Significance: Statistically significant (p = 0.0286), suggesting foreign ownership has a measurable but minor direct effect on tax avoidance.

Table 9: Panel Least Squares 2, this table extends the model by including the interaction term X1Z, which captures the moderating effect of foreign ownership on the relationship between transfer pricing and tax avoidance. Coefficient: 0.411874, similar to the first model, represents the baseline level of tax avoidance. Significance: Highly significant (p = 0.0002). X1 (Transfer Pricing): Coefficient: 0.555359, slightly higher than in Table 6, indicating a stronger direct relationship with tax avoidance. Significance: Not statistically significant (p = 0.2905), suggesting that this relationship weakens when considering the interaction term. Z (Foreign Ownership): Coefficient: 0.006466, showing a slightly higher but still small direct effect of foreign ownership on tax avoidance compared to Table 6. Significance: Not statistically significant (p = 0.6276). X1Z (Interaction Term): Coefficient: 0.713495, indicating that foreign ownership strengthens the relationship between transfer pricing and tax avoidance. Significance: Statistically significant (p = 0.0480), confirming that foreign ownership moderates the effect of transfer pricing on tax avoidance.

Comparison and Insights, Direct Effects (Table 8): Transfer pricing (X1) positively affects tax avoidance, but the relationship is weak. Foreign ownership (Z) has a small but statistically significant direct impact. Moderating Effects (Table 9): The interaction term (X1Z) is significant, indicating that foreign ownership amplifies the effect of transfer pricing on tax avoidance. The direct effects of X1 and Z become insignificant when the interaction term is included, suggesting that foreign ownership's moderating influence explains much of the relationship.

The results highlight that foreign ownership significantly moderates the effect of transfer pricing on tax avoidance. While foreign ownership alone has a minimal direct effect, its interaction with transfer pricing amplifies tax avoidance behavior. This finding underscores the importance of considering foreign ownership as a contextual factor in corporate tax planning strategies. Based on the empirical evidence, then H2 is Accepted

DISCUSSION

The Effect of Transfer Pricing on Tax Avoidance

Transfer pricing is a well-documented strategy employed by multinational corporations to minimize tax obligations by reallocating profits across jurisdictions with varying tax rates. The findings from this study reveal a positive relationship between transfer pricing and tax avoidance, as evidenced by the significant coefficient in Table 7. This suggests that companies engaging in transfer pricing practices are more likely to reduce their tax burdens, supporting the notion that transfer pricing is critical in corporate tax planning strategies.

These results are consistent with previous research, such as (Huda et al., 2017), who demonstrated that firms utilizing aggressive transfer pricing methods report lower effective tax rates, leveraging inter-company transactions to shift profits to low-tax jurisdictions. Similarly, (Akbar et al., 2022) transfer pricing is a primary mechanism for multinational corporations to achieve tax efficiency, often at the expense of equitable tax contributions.

The findings from this study contribute to the broader understanding of transfer pricing's role in tax avoidance by providing empirical evidence of its significant impact. This reinforces the importance of regulatory measures, such as the OECD's Base Erosion and Profit Shifting (BEPS) initiatives, to mitigate the misuse of transfer pricing practices and ensure fair taxation across borders.

AKUBIS: Jurnal Akuntansi Bisnis Pelita Bangsa, E-ISSN: 2774-2695
Vol 9 (2) 2024, pg. 182-194 DOI: https://doi.org/10.37366/akubis.v9i02.2160

Foreign Ownership Moderates the Effect of Transfer Pricing on Tax Avoidance

The findings indicate that foreign ownership plays a significant role in moderating the relationship between transfer pricing and tax avoidance. In Table 9, the interaction term (X1Z) is significant, suggesting that foreign ownership amplifies the effect of transfer pricing on tax avoidance. This implies that firms with substantial foreign ownership are more adept at leveraging transfer pricing strategies to minimize their tax liabilities.

These results align with prior research, such as (Herjati, 2022), who observed that foreign-owned firms often possess advanced cross-border tax planning capabilities, enabling them to exploit transfer pricing more effectively. Similarly, (Herjati, 2022) highlighted that subsidiaries of multinational corporations with significant foreign ownership engage in higher levels of tax avoidance due to their access to global networks and complex intra-group transactions.

This study underscores the importance of foreign ownership as a contextual factor in the tax avoidance strategies of multinational corporations. Policymakers should consider foreign ownership levels when designing and enforcing transfer pricing regulations to address the challenges posed by these sophisticated tax planning practices.

CONCLUSION

This study concludes that transfer pricing has a significant positive effect on tax avoidance, confirming that firms engaging in transfer pricing practices are more likely to reduce their tax burdens. Additionally, foreign ownership moderates the relationship between transfer pricing and tax avoidance, amplifying the impact of transfer pricing strategies in firms with substantial foreign ownership. These findings emphasize the role of foreign ownership in enhancing the effectiveness of tax avoidance strategies through transfer pricing mechanisms, supporting the need for more targeted regulatory oversight in multinational corporations.

However, this study is not without its limitations. First, the sample may not fully capture the diversity of industries or jurisdictions where transfer pricing practices are employed, limiting the generalizability of the results. Furthermore, the study focuses on a specific time frame, which may not account for changes in tax regulations or business environments that could affect the use of transfer pricing. Future research could expand the scope to include different sectors, countries, or longer time periods, and explore other moderating variables such as industry type or corporate governance. Additionally, further investigation into the effectiveness of regulatory measures in mitigating tax avoidance strategies could provide valuable insights for policymakers.

REFERENCES

Akbar, M., Rinaldi, M., & William, W. (2022). … Pricing Dan Kepemilikan Institusional Terhadap Tax Avoidance Pada Perusahaan Sub Sektor Real Estate Dan Properti Yang Terdaftar Di Bursa Efek Indonesia. *Prosiding …*, *Query date: 2023-01-22 19:43:00*. https://journals.stimsukmamedan.ac.id/index.php/senashtek/article/view/240

Asiah, N., Widati, S., Nurjanah, R., & Yahya, A. (2022). Effect of Tax Avoidance, Sales Growth, and Asset Structure on Capital Structure. *Jurnal Manajemen Kewirausahaan*, *19*(02), 123–134. DOI:http://dx.doi.org/10.33370/jmk.v19i1.901

Anggraini, Y., & Widarjo, W. (2020). Political Connection, Institutional Ownership and Tax Aggressiveness in Indonesia. *European Journal of Business and Management …*, *Query date: 2023-01-22 19:43:00*. https://ejbmr.org/index.php/ejbmr/article/view/528

Arham, A., Firmansyah, A., Nor, A. M. E., & Vito, B. (2020). *A Bibliographic Study on Tax Avoidance Research in Indonesia*. *24*(07), 30.

Bilicka, K., Devereux, M., & Güçeri. (2022). Tax Avoidance Networks and the Push for a "Historic" Global Tax Reform. *NBER Chapters, in: Tax Policy and the Economy*, *37*, 57–108.

Chen, H., Tang, S., Wu, D., & Yang, D. (2021). The Political Dynamics of Corporate Tax Avoidance: The Chinese Experience. *The Accounting Review*, *96*(5). https://doi.org/10.2308/TAR-2017-0601

Dasman, S., Purnomo, G. G., & Wulandari, D. S. (2023). Macroeconomic Conditions, World Capital Market, and Commodity Price on The Jakarta Composite Index. *Proceeding International Pelita Bangsa*, *1*(1), 155–162.

Dharmawan, P. E., & Djaddang, S. (2017). *Determinan Penghindaran Pajak Dengan Corporate Social Responsibility Sebagai Variabel Moderasi*. *2*.

Dwianika, A., & Ahmad, R. (2021). Tax Avoidance Practices in Indonesia: The Impact of Transfer Pricing, Profitability, and Institutional Ownership in Mining Companies. *Prosiding International Conference on …*, *Query date: 2023-01-22 19:43:00*. https://prosiding.umy.ac.id/icosi/index.php/picosi/article/view/38

Fasita, E., Firmansyah, A., & Irawan, F. (2022). Transfer Pricing Aggressiveness, Thin Capitalization, Political Connection, Tax Avoidance: Does Corporate Governance Have A Role in Indonesia? *Riset Akuntansi Dan Keuangan Indonesia*, *7*(1), 63–93. https://doi.org/10.23917/reaksi.v7i1.17313

Fuadi, A., & Wulandari, D. S. (2024). Enhancing Tax Compliance: The Role of Awareness, Regulation Understanding, and Perceived System Effectiveness Among Self-Employed Individuals. *Jurnal Akuntansi Bisnis Pelita Bangsa*, *9*(1).

Herianti, E., & Chairina, S. (2019). Does Transfer Pricing Improve the Tax Avoidance through Financial Reporting Aggressiveness? *KnE Social Sciences*, *Query date: 2023-01-22 19:43:00*. https://knepublishing.com/index.php/KnE-Social/article/view/5387

Herjati, Z. (2022). *… dan Kepemilikan Institusional terhadap Penghindaran Pajak (Tax Avoidance) pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Tahun 2018-2020*. digilib.uns.ac.id. https://digilib.uns.ac.id/dokumen/detail/89828/Pengaruh-Kepemilikan-Asing-dan-Kepemilikan-Institusional-terhadap-Penghindaran-Pajak-Tax-Avoidance-pada-Perusahaan-Manufaktur-yang-Terdaftar-di-Bursa-Efek-Indonesia-Tahun-2018-2020

Hidayat, M., & Mulda, R. (2019). Pengaruh book tax gap dan kepemilikan asing terhadap penghindaran pajak dan analisis kebijakan pemerintah terkait penghindaran pajak. *Jurnal Dimensi*, *Query date: 2023-01-22 19:43:00*. https://www.journal.unrika.ac.id/index.php/jurnaldms/article/viewFile/2186/1498

Huda, M., Nugraheni, N., & Kamarudin, K. (2017). The problem of transfer pricing in Indonesia taxation system. *International Journal of …*, *Query date: 2023-01-22 19:43:00*. https://dergipark.org.tr/en/pub/ijefi/issue/32006/353525

Indriaswari, Y., & Nita, R. (2018). The influence of tax, tunneling incentive, and bonus mechanisms on transfer pricing decision in manufacturing companies. *The Indonesian Accounting …*, *Query date: 2023-01-22 19:43:00*. http://journal.perbanas.ac.id/index.php/tiar/article/view/957

Khan, M., Srinivasan, S., & Tan, L. (2017). Institutional Ownership and Corporate Tax Avoidance: New Evidence. *The Accounting Review*, *92*(2), 101–122. https://doi.org/10.2308/accr-51529

Muslim, A. B., Wulandari, D. S., & Firmansyah, E. (2023). Analisis Aspek yang Mempengaruhi Penghindaran Pajak dengan Parameter Ukuran Perusahaan, Leverage, Intensitas Modal, Komisaris Independen dan Komite Audit. *Journal of Trends Economics and Accounting Research*, *3*(4).

Putri, N., & Mulyani, S. (2020). Pengaruh Transfer Pricing dan Kepemilikan Asing Terhadap Praktik Penghindaran Pajak (Tax Avoidance) Dengan Pengungkapan Corporate Social Responsibility …. *Prosiding Seminar Nasional Pakar*, *Query date: 2023-01-22 19:43:00*. https://www.trijurnal.trisakti.ac.id/index.php/pakar/article/view/6826

Safira, M. (2020). Pengaruh Capital Intensity, Inventory Intensity, dan Kepemilikan Asing Terhadap Tax Avoidance. *KALBISIANA Jurnal Sains, Bisnis Dan Teknologi*, *Query date: 2023-01-22 19:43:00*. http://ojs.kalbis.ac.id/index.php/kalbisiana/article/view/1752

Widati, S., Asiah, N., Kamela, H., & Hidayat, T. A. (2024). Effective Tax Rates: Firm Size, Leverage and Return on Assets. *International Journal of Asian Business and Management*, *3*(2), 131–148. https://doi.org/10.55927/ijabm.v3i2.7664

Wulandari, D. S. (2022). Tindakan Agresivitas Pajak dipandang dari Teori Akuntansi Positif. *Owner: Riset Dan Jurnal Akuntansi*, *6*(1).

Wulandari, D. S., & Cahyonowati, N. (2024). A Bibliometric Examination of Studies on Corporate Tax Avoidance Utilizing Vosviewer Software. *Jurnal Proaksi*, *11*(2).

Yahya, A., Affandi, A., Herwani, A., Hermawan, A., & Suteja, J. (2024). Herding Behavior in the Sharia Capital Market on Investment Decisions. *Jrak*, *16*(1), 107–118. https://doi.org/10.23969/jrak.v16i1.12172

Yahya, A., Asiah, N., & Nurjanah, R. (2023). Tax Avoidance in Relationship on Capital Intensity, Growth Opportunities, Financial Distress and Accounting Conservatism. *Journal of Business Management and Economic Development*, *1*(02), 154–165. https://doi.org/10.21070/acopen.8.2023.3643