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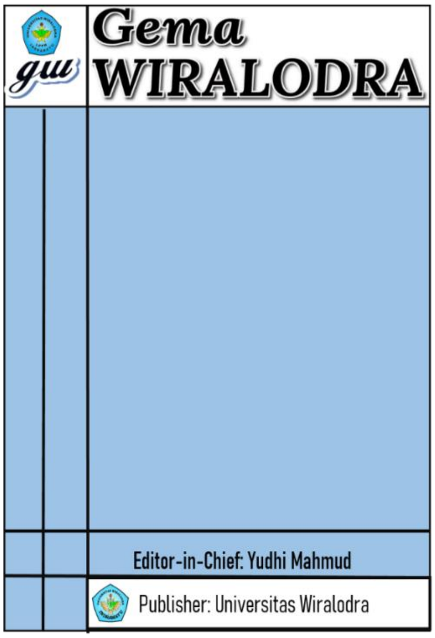

The impact of transfer pricing and thin capitalization on tax avoidance in the advertising, printing, media, wholesale trade, and production of goods listed on the Indonesia Stock Exchange during the 2020 – 2022 period

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Original Article

The impact of transfer pricing and thin capitalization on tax avoidance in the advertising, printing, media, wholesale trade, and production of goods listed on the Indonesia Stock Exchange during the 2020 – 2022 period

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Abstract
One of the revenues received by a country comes from tax payments. However, some people consider taxes a burden, which becomes a reason to engage in tax avoidance practices. This research aims to identify the impact of transfer pricing practices and minimal capital use on tax avoidance efforts in the advertising, printing, media, wholesale trade, and goods production subsectors during the 2020-2022 period. This quantitative research method collects secondary data from companies listed on the Indonesia Stock Exchange (BEI) annual reports. This data was obtained from official sources, including the company's official website and the IDX website, and succeeded in collecting a sample of 30 companies. Data was analyzed using multiple linear regression and IBM SPSS Statistics 25 software. The research results show that setting transfer prices and using minimal capital significantly influences tax avoidance efforts in the advertising, printing, media, wholesale trade, and goods production subsectors. Listed on the Indonesian Stock Exchange during the 2020-2022 period. These findings have important implications, emphasizing the importance for all parties concerned to comply with tax obligations without trying to avoid them.
Keywords: transfer pricing, thin capitalization, tax avoidance

1. Introduction

The growth of a country is greatly influenced by sources of tax revenue (Munandar, 2017; Gunawan & Suebah, 2022). Taxes are collected from the public and companies and then collected in the state treasury. These state funds are used for various purposes, such as purchasing infrastructure, supporting education, health services, and other facilities supporting life in the country (Sulastyawati, 2014; Agustina, 2020). This means that the role of taxation is vital in maintaining a balance between national expenditure and national income (Alfarizi et al., 2021).

Considering the significance of tax contributions in funding development and critical services in a country, it should be an obligation and responsibility for all citizens to comply with tax payment obligations (Putri & Difianti, 2023). Tax payments support the development of infrastructure, education, health services, and other facilities and play a significant role in achieving shared prosperity goals (Widiyantoro & Sitorus, 2019). Taxes are a source of state revenue, crucial in realizing the ideals of prosperity and shared prosperity for the Indonesian people. This is because around 75% to 85% of development funds are obtained from taxes (Pratiwi, 2023).

Revenue from the tax sector is also critical in running the government and providing essential services for the community (Hanifa & Fisabilillah, 2021). However, tax avoidance causes the State to lose approximately US$27 billion yearly (Suryani., 2020). In addition, it is estimated that multinational companies have diverted US$ 1.38 trillion to countries in tax havens. In contrast, other parties, namely individuals, are estimated to have invested more than US$ 10 trillion in assets, which is included in the practice of Transfer Pricing (Suryani., 2020).

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Although companies generally aim for maximum profits, tax payments are often considered an obstacle that can reduce net income (Sofiatin, 2020). For this reason, many companies set transfer prices, both with physical and non-physical goods, about products or services in relation to subsidiaries and other related companies. Transfer pricing, in this context, is a strategy to achieve maximum profits by reducing the tax burden that must be paid by multinational companies (Mispiyanti, 2015).

Several previous studies have produced mixed findings regarding the impact of transfer pricing on tax avoidance practices. For example, a study conducted by Dewi & Suardika (2021) shows that there is a positive and significant influence of transfer pricing on tax avoidance in the manufacturing sector, using a certain calculation method that focuses on receivables from related parties. On the other hand, research conducted by Panjalusman et al. (2018), using a similar measurement method, but did not find a significant effect on tax avoidance in manufacturing sector companies. Apart from that, thin capitalization, which involves the use of debt in excess of capital, also plays a role in tax avoidance practices (Dharmaan et al., 2017). This debt results in interest expenses, which have different tax treatment from dividends (Santoso, 2022). Interest expenses can be recognized as a deduction from income in taxation, creating opportunities for companies to avoid tax by utilizing interest expenses. Previous research, such as that conducted by Nadhifah & Arif (2020), shows that there is a positive impact of thin capitalization on tax avoidance practices in the manufacturing sector, with the higher the thin capitalization value meaning the greater control the company has over debt in its financing. However, other research using the same method (Salwah & Herianti, 2019) shows a negative impact on the goods and consumption sector.

Based on previous research, this research aims to further explore “the impact of transfer pricing and thin capitalization on Tax Avoidance in certain sectors during the 2020-2022 period”.

2. Methods

In this research, quantitative methods are applied using secondary data originating from annual reports of companies that have been selected from the Indonesia Stock Exchange (BEI). The data used is secondary data obtained from the company's official website and the Indonesian Stock Exchange website. The companies used as the subjects of this research are companies in the advertising, printing, media & wholesale trade and manufactured goods sub-sectors. From this population, samples are selected which will then be processed and analyzed according to predetermined methods. Furthermore, the criteria for companies taken as samples are: (a) companies that are proven to be affiliated with other companies located abroad; (b) companies that have complete financial reports and annual reports for the 2020-2022 period; (c) Companies that do not produce negative values in income before tax; (d) companies in the advertising, printing, media & wholesale trade and production goods subsectors listed on the IDX in the 2020 - 2022 period. Based on these criteria, a sample of 30 companies was obtained. The data that has been collected is then processed and analyzed using multiple linear regression analysis.

3. Results and Discussion

Descriptive Analysis

Descriptive analysis aims to provide an overview of the related variables used, such as minimum value, maximum value, average and standard deviation for each variable that has been tested.

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Table1
Descriptive Statistics

Model	N	Minimum	Maximum	Mean	Std. Deviation
Transfer Pricing	30	.00	314.00	39,8000	64.07829
Thin Capitalization	30	.00	218.00	47.3667	57.50831
Tax Avoidance	30	1.00	1222.00	88.4000	223.89092
Valid N (listwise)	30				

Source: Processed using SPSS 25

In Table 1, it can be seen that the average of the transfer pricing variable in the 2020 - 2022 period is 39.8 and is lower than the standard deviation value of 64.07, meaning that the data is heterogeneous. The thin capitalization variable has an average value of 47.36, which is lower than the standard deviation result of 57.50, which indicates a varied or heterogeneous nature. Furthermore, for the tax avoidance variable, the standard deviation of 223.89 is greater than the average of 88.4, which indicates that the results are heterogeneous or varied.

Classification Assumption Test Results

Multicollinearity Test

Table 2
Test Multicollinearity

Model	Collinearity Statistics	
	Tolerance	VIF
1 (Constant)		
Transfer Pricing	.435	2.297
Thin Capitalization	.435	2.297

Based on Table 2, it shows that the results of the transfer pricing analysis, thin capitalization tolerance value > 0.10 and VIF value < 10, it can be concluded that in this study there was no multicollinearity.

Heteroscedasticity Test

Table 3
Test Heteroscedasticity

Model	t	sig
1 (Constant)	-1.840	.077
Transfer Pricing	5.407	.000
Thin Capitalization	1.317	.199

a. Dependent Variable; Tax Avoidance

Based on Table 3, the significance result for the transfer pricing variable is 0.00, which means there are symptoms of heteroscedasticity. For the thin capitalization variable, the significant value is 0.199 > 0.05, which means that there are no symptoms of heteroscedacity.

Autocorrelation Test

Table 4
Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of The Estimate	Durbin-Watson
1	.883a	.780	.764	108.83373	1.849

a. Predictors: (Constant), Thin Capitalization, Transfer Pricing
b. Dependent Variable: Tax Avoidance

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The results from Table 4 show that the Durbin-Watson value is 1.849 and the Durbin-Watson table value for dU is 1.2837 and 4-dU is 2.7163. Because 1.2837 < 1.849 > 2.7163, it can be concluded that the Durbin-Watson value is in the middle. This means that there is no autocorrelation between the values.

Normality test

Table 5

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residuals
N		30
Normal Parameters ab	Mean	.0000000
	Std. Deviation	105.0138074
Most Extreme Differences	Absolute	.166
	Positive	-.138
	Negative	.166
Statistical Tests		.338
Asymp. Sig. (2-tailed)		.034c

a. Test distribution is Normal
b. Calculated from data
c. Lilliefors Significance Correction

The results in Table 5 show a significant value in the Kolmogorov normality test showing the number 0.034, which means 0.034 < 0.05 and it can be concluded that the data is not normally distributed.

Correlation Coefficient Analysis

Table 6

R Test Results (Correlation Coefficient)

Model	R	R Square	Adjusted R Square	Std. Error of The Estimate
1	.883	.780	.764	108.83373

a. Dependent Variable; Tax Avoidance
b. Predictors; (Constant), Thin Capitalization, Transfer Pricing

The results of the correlation coefficient analysis in Table 6 show an R number of 0.883, so it can be concluded that there is a strong linear relationship between the two variables which are included as independent variables.

Analysis of Coefficient of Determination Test Results

The results of the coefficient of determination test in Table 6 can be seen with an R Square figure of 0.780, meaning that 78% of the influence produced by transfer pricing and thin capitalization on the dependent variable is tax avoidance. Meanwhile, other factors that influence tax avoidance are 22% originating from other elements.

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Hypothesis test results

Table 7

T Coefficients[a] Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error	Beta		
1 (Constant)	-47.697	25.921		-1.840	.077
Transfer Pricing	2.585	.478	.740	5.407	.000
Thin Capitalization	.702	.533	.180	1.317	.199

a. Dependent Variable: Tax Avoidance

In the hypothesis test in Table 7, the transfer pricing variable shows a significant value of 0.000 (0.000 < 0.05), meaning that the transfer pricing variable (X_1) has an effect on tax avoidance (Y). Furthermore, based on the t_{count} and t_{table} values, it is obtained that $t_{count} > t_{table}$ (5.407 > 2.048) meaning that there is a significant difference between transfer pricing (X1) and tax avoidance (Y). Apart from that, the thin capitalization variable (X_2) shows a significant value of 0.199 (0.199 > 0.05), so it can be concluded that there is no influence of the thin capitalization variable (X_2) on tax avoidance (Y).

Results of Multiple Linear Regression Analysis

There is an equation as follows

$\hat{y} = a + \beta 1TP + \beta 2DER + \varepsilon$

$\hat{y}$= -47.697 + 2.585X_1 + 0.702X_2 +ε

Based on the data contained above, it shows:

a) The value of the constant is -47.697, which is negative, meaning that there is a unidirectional influence between transfer pricing and thin capitalization on tax avoidance. If the variables in transfer pricing and thin capitalization are constant, then the value of the tax avoidance variable will decrease by -47.697.
b) The regression coefficient value on the transfer pricing variable shows a figure of 2.585. It can be stated that there is a one-way influence between transfer pricing and thin capitalization on tax avoidance. So, if the transfer pricing value has an increase of 1% and the thin capitalization value remains constant, then the tax avoidance value will increase by 2.585.
c) The second regression coefficient value on thin capitalization shows 0.072. It can be stated that there is a one-way influence between transfer pricing and thin capitalization on tax avoidance. So, if the thin capitalization value increases by 1% and the value remains constant, then the tax avoidance value increases by 0.072.

ANOVA test results

Table 8

F Test Results ANOVA[a]

Model	Sum of Squares	Df	Mean Square	F	Sig
1 Regression	1133878.108	2	566939.054	47.864	.000[b]
Residual	319809.092	27	11844.781		
Total	1453687.200	29			

a. Dependent Variable; Tax Avoidance
b. Predictors; (Constant), Thin Capitalization, Transfer Pricing

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In the results of Table 8, the significant value is 0.000 (0.000 < 0.05), meaning that transfer pricing (X_1) and thin capitalization (X_2) together have an effect on tax avoidance (Y).

Discussion

The results of this research showed that *transfer pricing* (X_1) and thin capitalization (X_2) together influence tax avoidance (Y). Meanwhile, individually, it was found that transfer pricing (X_1) had a positive effect on tax avoidance (Y). The results of this research are in line with the research results of Nurrahmi & Rahayu (2020), which concluded that partially transfer pricing had a positive effect on tax avoidance in growth sector companies registered on the IDX from 2016-2018. Apart from that, Ghasani et al. (2021) concluded that transfer pricing has a positive effect on tax avoidance in mining sector companies listed on the Indonesia Stock Exchange (BEI) for the 2014-2019 period. Apart from that, the results of this research show that thin capitalization (X_2) does not have a positive effect on tax avoidance. The results of this study are not in line with the results of his research Jumailah (2020), which concludes *thin capitalization* (X_2) has a positive effect on tax avoidance in consumer goods companies listed on the Indonesia Stock Exchange in 2014-2018. Apart from that, Aprilina (2021) concluded that thin capitalization positively affects tax avoidance.

4. Conclusion

Based on the research results, it can be concluded that simultaneously transfer pricing and thin capitalization have a significant effect on tax avoidance. It was also partially found that transfer pricing significantly affected tax avoidance. Meanwhile, thin capitalization has no significant effect on tax avoidance. The results of this research provide suggestions for further research, namely (a) this research only used two independent variables. If further research is to be carried out, there is great hope that several other types of independent variables will be added, which will influence the dependent variable in question. (b) This research only applies to the advertising, printing, media and wholesale trade, and manufactured goods subsectors listed on the IDX in the period 2020 – 2022, so future researchers can add other subsectors that can also be used or can also add the latest period.

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