

THE ROLE OF TAX AUDITS AS A MODERATOR OF TAX AVOIDANCE IN INDONESIA

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Abstrak

Tujuan dari penelitian ini adalah untuk menguji peran pemeriksaan pajak dalam memoderasi pengaruh *transfer pricing*, *tax haven*, dan kepemilikan institusional terhadap penghindaran pajak. Populasi penelitian mencakup perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia (BEI) selama periode 2019–2023 dengan total 325 observasi. Hasil penelitian menunjukkan bahwa *transfer pricing* berpengaruh positif terhadap penghindaran pajak, sementara *tax haven* tidak berpengaruh signifikan. Sebaliknya, kepemilikan institusional memiliki pengaruh negatif terhadap penghindaran pajak. Selanjutnya, pemeriksaan pajak terbukti mampu memperlemah pengaruh positif *transfer pricing* terhadap penghindaran pajak, namun tidak mampu memoderasi pengaruh *tax haven* maupun kepemilikan institusional. Temuan ini diharapkan dapat menjadi masukan bagi otoritas pajak dalam menentukan prioritas pemeriksaan dan pengawasan berdasarkan dokumen *transfer pricing* di masing-masing sektor. Selain itu, hasil penelitian ini juga mendorong optimalisasi pemanfaatan *Automatic Exchange of Information* (AEOI) oleh pemeriksa pajak untuk meningkatkan pengawasan atas transaksi antarperusahaan afiliasi lintas negara.

Keywords:

Transfer pricing, tax haven, institutional ownership, tax audit, tax avoidance

Abstract

This study investigates the role of tax audits in moderating the effects of transfer pricing, tax havens, and institutional ownership on tax avoidance. The study focuses on manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023, with a total of 325 observations. The results show that transfer pricing positively impacts tax avoidance, while tax havens do not have a significant effect. In contrast, institutional ownership is found to hurt tax avoidance. Additionally, tax audits are shown to weaken the positive impact of transfer pricing on tax avoidance. Still, they are not effective in moderating the effects of tax haven usage or institutional ownership. These findings offer valuable insights for tax authorities, helping them prioritize audits and monitoring efforts based on transfer pricing documentation in various sectors. Furthermore, the study highlights the importance of tax auditors fully utilizing the Automatic Exchange of Information (AEOI) to strengthen oversight of cross-border transactions involving affiliated companies.

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INTRODUCTION

Corporations' tax avoidance has become a significant international tax policy issue. Many large multinational corporations across countries are often found to be paying very low effective tax rates (Beer et al., 2020). Taxes play a crucial role in ensuring a country's economic stability, as tax revenues are the primary source of funding for essential public services (Hanson & McNair, 2014). As a result, tax avoidance has gained widespread political attention globally (Hanson & McNair, 2014). The presence of multinational corporations has created opportunities to minimize tax



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liabilities by exploiting loopholes and mismatches in tax regulations. Tax avoidance refers to legal strategies to reduce tax obligations by exploiting gaps or ambiguities in tax rules (Christmawan et al., 2024). Although such practices are not illegal, they often go against the spirit of the law. In response to the growing global concern, the OECD launched the Global Forum on Transparency and Exchange of Information for Tax Purposes, encouraging international cooperation through financial information exchange. This exchange is carried out either automatically (AEOI) or upon request (EoIR), supported by the Common Reporting Standard (CRS) as a unified framework.

One of the main strategies used in tax avoidance is transfer pricing—an internal pricing policy for transactions between affiliated parties, whether domestically or internationally (Setiawan, 2014). This practice enables profit shifting to jurisdictions with lower tax rates and poses a serious threat to national tax revenues. Studies by Taylor & Richardson (2012), Dharmawan et al. (2017), and Amidu et al. (2019) have demonstrated a significant link between transfer pricing and tax avoidance. However, Falbo and Firmansyah (2018) reported no significant relationship, revealing inconsistencies in the literature that warrant further investigation. Another standard method of tax avoidance involves the use of tax havens. Multinational firms often shift profits to countries offering low or zero tax rates (Lee, 2017), and these strategies are frequently combined with transfer pricing to maximize tax avoidance opportunities (Taylor & Richardson, 2013). Nonetheless, several studies, such as those by Dharmawan et al. (2017) and Damayanti & Prastiwi (2017), found no significant effect of tax havens on tax avoidance, suggesting the need for deeper and more nuanced analysis.

A critical issue that has not been sufficiently explored in Indonesia is the role of tax audits in moderating the relationship between transfer pricing and tax avoidance. According to Hoopes et al. (2012), companies are less likely to engage in aggressive tax avoidance when tax enforcement is more stringent. Tax audits are, therefore, expected to limit tax avoidance behavior, particularly in the case of transfer pricing among related entities. However, there is currently no research in the Indonesian context that specifically examines the moderating role of tax audits in this relationship, which represents a key research gap. In addition, institutional ownership is thought to influence tax avoidance practices. Greater institutional ownership may lead to increased oversight of management behavior, potentially discouraging aggressive tax strategies (Khurana & Moser, 2012; Murni et al., 2016). However, Jamei (2017) found no significant effect of institutional ownership, indicating that this area also lacks clear consensus in the literature.

Based on these issues, this study aims to examine further how transfer pricing influences tax avoidance and whether tax audits can weaken or moderate that relationship. Given the critical role of tax revenues in national development and the recurring shortfalls in tax collection, understanding both the drivers and deterrents of tax avoidance is highly relevant and urgently needed.

Tax Avoidance

Stiglitz (1986) outlined three key principles of tax avoidance: (1) tax deferral, where the present value of deferred taxes is much lower than the taxes paid immediately; (2) tax arbitrage by individuals who face different tax rates; and (3) tax arbitrage between different types of income that are subject to different tax treatments. When taxpayers reduce their tax liabilities through specific transactions, these actions can simultaneously increase the tax burden on others, resulting in a shift in tax liabilities (Budiman et al., 2024). If both parties are in the same tax bracket, however, no significant tax avoidance may occur. Stiglitz (1986) argued that most tax avoidance arises due to differences in tax rates between individuals or income groups. Therefore, reforms aimed at reducing marginal tax rate differences could effectively reduce tax avoidance.

Transfer Pricing

Transfer pricing refers to the prices set for transactions between affiliated companies, such as buying and selling activities (Eden, 2009). According to the OECD (2009), transfer pricing is the price applied when a company transfers goods, services, or intangible assets to related parties. It can also be seen as the price set by the sales division for the purchasing division (Hansen & Mowen, 2005). Taylor & Richardson (2013) describe transfer pricing as involving unfair transactions between related parties, which results in reduced tax obligations for companies.

Companies can adopt pricing strategies where they sell goods to affiliated companies at prices lower than those charged to independent parties. These transactions violate the principle of fairness or standard business practices, with the goal of reducing the company's taxable revenue, thereby lowering its tax liability. As a result, the affiliated companies benefit from lower tax rates, reducing the overall tax burden. Therefore, transfer pricing has a positive influence on tax avoidance.

H1: Transfer pricing positively affects tax avoidance.

Tax Havens

A tax haven is a jurisdiction with low or no tax rates and favorable tax laws designed to attract investors (Dharmapala, 2008). According to Kurniawan (2015), a tax haven is a country that intentionally sets low tax rates or even exempts taxes entirely. Tax havens typically offer low or no taxes, lack transparency in their tax and financial regulations, and have legal frameworks that hinder effective information exchange (Taylor & Richardson, 2013). These advantages make tax havens appealing to companies, as firms in these regions often manage key business functions such as insurance, treasury, and services within the corporate group (Taylor & Richardson, 2013). Tax havens provide an opportunity for taxpayers to engage in tax avoidance by taking advantage of lower tax rates. The OECD (2009) identified four criteria for a tax haven: (1) low or no tax rates, (2) lack of transparency, (3) ineffective information exchange, and (4) businesses not conducting substantial economic activities. The low tax rates in tax havens attract investors, and companies with affiliates in these jurisdictions often shift profits to take advantage of these favorable conditions. This reduces their overall tax burden, ultimately decreasing tax revenues for the country where the company is based. Therefore, tax havens have a positive impact on tax avoidance.

H2: Tax havens positively affect tax avoidance.

Institutional Ownership

Institutional ownership refers to the ownership of company shares by financial institutions such as insurance companies, banks, pension funds, and investment firms (Roth & Saporoschenko, 2001). According to Soraya and Rachmawati (2021), institutional ownership involves entities with a significant stake, typically more than 5%. With this substantial ownership, institutional investors have greater influence over the monitoring of company managers. Institutional ownership plays a vital role in overseeing, disciplining, and influencing managerial decisions (Shleifer & Vishny, 1986). Due to their considerable voting power, institutional investors can compel managers to prioritize the company's economic performance and avoid self-interested behaviors. The greater the concentration of long-term institutional ownership, the less likely the company is to engage in aggressive policies (Khurana & Moser, 2009). Institutional investors have a vested interest in ensuring that managers act in the best interests of shareholders, in line with their fiduciary duties (Shleifer & Vishny, 1986). As institutional ownership increases, the level of oversight intensifies, helping to prevent managers from engaging in tax avoidance. Therefore, institutional ownership has an adverse effect on tax avoidance.

H3: Institutional ownership negatively affects tax avoidance.

Tax Audits

A tax audit refers to a systematic process of collecting and analyzing data, information, and evidence in an objective and professional manner. This audit is conducted according to established standards to evaluate tax compliance and/or for other purposes defined by tax laws. The outcome of a tax audit may be a Tax Overpayment Notice if the taxes paid exceed the taxes owed, a Nil Tax Assessment Notice if the taxes paid are equal to the taxes owed, or a Tax Underpayment Notice if the taxes paid are less than the taxes due. Taxpayers are more likely to engage in tax avoidance when the benefits outweigh the associated costs, including the risk of detection (Doran, 2009). Tax audits increase the likelihood of detecting tax avoidance, prompting managers to exercise more caution in their actions. Through tax audits, authorities can identify transactions not conducted at fair market value. As a result, the positive relationship between transfer pricing and tax avoidance may be mitigated by tax audits.

H4: Tax audits weaken the positive effect of transfer pricing on tax avoidance.

Tax audits can lead to additional costs if tax avoidance is uncovered, including penalties for underpaid taxes, fines, or interest. These potential consequences reduce managers' incentives to engage in tax avoidance. Tax authorities can also identify and correct instances where profits are shifted to tax haven jurisdictions. Consequently, the positive effect of tax havens on tax avoidance can be reduced by tax audits.

H5: Tax audits weaken the positive effect of tax havens on tax avoidance.

According to agency theory, managers are often driven by personal profit motives, which can conflict with the interests of shareholders, whose goal is to maximize the company's long-term value. Managers may engage in tax avoidance to boost profits, thereby increasing their bonuses or incentives. However, shareholders (the principals) typically prefer to avoid tax avoidance, as it could harm the company's reputation. Tax authorities can impose penalties if a company is found to be engaging in tax avoidance. Thus, the negative relationship between institutional ownership and tax avoidance can be reinforced by tax audits.

H6: Tax audits strengthen the adverse effect of institutional ownership on tax avoidance.

METHOD

The population in this study comprises manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2019–2023. Manufacturing companies are chosen because they are more likely to be involved in intercompany transactions involving goods, services, or intangible assets, thereby increasing the likelihood of engaging in transfer pricing practices. Additionally, this sector often operates with complex organizational structures and cross-border supply chains, making it a particularly relevant context for investigating transfer pricing behavior. The sample is selected using purposive sampling with specific criteria: (1) the company must be listed on the IDX, (2) it must not have reported negative pre-tax profits in any of its financial statements during the 2019–2023 period to avoid bias from financially distressed firms, and (3) it must have complete financial and disclosure data related to the variables examined in the study. These criteria are intended to ensure that the selected companies are not only financially sound and consistently active but also have the potential to engage in transfer pricing through related-party transactions, which are typically disclosed in financial statements. Focusing on this group allows the study to provide more accurate and relevant insights into the determinants of transfer pricing behavior. The dependent variable is the key variable of interest to the researcher (Bougie & Sekaran, 2020). In this study, the dependent variable is tax avoidance (DTAX), which is measured using the model developed by Frank et al. (2009) as follows:

$$\text{PERMDIFF}_{it} = \alpha_0 + \alpha_1 \text{INTANG}_{it} + \alpha_2 \Delta \text{NOL}_{it} + \alpha_3 \text{LAGPERM}_{it} + \varepsilon_{it} \quad (1)$$

Explanation:

PERMDIFF_{it} = Total book-tax difference [(book profit before tax – tax expense) / tax rate] – temporary book-tax difference [deferred tax expense/tax rate], divided by total assets of the previous year.

INTANG_{it} = The amount of goodwill and other intangible assets divided by total assets of the previous year.

ΔNOL_{it} = Change in net operating loss carryforwards, divided by total assets of the previous year.

LAGPERM_{it} = PERMDIFF from the previous year.

ε_{it} = Discretionary permanent difference.

The proxy for tax avoidance is derived from the residual values of the regression equation, which has been adjusted to reflect differences in tax regulations between Indonesia and the United States. According to Frank et al. (2009), this tax avoidance proxy is considered superior to previous models. Independent variables are those predicted to influence the dependent variable (Chandrarin, 2017). The measurement of the transfer pricing (TP) variable follows the method used by Taylor and Richardson (2012). This variable is assessed using the sum score approach, which is calculated by adding up seven indicators derived from the annual reports of the sample companies.

These seven indicators are:

1. Intercompany debt/receivables that are not subject to interest.

2. Intercompany debt/receivables that have been written off.
3. Provisions for bad debts/impairment of intercompany receivables/payables.
4. Non-monetary liabilities between related parties.
5. Absence of formal documentation between related parties.
6. Purchases or sales of fixed assets between related parties without commercial justification.
7. Lack of justification for the fairness of transactions between related parties.

Each item is scored as one if present and zero if not, and then the total score is summed and divided by 7. A higher score indicates a higher level of transfer pricing.

The tax haven (THAVE) variable is based on the list of tax havens as defined by the OECD. Measurement is done using a dummy variable: a score of 1 is assigned if the company has at least one subsidiary in a tax haven jurisdiction, according to the OECD, and a score of 0 if not. The use of a dummy variable to measure tax haven usage follows the approach of Taylor and Richardson (2012). Institutional ownership (IO) is measured by dividing the number of shares owned by institutions/entities by the total number of shares (Soraya & Rachmawati, 2021). The higher the institutional ownership, the greater the monitoring influence on company management. The moderating variable, tax audit (TAUD), can either strengthen or weaken the effect of the independent variable on the dependent variable (Sugiyono, 2016). In this study, the tax audit variable is based on the issuance of Tax Assessment Notices (TAN).

Data on TAN issuance is obtained from the company's notes and financial statements. The tax audit variable is treated as a dummy variable: 1 if the company received a TAN in the previous year, and zero if not. Sugiyono (2016) defines control variables as those that are kept constant to ensure that the effect of the independent variables on the dependent variable is not influenced by other factors not being studied. The control variables in this study are company size, profitability, and leverage. The company size (SIZE) is measured by the natural logarithm of total assets (Taylor & Richardson, 2012). The profitability (ROA) variable is measured by dividing pre-tax profit by total assets from the previous year (Taylor & Richardson, 2012). The leverage (LEV) variable is measured using the ratio of long-term debt to total assets (Taylor & Richardson, 2012). The first model tests the relationship between transfer pricing, tax haven, and institutional ownership on tax avoidance.

$$DTAX_{it} = \alpha_{it} + \beta_1 TP_{it} + \beta_2 THAVE_{it} + \beta_3 IO_{it} + \beta_4 SIZE_{it} + \beta_5 ROA_{it} + \beta_6 LEV_{it} + \epsilon_{it} \quad (2)$$

The second model examines the moderating effect of tax audits on the relationship between transfer pricing, tax haven, institutional ownership, and tax avoidance. In this context, the tax audit serves as a moderating variable that may either strengthen or weaken the influence of the independent variables on tax avoidance behavior. The goal is to assess whether the presence of a tax audit can mitigate or amplify the impact of transfer pricing practices, tax havens, and institutional ownership on a company's propensity to engage in tax avoidance.

$$DTAX_{it} = \alpha_{it} + \beta_1 TP_{it} + \beta_2 THAVE_{it} + \beta_3 IO_{it} + \beta_4 TP_{it} * TAUD_{it} + \beta_5 THAVE_{it} * TAUD_{it} + \beta_6 IO_{it} * TAUD_{it} + \beta_7 SIZE_{it} + \beta_8 ROA_{it} + \beta_9 LEV_{it} + \epsilon_{it} \quad (3)$$

RESULT AND DISCUSSION

Result

The sample for this study was selected using the purposive sampling method. This approach involves selecting samples based on specific criteria established by the researcher to ensure that the data collected aligns with the research objectives and is relevant to the study. The results of the sample selection process are presented in Table 1.

Table 1. Research Sample Selection

Criteria	Number
Manufacturing companies listed on the Indonesia Stock Exchange	181
Companies that conducted an IPO after January 1, 2019, and/or were delisted before December 31, 2023	(44)
Companies with negative pre-tax income	(59)

Criteria	Number
Companies with incomplete data	(13)
Total sample	65
Total observations	325

Source: Processed from www.idx.co.id (2024)

Descriptive Statistical Analysis

Descriptive statistical analysis is a method used to summarize and describe the data that has been collected without the aim of making general conclusions (Sugiyono, 2016).

Table 2. Results of Descriptive Statistical Analysis

	Mean	Maximum	Minimum	Std. Dev.
DTAX	0.0042840	0.8543923	-0.1318739	0.0593047
TP	0.3214709	0.7932864	0.1867863	0.1432532
THAVE	0.1382293	1	0	0.4347938
IO	0.5284732	0.9902374	0.3333333	0.2224327
TAUD	0.3493091	1	0	0.3248732
SIZE	24.3498039	42.947322	22.809848	1.4324983
ROA	0.1329730	0.2613875	0.0018327	0.1274371
LEV	0.2132982	2.9791328	0.0004848	0.1843240

Source: Output STATA (2024)

Panel Data Regression Model

The selection of the best model is determined through the Chow test, Hausman test, and Breusch-Pagan Lagrange Multiplier test. Based on the outcomes of these tests, the most appropriate regression model is recommended. The Chow test is used to compare the standard effect model and the fixed effect model. Model selection is based on the F Value (Prob > F) result. In this study, a significance level of 0.05 is applied. If the Prob > F value is below the significance level, the fixed effect model is chosen. Conversely, if the Prob > F value exceeds the significance level, the standard effect model is selected.

Table 3. Results of Chow Test

Fixed-effects (within) regression	
Group variable: PER	
Model 1	Model 2
F test that all $u_i=0$: F	= 0.84
(64,255)	= 0.7877
Prob > F	

Source: Output STATA (2024)

Based on the results presented in Table 3, the Prob > F values for both models 1 and 2 exceed the 0.05 significance level, indicating that the standard effect model is the appropriate model for both. Model selection using the Hausman test is based on the probability value, with a significance level of 0.05. If the Prob > chi2 value is smaller than the significance level, the fixed effect model is chosen. Conversely, if the value is larger, the random effect model is selected. For model 1, the Hausman test yields a Prob > chi2 value of 0.0073, which is below 0.05, thus confirming the selection of the fixed effect model. Similarly, for model 2, the Hausman test gives a Prob > chi2 value of 0.0170, which is also smaller than the significance level of 0.05, meaning the fixed effect model is chosen for model 2 as well.

Table 4. Results of the Hausman Test

Test: Ho: difference in coefficients not systematic	
Model 1	Model 2
$\chi^2(5) = (b-B)'[(V_b - V_B)^{-1}]$	$\chi^2(8) = (b-B)'[(V_b - V_B)^{-1}]$
(b-B)	(b-B)
Prob > = 15.85	Prob > = 18.62

$$\chi^2 = 0.0073$$
$$\chi^2 = 0.0170$$

Source: Output STATA (2024)

The Breusch-Pagan Lagrange Multiplier (LM) test is performed when the standard effect model is selected in the Chow test. Model selection is determined based on the probability value and a significance level of 0.05. If the Prob > chi2 value is smaller than the significance level, the random effect model is chosen. Conversely, if the Prob > chi2 value exceeds the significance level, the standard effect model is selected.

As shown in Table 5, the LM test results for both model 1 and model 2 yield a Prob > chi2 value of 1.0000. This value is greater than the 0.05 significance level, indicating the standard effect model. Therefore, based on the LM test, the standard effect model is selected for both model 1 and model 2.

Table 5. Results of the Breusch-Pagan Lagrange Multiplier Test

Breusch and Pagan Lagrangian multiplier test for random effects	
DTAX[PER,t] = Xb + u[PER] + e[PER,t]	
Test: Var(u) = 0	
Model 1	Model 2
chibar2(01) = 0.00	chibar2(01) = 0.00
Prob > = 1.0000	Prob > = 1.0000
chibar2	chibar2

Source: Output STATA (2024)

Based on the results of the Chow test, Hausman test, and Breusch-Pagan Lagrange Multiplier test, the following conclusions are drawn: (1) The Chow test indicates that the standard effect model is more appropriate than the fixed effect model, (2) The Hausman test shows that the fixed effect model is better than the random effect model, and (3) The Breusch-Pagan Lagrange Multiplier test confirms that the standard effect model is more suitable than the random effect model. Therefore, the selected model for this study is the standard effect model.

Panel Data Regression Test

The coefficient of determination measures how well the model explains the variation in the dependent variable. In this study, the coefficient of determination is derived from the standard effect model using GLS. According to Table 6, the adjusted R-squared values for model 1 and model 2 are 0.4989 and 0.5231, respectively. This indicates that the independent variables in model 1 explain 49.89% of the variation in tax avoidance, while the remaining 50.11% is attributed to other factors not included in the model. In Model 2, the independent variables explain 52.31% of the variation in tax avoidance, with the remaining 47.69% explained by external variables.

Table 6. Coefficient of Determination Results

Model 1	Model 2
Number of obs = 325	Number of obs = 325
F(6, 318) = 54.77	F(6, 318) = 40.49
Prob > F = 0.000	Prob > F = 0.000
R-squared = 0.5032	R-squared = 0.5364
Adj R-squared = 0.4989	Adj R-squared = 0.5231
Root MSE = 0.18595	Root MSE = 0.18152

Source: Output STATA (2024)

The F-statistic test is used to assess the simultaneous impact of the independent variables on the dependent variable. As shown in Table 7, the F-value for both Model 1 and Model 2 is 0.000, which is below the 0.05 significance level. This suggests that in Model 1, the independent variables—transfer pricing, tax haven, and institutional ownership—along with the control variables of firm size, profitability, and leverage collectively influence tax avoidance. Similarly, in Model 2, when the tax audit variable moderates the relationship, all independent variables together also have a significant simultaneous effect on tax avoidance.

Tabel 7. Results of the F-Test

Model 1	Model 2
Number of obs = 325	Number of obs = 325
F(6, 318) = 54.77	F(6, 318) = 40.49
Prob > F = 0.000	Prob > F = 0.000

Source: Output STATA (2024)

The t-test aims to determine the partial effect of each independent variable on the dependent variable. The t-test is conducted by comparing the p-value of each independent variable with 0.05.

Table 8. Results of the t-Test

	Model 1			Model 2		
	Coefisien	Two-tailed Prob.	One-tailed Prob.	Coefisien	Two-tailed Prob.	One-tailed Prob.
TP	0.6361769	0.000	0.000	0.0790257	0.000	0.000
THAVE	0.0004707	0.992	0.496	0.0101621	0.203	0.101
IO	-0.1502858	0.079	0.039	-0.0898131	0.362	0.181
SIZE	-0.0892538	0.000	0.000	-0.0812441	0.000	0.000
ROA	-0.0633171	0.992	0.496	-0.0396448	0.731	0.365
LEV	0.0249469	0.079	0.039	-0.0020473	0.953	0.477
TP*TAUD				-0.0476178	0.030	0.015
THAVE*TAUD				-0.1193803	0.242	0.121
IO*TAUD				-0.1466488	0.180	0.090
Cons	2.4771	0.000	0.000	2.1656	0.000	0.000

Source: Output STATA (2024)

Discussion

The first hypothesis in this study proposes that transfer pricing has a positive influence on tax avoidance. This finding provides strong empirical evidence that transfer pricing practices significantly increase tax avoidance among manufacturing companies in Indonesia. The statistical results confirm that firms engaging more intensively in transfer pricing tend to reduce their tax obligations more aggressively. This reflects a real and observable trend in Indonesia, where related-party transactions are frequently utilized to shift income and minimize tax burdens. These findings are consistent with previous research by Taylor & Richardson (2012), Dharmawan et al. (2017), and Amidu et al. (2019), who demonstrated a clear link between transfer pricing and tax avoidance. The result emphasizes the need for closer scrutiny and enforcement, particularly regarding the disclosure and pricing of intercompany transactions.

The second hypothesis posits that tax haven utilization positively affects tax avoidance. Thus, this hypothesis is statistically rejected. Although normatively, tax havens are considered facilitators of tax avoidance, the data from Indonesian manufacturing firms during 2019–2023 do not support a significant relationship. This may reflect the limited or cautious use of tax havens due to increased regulatory oversight or limited disclosure of tax haven-related transactions in company financial reports. Additionally, countries such as Singapore, often associated with lower tax rates, may not be classified as tax havens under OECD criteria, reducing their statistical impact in this study.

The third hypothesis suggests that institutional ownership negatively affects tax avoidance. Empirically, this indicates that companies with higher levels of institutional ownership are less likely to engage in tax avoidance. This outcome supports the theory that institutional investors exert monitoring pressure on management to act in a more transparent and accountable manner. It also aligns with the observed tendency in Indonesia that firms with strong institutional governance structures often prioritize compliance and reputation over aggressive tax planning.

Regarding the moderating variable, the fourth hypothesis tests whether tax audits weaken the effect of transfer pricing on tax avoidance. These results statistically confirm that tax audits play a significant moderating role. Practically, this means that when companies are subject to tax audits, the tendency to use transfer pricing for tax avoidance is reduced. This is consistent with

enforcement trends in Indonesia, where audits are increasingly used as a deterrent against aggressive tax planning strategies.

However, the fifth hypothesis, which examines whether tax audits moderate the relationship between tax haven utilization and tax avoidance, is not supported. This suggests that tax audits do not significantly influence the relationship. In the Indonesian context, this may reflect the limited availability of detailed disclosures regarding tax haven transactions in financial statements and the fact that the full implementation of the Automatic Exchange of Information (AEOI) only recently began to take effect. Consequently, tax auditors may lack sufficient access to offshore financial data, limiting their ability to detect or deter tax avoidance involving tax havens.

Lastly, the sixth hypothesis tests whether tax audits moderate the effect of institutional ownership on tax avoidance. This implies that the effectiveness of institutional monitoring is not significantly strengthened by the presence of tax audits. One plausible explanation is that institutional ownership already exerts its own governance mechanism, independent of tax audit intensity. Moreover, in practice, the deterrent effect of audits may vary depending on the materiality of the tax adjustments. If the assessed tax penalty is relatively minor, firms may still consider tax avoidance as a rational economic decision, even under audit risk.

In summary, the study presents robust empirical findings based on statistical evidence that supports the role of transfer pricing in driving tax avoidance and highlights the importance of institutional governance and audit mechanisms. These findings reflect current tax compliance challenges in Indonesia and underline the need for more vigorous enforcement and greater transparency in corporate disclosures.

CONCLUSION

The purpose of this study is to examine the influence of transfer pricing, tax havens, and institutional ownership on tax avoidance, as well as to investigate whether tax audits moderate the relationships between these factors and tax avoidance. The findings reveal that transfer pricing significantly increases tax avoidance, indicating that companies adopting aggressive transfer pricing strategies tend to engage more in tax avoidance. In contrast, institutional ownership reduces tax avoidance, as firms with higher institutional ownership are likely to experience greater oversight, which discourages aggressive tax avoidance behaviors. On the other hand, tax haven utilization does not have a significant impact on tax avoidance in this study, suggesting that using tax havens does not substantially contribute to tax avoidance. Regarding the moderating effect of tax audits, the study finds that tax audits effectively weaken the positive relationship between transfer pricing and tax avoidance, indicating that stronger enforcement can reduce tax avoidance through transfer pricing. However, tax audits do not significantly moderate the effects of tax haven usage or institutional ownership on tax avoidance, implying that audits may not be as effective in curbing these practices.

A notable limitation of this study lies in the measurement of the tax audit variable, which relies on the disclosure of tax assessment letters in financial statements. The availability of this data is inconsistent, as some companies do not report such information, potentially limiting the completeness of the dataset. From a scientific and technological perspective, this study contributes to the advancement of knowledge in the field of accounting and taxation by providing empirical evidence on how specific corporate governance and international tax strategies affect corporate tax behavior. The findings enrich the literature on tax avoidance, especially within the context of developing economies like Indonesia, and emphasize the importance of regulatory enforcement and institutional mechanisms. For the industrial sector, particularly manufacturing firms, the results offer practical insights into the implications of tax strategies and governance structures. The study highlights the role of institutional ownership in mitigating aggressive tax practices and underscores the importance of transparent transfer pricing documentation. These insights can be leveraged by companies to design more compliant and sustainable tax planning strategies that balance efficiency with regulatory expectations.

Suggestions for future research include extending the observation period to capture long-term trends in tax avoidance behavior and incorporating alternative or composite measures of tax avoidance for a more comprehensive analysis. Future studies are also encouraged to collaborate with tax authorities to access more complete audit data, which would improve the robustness of

tax audit measurement and increase the sample size.

In practice, the study's findings are expected to support the tax authority in improving risk-based audit selection, particularly by focusing on firms with high transfer pricing exposure. Moreover, tax auditors should optimize the use of Automatic Exchange of Information (AEOI) to monitor cross-border related-party transactions. Tax authorities are also encouraged to prioritize oversight of taxpayers with links to low-tax jurisdictions by utilizing international information exchange mechanisms. In this way, the study not only contributes to academic development but also provides actionable input to strengthen tax compliance and governance in the corporate sector.

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