



## EFFECT OF TRANSFER PRICING, PROFITABILITY, AND LEVERAGE ON TAX AVOIDANCE

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### **Abstract**

*The purpose of this study is to improve the learning outcomes of students in mathematics subjects on the material of building curved side space through the Jigsaw cooperative learning model in grade IX SMP Negeri 3 Kesugihan Cilacap Regency. One of the efforts to improve learning outcomes is through the learning process using the Jigsaw cooperative learning model. The method used is the Kemmis and Mc Taggart model Classroom Action Research methods which consist of two cycles. This research was conducted from September 2020 to October 2020 in class IX-A SMP Negeri 3 Kesugihn Kab. Cilacap. The indicators of learning outcomes achieved in sculus I are the completeness of student learning reaching 71.8% with an average value of 71.8 and in cycle II the completeness of student learning reaches 100% with an average value of 96.61. This is supported by the average value of student activity which always increases in each cycle, namely in cycle I it reaches 71.8% and cycle II reaches 100%. Thus, it can be concluded that Jigsaw's cooperative learning model can improve student learning outcomes on the material to build curved side spaces.*

**Keywords:** Learning Outcomes, Cooperative Jigsaw, Build Curved Side Space

### **Introduction**

Tax avoidance involves intentionally minimizing taxes through a range of strategic tax planning measures, stemming from differing perspectives on taxation held by governments and taxpayers. It is not necessarily illegal but represents an ethical transgression, violating moral principles that could potentially diminish a nation's revenue. Multinational corporations employ various tactics for tax avoidance, and transfer pricing stands out as a notable strategy. Previous research by Taylor and Richardson (2012) discovered a significant correlation between transfer pricing and tax avoidance. This finding is supported by studies conducted by Amidu (2017), Mpofu (2021), Sikka Willmott (2010), Rossing (2013), and Chan (2015), all indicating that transfer pricing plays a positive role in influencing tax avoidance.

In Southeast Asia, Indonesia distinguishes itself with higher income tax rates in comparison to its regional counterparts. Indonesia imposes a corporate income tax rate of 25%, surpassing Malaysia's 24%, Thailand's 20%, and Singapore's 17% (ddtc.co.id). This suggests that multinational corporations operating in Indonesia may adopt assertive transfer pricing strategies to redirect profits to countries with lower tax rates, effectively sidestepping the elevated tax rates in Indonesia.

The presence of inter-country organizations and agreements such as AFTA (Asean Free Trade Area), WTO (World Trade Organization), and AEC (ASEAN Economic Community) is seen as a means to facilitate and streamline international transactions. Consequently, many multinational corporations engage in cross-border business activities through their affiliated companies in different countries to optimize profits by nurturing specialized relationships.

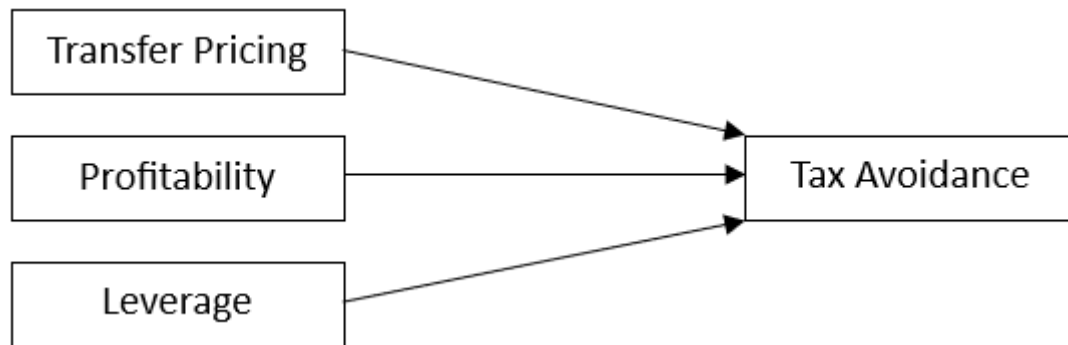
As outlined by Desai and Dharmapala (2009), tax avoidance is a method employed to legally evade taxes without violating tax or legal regulations. This avenue provides management with opportunities to carry out activities aimed at delivering unfavorable news and misleading investors. Company management strategically regulates this approach with the objective of minimizing the company's income tax obligations. In addition, management can manipulate revenue and withhold adverse information through the implementation of tax strategies.

Kasim (2019) emphasized the noteworthy influence of profitability and leverage on tax avoidance. Profitability, representing a company's ability to generate earnings within a specific timeframe, can be gauged using Return on Assets (ROA). A higher ROA serves as an indicator of improved financial performance. Leverage, on the other hand, showcases a company's capacity to repay debts utilized for asset financing in operational activities. Investors use leverage as an assessment tool, with higher debt risk indicating increased investor risk. Ozkan (2001) demonstrated that companies burdened with substantial tax liabilities tend to resort to borrowing as a strategy to alleviate the tax burden, thereby engaging in tax avoidance.

Numerous earlier studies have consistently identified the significant impact of profitability and leverage on tax avoidance. Investigations into profitability by Novianto (2021), Lestari (2019), and Widyastuti (2021) using ROA as a measure revealed a significant positive correlation with tax avoidance. However, Sari's (2021) research indicated that ROA-based profitability does not exert a significant effect on tax avoidance.

In the case of leverage studies, conflicting outcomes emerged from various research, such as those conducted by Sari (2021), Suciarti (2020), and Widiastuti (2021), suggesting that leverage has no bearing on tax avoidance. Conversely, research by Richardson Lanis (2007) affirmed that leverage does indeed influence tax avoidance. Expanding on the identified research deficiencies, this study will delve deeper into the realms of profitability and leverage, integrating transfer pricing as an additional independent variable. The primary objective of this research is to scrutinize the interplay among transfer pricing, profitability, and leverage and their collective influence on tax avoidance within the context of Indonesia. The investigation will be carried out on companies officially listed on the Indonesia Stock Exchange (IDX).

### Theoretical Framework



### Hypothesis

H1= Transfer Pricing Positively Affects Tax Avoidance

H2= Profitability Positively Affects Tax Avoidance

H3= Leverage Positively Affects Tax Avoidance

### Research Methods

This study endeavors to evaluate the impact of independent variables on a dependent variable. The independent variables under scrutiny include transfer pricing, profitability, and leverage, while the dependent variable is represented by tax avoidance. The data utilized for this analysis is derived from secondary sources, specifically from the Indonesia Stock Exchange (IDX) website ([www.idx.co.id](http://www.idx.co.id)). Pertinent information related to transfer pricing, profitability, leverage, and tax avoidance is extracted from the annual financial reports of companies publicly disclosed by the Indonesia Stock Exchange (IDX) over the period from 2020 to 2022.

The target population for this investigation comprises companies listed within the LQ45 of the Indonesia Stock Exchange. A purposive sampling technique is employed to select the study's sample. The measurement of variables is executed using specific formulas designed for each variable in consideration.

#### Transfer Pricing

$$\text{Transfer Pricing} : \frac{\text{Total Receivable Related Parties}}{\text{Total Receivable}}$$

#### Profitability

$$\text{Return on Asset} : \frac{\text{Net Income}}{\text{Total Asset}} \times 100\%$$

#### Leverage

$$\text{Debt To Equity Ratio} : \frac{\text{Total Debt}}{\text{Equity}}$$

#### Tax Avoidance

$$\text{Effective Tax Rate} : \frac{\text{Total Income Tax Expense}}{\text{Profit Before Tax}}$$

Quantitative data analysis is the chosen methodology for this study, with the SPSS application serving as the software for conducting the analysis. The research incorporates hypothesis testing, employing statistical tests such as multiple linear regression, and involves the formulation of hypotheses. Before initiating the multiple linear regression, the study includes essential classic assumption tests.

These tests encompass normality tests, multicollinearity tests, heteroskedasticity tests, and autocorrelation tests. The primary objective is to assess the presence of a relationship between the independent and dependent variables. The model equation or formula for the panel data regression analysis in this study is articulated as follows:

$$ETR = \alpha + \beta_1 TP_{it} + \beta_2 ROA_{it} + \beta_3 DER_{it} + \epsilon_{it}$$

## Results and Discussion

Employing SPSS v25, a meticulous multiple regression analysis was conducted to elucidate the intricate relationships between the independent and dependent variables. The independent variables in focus consist of transfer pricing, profitability measured by Return on Assets, and leverage represented by the debt-to-equity ratio. Meanwhile, the dependent variable, tax avoidance, is proxied through the effective tax rate.

**Table 1**  
Coefficients<sup>a</sup>

Type	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	,217	,026		8,484	,000
TRANSFER PRICING	,016	,041	,055	,378	,007
RETURN ON ASSETS	,003	,002	,266	1,676	,001
DEBT TO EQUITY RATIO	-,023	,018	-,198	-1,279	,207

a. Dependent Variable: EFFECTIVE TAX RATE

The partial relationship between independent variables and the dependent variable is analyzed using the t-test. If the significance value is below 0.05, H<sub>0</sub> is rejected, and H<sub>1</sub> is accepted, indicating a partial influence of the independent variable on the dependent variable. Conversely, if the significance value exceeds 0.05, H<sub>0</sub> is accepted, and H<sub>1</sub> is rejected, suggesting no partial influence of the independent variable on the dependent variable.

Examining Table 1, the analysis of the impact of transfer pricing on tax avoidance revealed a significance value of 0.007, which is less than 0.05. This indicates that transfer pricing significantly and positively influences tax avoidance. Similarly, in assessing the impact of profitability on the effective tax rate, a significance value of 0.001 was obtained, further supporting a significant positive effect of profitability, proxied by return on assets, on tax avoidance. In contrast, the examination of the impact of leverage on tax avoidance produced a significance value of 0.207, exceeding 0.05, suggesting that leverage, proxied by the debt-to-equity ratio, does not significantly influence tax avoidance.

**Table 2**  
**ANOVA<sup>a</sup>**

Type		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	,022	3	,007	1,087	.004b
	Residuals	,320	47	,007		
	Total	,342	50			

a. Dependent Variable: EFFECTIVE TAX RATE

b. Predictors: (Constant), DEBT TO EQUITY RATIO, TRANSFER PRICING, RETURN ON ASSET

The F-test, also known as the simultaneous test, is utilized to assess whether the independent variables jointly influence the dependent variable. If the significance value is below 0.05, it indicates that the independent variables collectively impact the dependent variable. Conversely, if the significance value exceeds 0.05, it suggests that the independent variables do not collectively affect the dependent variable. From the data analysis conducted using SPSS v25, as presented in Table 2, the obtained significance value is 0.004, which is less than 0.05. This finding indicates that the independent variables, namely transfer pricing, profitability, and leverage, collectively have a significant positive impact on tax avoidance.

**Table 3**  
**Model Summary**

Type	R	R Square	Adjusted Square	R Std. Error of the Estimate
1	.255a	.545	.005	.08247

a. Predictors: (Constant), DEBT TO EQUITY RATIO, TRANSFER PRICING, RETURN ON ASSET

The coefficient of determination (R<sup>2</sup>) is employed to gauge the extent of the contribution made by independent variables to the dependent variable. The Adjusted R Square (R<sup>2</sup>) total within the regression coefficients reflects the magnitude of the coefficient of determination. Correlation coefficient testing is employed to establish a linear relationship and the direction between two variables. A positive coefficient indicates a direct relationship, while a negative coefficient indicates an inverse relationship.

Based on the coefficient of determination table, the R Square value is 0.545 or 54.5%, indicating that 54.5% of the variation in the dependent variable, tax avoidance, is influenced by transfer pricing, profitability, and leverage. However, 45.5% is influenced by other variables and factors beyond the scope of this study. The results of hypothesis testing reveal a significant positive influence of transfer pricing on tax avoidance. This implies that higher transaction levels with affiliates correspond to a more substantial impact on Tax Avoidance.

Companies involved in transfer pricing, particularly those cognizant of opportunities or advantages in transactions with affiliated entities such as subsidiaries, branches, or interconnected business partners, tend to employ tax avoidance strategies. It

is crucial to note that transfer pricing is associated with tax avoidance when a company transparently reports its transactions. Transfer pricing becomes part of tax avoidance when there are indications that taxpayers are structuring their affairs to pay less tax than they should, meeting specific criteria, and is an allowable activity within a company. This aligns with research by Taylor and Richardson (2012), Amidu (2017), Mpofu (2021), Sikka Willmott (2010), Rossing (2013), and Chan (2015), which collectively indicates that transfer pricing positively influences tax avoidance.

Consistent findings emerged when testing the hypothesis that profitability, proxied by return on assets, significantly and positively impacts tax avoidance. This suggests that as a company's profitability increases, there is a corresponding rise in its inclination towards tax avoidance. Companies with elevated profits often grapple with high tax burdens, prompting them to pursue tax efficiency through strategies that mitigate income tax obligations. This aligns seamlessly with research conducted by Novianto (2021), Lestari (2019), and Widyastuti (2021).

On the other hand, the hypothesis testing results for leverage indicate no substantial influence on tax avoidance. This stems from the fact that the sampled companies are perceived as capable of meeting all obligations, both short-term and long-term, through collateral against company assets, and they can fund their operations using owned assets rather than debts. Consequently, an escalation in the debt policy ratio is associated with a reduction in tax avoidance practices by companies.

The Income Tax Law Number 36 of 2008 specifies that loan interest is a deductible expense from taxable income. As a result, companies leverage this rule by opting for debt financing to support their operations, thereby incurring interest expenses. Consequently, companies adopting a debt policy may not find it necessary to engage in tax avoidance strategies to minimize tax burdens. This observation aligns with the findings from research conducted by Sari (2021), Suciarti (2020), and Widyastuti (2021).

## **Conclusion**

The purpose of this research is to look into the impact of transfer pricing, profitability, and leverage on tax avoidance. Purposive sampling was used to sample the research population, which consisted of LQ45-listed businesses on the Indonesia Stock Exchange. Multiple linear regression is used to determine the associations between variables in order to attain the desired results.

The data show that transfer pricing and profitability have a large positive impact on tax avoidance, however leverage has no significant impact on tax avoidance. Simultaneously, transfer pricing, profitability, and leverage all have a favourable and considerable impact on tax avoidance. Subsequent study should be conducted to investigate the effects of other factors on tax evasion and to increase the sample size for a more comprehensive analysis.

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