

# TRANSFER PRICING AND TAX AVOIDANCE STRATEGY: THE ROLE OF FOREIGN OWNERSHIP

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## Abstract

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Tax avoidance (TA) is a strategic effort undertaken by companies to legally reduce their tax liabilities by utilizing gaps or ambiguities in existing tax regulations. This study examines the effect of transfer pricing (TP) on TA, with foreign ownership (FOROWN) as a moderating variable. TA is proxied by the cash effective tax rate (CETR), calculated as the ratio of tax expense to pre-tax income. The research targets manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2019–2023. Using a quantitative approach and purposive sampling, 85 observations were analyzed through secondary data processed with IBM SPSS 26. The hypotheses were tested using moderated regression analysis (MRA). The results indicate that TP has a significant negative effect on TA, suggesting that greater TP practices are linked to lower TA. Moreover, FOROWN is shown to strengthen this negative association, meaning that companies with foreign shareholders tend to exhibit less aggressive TA when utilizing TP. This study contributes to the literature by offering empirical evidence from an emerging market, emphasizing the moderating role of FOROWN in enhancing tax compliance through TP (Hidayah et al., 2025).

**Keywords:** Transfer Pricing, Tax Avoidance, Foreign Ownership

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## 1. INTRODUCTION

Tax revenue is a key pillar of national development, contributing more than 80% to Indonesia's State Budget (*Anggaran Pendapatan dan Belanja Negara*, APBN) over the period from 2019 to 2023. However, Indonesia's tax ratio remains relatively low compared to other Association of Southeast Asian Nations (ASEAN) countries, standing at 10.38% in 2022 and 10.32% in 2023. This condition reflects a significant gap between potential and actual tax collection, partly driven by tax avoidance (TA) practices. Multinational enterprises (MNEs) often employ TA strategies to shift profits from high-tax

jurisdictions to countries with lower tax rates (Nadhifah & Arif, 2020). This is particularly relevant for companies with substantial foreign ownership (FOROWN), where foreign shareholders can influence strategic decisions, including tax planning through transfer pricing (TP) mechanisms (Refgia et al., 2017).

In today's globalized economy, TP plays an increasingly strategic role in facilitating TA, as multinational corporations possess the flexibility to allocate income across borders through intra-group transactions (Permatasari, 2014). The role of TP in TA strategies is increasingly relevant in the era of globalization, where multinational companies have the flexibility to manage profits across countries

(Hidayah et al., 2025; Iriyadi et al., 2024; Sulfia & Rusmanto, 2024). Affiliated transactions are frequently used to shift profits from high-tax to low-tax jurisdictions, reducing tax burdens. Although the arm's length principle (ALP) is applied, its enforcement remains challenging due to complex corporate structures and limited oversight. Foreign shareholders typically aim for global tax efficiency (Akhadya & Ariefiara, 2018). Moreover, companies with FOROWN benefit from broader international networks and regulatory knowledge, enabling them to exploit tax loopholes (Nur et al., 2021). Therefore, FOROWN may act as a moderating factor in the relationship between TP and TA.

The manufacturing sector in 2023 became one of the largest contributors to gross domestic product (GDP) by contributing around 18.67% of Indonesia's GDP. Manufacturing companies are often involved in import-export activities, which makes them more vulnerable to TP practices. In addition, the manufacturing sector has complex supply chains, ownership of intangible assets that are difficult to value, and opportunities to take advantage of differences in tax rates between countries to shift profits to countries with lower taxes (Prayoga et al., 2019).

TP regulations in Indonesia are stipulated in Article 18 of Law No. 36 of 2008 concerning income tax, allowing tax officials to realign related-party transaction prices to reflect arm's length conditions (Tambunan et al., 2019). To strengthen supervision, the government also issued PMK No. 172 of 2023, which regulates in more detail the determination of transfer prices in transactions between affiliated companies to prevent tax evasion. In addition, this policy is strengthened by TP documentation regulations, including master file, local file, and CbCR (country-by-country reporting) that must be complied with by multinational companies (Pahlevi et al., 2019).

Indonesia is committed to the global Base Erosion and Profit Shifting (BEPS) initiative initiated by the Organisation for Economic Co-operation and Development (OECD) and G20, by adopting 12 out of 15 action plans to prevent tax base erosion and profit shifting (Shelepov, 2017). Indonesia implemented a 15% global minimum tax to protect national tax revenues and ensure multinational companies do not take advantage of low-tax jurisdictions (Amalia & Tambunan, 2024). These measures reflect the government's efforts to balance the investment climate with stricter tax compliance, so companies should be more careful in crafting their TP strategies.

Despite these regulatory advancements, prior studies present inconsistent findings on the relationship between TP and TA. Some suggest that TP increases TA (Hardianingrum & Sudaryono, 2024; Gunawan & Surjandari, 2022; Muhajirin et al., 2021), while others report the opposite (Kolondam & Permatasari, 2024; Al Hasyim et al., 2022; Irawan et al., 2020) or find no significant effect (Alexander, 2024; Maheswari et al., 2024; Mukhtar, 2021). In addition, the role of foreign ownership in influencing this relationship remains underexplored in the Indonesian context, especially within highly globalized sectors.

Therefore, this study is motivated by two key gaps in the literature. First, prior findings on

the relationship between TP and TA remain inconclusive, with mixed results across various contexts. Second, limited research has explored how FOROWN interacts with TP practices to influence tax behavior, especially in emerging economies like Indonesia. Addressing these gaps is not only relevant to academic discourse but also crucial for policymakers seeking to formulate effective tax regulations that align with the dynamics of globalization and foreign investment. Theoretically, this study is grounded in agency theory, which explains managerial behavior under ownership structures; stakeholder theory, which considers multiple interests in corporate decisions; and institutional theory, which emphasizes the role of regulatory environments in shaping firm behavior.

To address this gap, this study investigates how FOROWN moderates the relationship between TP and TA in Indonesian manufacturing firms. Grounded in agency theory, stakeholder theory, and institutional theory, this research aims to answer the following questions:

*RQ1: Does transfer pricing affect tax avoidance?*

*RQ2: Does foreign ownership moderate this relationship?*

The study applies a quantitative approach using secondary data from 85 firm-year observations of manufacturing firms listed on the Indonesia Stock Exchange (IDX) between 2019 and 2023. Hypotheses are tested using moderated regression analysis (MRA).

The empirical findings indicate that TP has a significant negative effect on TA, suggesting that firms engaging in greater TP practices — within regulatory boundaries — tend to exhibit more tax compliance. Moreover, FOROWN significantly strengthens this relationship, highlighting the role of foreign shareholders in promoting responsible tax behavior through stricter internal governance and alignment with global standards.

This study contributes to the literature on international taxation by offering empirical evidence from an emerging economy, emphasizing the moderating role of FOROWN in enhancing tax compliance.

The rest of this paper is structured as follows. Section 2 reviews the relevant literature and theoretical framework. Section 3 discusses the research methodology. Section 4 presents the empirical results. Section 5 provides discussion and interpretation. Section 6 concludes the study and offers practical implications.

## 2. LITERATURE REVIEW

### 2.1. Agency theory

TP practices are often a manifestation of the conflict of interest between the owners and management of a company, especially in multinational companies with significant FOROWN structures. Jensen and Meckling (1976) explain the contractual relationship between principals (owners) and agents (managers), where conflicts of interest often arise when agents act to maximize personal gains rather than the interests of the principals. In the context of TP, this theory is relevant because managers of multinational companies, especially with FOROWN, tend to take advantage of cross-border structures to

maximize net profit through TA, which often conflicts with the interests of the state as a stakeholder. Indrasti (2016) states that the higher the level of FOROWN, the greater the principal's influence on management decisions related to TP practices.

## 2.2. Stakeholder theory

Freeman (1984) states that companies have a responsibility to consider the interests of all stakeholders, including the government, society, and shareholders. In the context of TP, this theory is relevant because management's decision to utilize TP as a TA strategy often conflicts with the interests of the government as a tax recipient and the community as a tax beneficiary. Meanwhile, a study by Akhadya and Ariefiara (2018) emphasizes that companies with FOROWN face greater pressure to maximize profits for their primary stakeholders, even though the practice may harm other stakeholders. This study explores how FOROWN moderates the relationship between TP and TA, taking into account the dynamics of conflicts of interest among various stakeholders, as described by stakeholder theory, where shareholder returns are often prioritized over corporate contributions to the public interest.

## 2.3. Institutional theory

Institutional theory explains that government regulations and policies have an important role in shaping TP practices undertaken by companies, especially in the context of multinational companies. According to this theory, firms not only operate based on economic considerations alone, but are also influenced by institutional pressures, such as tax regulations, accounting standards, and prevailing social norms (DiMaggio & Powell, 1983). In TP practices, strict regulations, such as anti-TP rules and TP documentation required by tax authorities, encourage firms to adjust their strategies to remain compliant with the law and reduce the risk of sanctions. Moreover, in countries with looser tax regulations, firms tend to have greater discretion in determining TP policies that are fiscally favorable (Barker et al., 2017). It follows that institutional pressures from government regulations and policies influence the extent to which firms can engage in TP in an effort to TA or must adapt their practices to the prevailing compliance norms.

## 2.4. Tax avoidance

TA is a legal strategy used by companies to minimize tax liabilities by exploiting loopholes in tax regulations, although it is often considered contrary to the spirit of the regulations and raises ethical debates because it harms state revenues (Sikka, 2017). One of the most commonly used methods is TP, in which companies adjust transaction prices between entities in their group to take advantage of differences in tax rates in different countries (Richardson et al., 2016). This practice is carried out to increase after-tax profits to provide added value for shareholders, especially in multinational companies that take advantage of the complexity of the international tax system to shift profits to jurisdictions with lower tax rates (Dyregang et al., 2017).

In Indonesia, the government has implemented policies such as PMK No.172 of 2023 on the Application of the Principles of Fairness and Business Practices in Transactions Affected by Special Relationships. Hidayah et al. (2025) emphasize that the presence of foreign shareholders tends to reduce aggressive TA practices due to enhanced transparency and global governance standards enforced by multinational corporate structures.

## 2.5. Transfer pricing

TP is a pricing practice in transactions between affiliated companies that is often used as a tax planning strategy to achieve tax efficiency. According to Eden (1998), TP allows multinational companies to allocate income and costs to jurisdictions with lower tax rates, thereby optimizing corporate fiscal outcomes and minimizing global tax burdens. Chugan and Panchal (2024) argue that TP practices are deeply embedded in the global supply chain management of manufacturing firms, particularly in emerging economies where regulatory arbitrage still occurs. This aligns with the complex nature of manufacturing operations, which often involve cross-border intra-group transactions, technology transfers, and intangible asset ownership. Huang et al. (2019) further support this by modeling profit allocation in multinational supply chains, demonstrating that pricing mechanisms between affiliated entities significantly influence overall tax outcomes. Marfuah and Azizah (2014) emphasized that the implementation of TP in accordance with the arm's length principle can help companies comply with tax regulations while reducing their tax burden legally. In this context, TP serves not as an instrument of tax evasion but as a tool for legitimate tax planning. Moreover, Irawan et al. (2020) mentioned that TP, when applied transparently and within regulatory boundaries, could function as a responsible tax management strategy rather than an aggressive avoidance scheme. This study supports the view that TP, as part of an integrated tax strategy, provides legal tax optimization benefits, especially when monitored under global standards. It also explores how TP practices, frequently scrutinized in emerging economies, can influence the level of TA while remaining compliant with international tax frameworks.

## 2.6. Foreign ownership

FOROWN refers to the portion of shares owned by foreign entities, both individuals and institutions, which can influence the company's business strategy and financial policies. Companies with FOROWN tend to have stricter governance and access to global best practices, thereby increasing transparency and accountability in tax management (Nur et al., 2021). Based on Statement of Financial Accounting Standards (*Pernyataan Standar Akuntansi Keuangan*, PSAK No. 15)<sup>1</sup>, significant FOROWN can provide managerial influence to ensure TP practices are carried out according to the ALP, not to avoid taxes, but to improve the efficiency of the company's

<sup>1</sup> <https://kleido.com/blog/psak-15/>

resource allocation. Putri and Mulyani's (2020) study shows that FOROWN can act as a monitoring mechanism, suppressing the opportunistic behavior of local management that has the potential to take advantage of TP to avoid taxes. Lase and Oktari (2024) found that companies with significant FOROWN tend to adopt stronger compliance policies related to TP documentation and corporate tax reporting, aiming to align with international standards and avoid reputational risks. Muhajirin et al. (2021) also emphasize that companies with FOROWN are more likely to adopt transparent and regulatory TP practices, thereby reducing the level of TA. This reflects that the presence of foreign shareholders can support better fiscal compliance and promote healthier corporate governance.

## 2.7. Transfer pricing effect on tax avoidance

TP is a strategy used by companies to reduce tax liabilities by shifting profits to affiliated entities located in jurisdictions with lower tax rates. This practice is carried out by setting transaction prices between companies that do not reflect fair market value (Irawan et al., 2020). By applying TP, the parent company can reduce its tax burden through adjusting selling prices and transferring profits to affiliated companies. This is in line with agency theory, which explains that agents can make decisions based on their own interests, including in TA activities (Wijaya & Rahayu, 2021). However, findings in the literature remain mixed. Anderson and Ismail (2023) revealed that while TP can offer fiscal efficiency, it is also positively associated with TA behavior, particularly when regulatory enforcement is weak. Similarly, Hardianingrum and Sudaryono (2024) observed that environmental uncertainty may moderate the relationship between TP and TA, underscoring the importance of sectoral and contextual factors in empirical results. Institutional theory emphasizes that government policies and regulations play a crucial role in shaping TP decisions, as companies must adapt to compliance requirements to mitigate legal and reputational risks (DiMaggio & Powell, 1983).

Based on this explanation, the first hypothesis proposed in this study is:

*H1: Transfer pricing affects tax avoidance.*

## 2.8. The effect of foreign ownership in moderating the relationship of transfer pricing to tax avoidance

FOROWN has the potential to increase the use of TP in TA practices because companies with FOROWN have wider access to international financial networks and flexibility in conducting cross-border transactions (Akhadya & Arieftiara, 2018). The complexity of FOROWN structures may also facilitate the optimization of TP strategies, although the application of strict regulations in some jurisdictions may be a limiting factor for this practice. Based on agency theory, FOROWN holders in a company tend to encourage managers to increase profitability through various strategies, including TP. On the other hand, stakeholder theory explains that FOROWN may influence the company's priority in prioritizing the interests of shareholders over other stakeholders (Indrasti, 2016). Solihin and Utami (2022) conclude that the impact of FOROWN on TP decisions is contingent upon the regulatory

climate of the host country, where lenient rules amplify the potential for tax optimization. Meanwhile, Hidayah et al. (2025) assert that FOROWN significantly moderates the TP-TA relationship by exerting strategic control and encouraging adherence to global best practices in financial disclosure and tax compliance. Institutional theory emphasizes that stricter regulatory environments may limit aggressive TP strategies, while more lenient policies provide greater flexibility for foreign shareholders in optimizing tax positions.

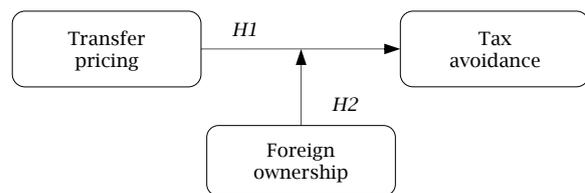
By considering these aspects, the second hypothesis in this study is:

*H2: Foreign ownership moderates the effect of transfer pricing on tax avoidance.*

## 2.9. Transfer pricing as a tool for tax avoidance

TP refers to the pricing of goods, services, and intangibles between related entities within an MNE. While it serves legitimate business purposes, TP is also widely recognized as a potential avenue for TA. Delis et al. (2025) have shown how MNEs can manipulate intra-group pricing to shift profits from high-tax jurisdictions to low- or no-tax jurisdictions, thereby minimizing their global tax burden. This practice, though often legal within the boundaries of local laws and OECD guidelines, raises concerns about fairness, tax base erosion, and the ability of governments to collect due revenues (Kalra & Afzal, 2023). Several empirical analyses further support the argument that aggressive TP strategies are a major component of international TA. For example, Heckemeyer and Overesch (2017) found significant evidence of profit shifting through TP, particularly in intangible asset transactions, which are difficult to value objectively. In response, regulatory bodies such as the OECD have intensified efforts through the BEPS initiative to ensure that TP outcomes align with economic substance. Nonetheless, the complexity of global supply chains and differences in enforcement capacity among countries continue to make TP a persistent and strategic tool for tax planning and avoidance.

Figure 1. Thinking flow



## 3. RESEARCH METHODOLOGY

This study employs a quantitative research approach with a causal-explanatory design, aiming to examine the effect of TP on TA and the moderating role of FOROWN. A quantitative method is chosen due to its ability to test relationships among variables statistically and generalize findings from the sample to the population of interest. This research focuses on companies in the manufacturing sector listed on the IDX in the 2019–2023 time period. This research applies a quantitative approach using secondary data obtained from the company's annual report during this time period. Sampling was determined through the purposive sampling method as follows.

**Table 1.** Samples selection

No.	Description	Total
1.	Manufacturing companies listed on the IDX during the 2019–2023 period.	165
2.	Manufacturing companies that experienced losses during the 2019–2023 period.	76
3.	Manufacturing companies with a percentage of FOROWN of less than 20%.	62
4.	Manufacturing companies that do not have related receivables during the 2019–2023 period.	10
Number of samples		17
Total observations to be processed (17 x 5 years)		85

Source: Data processed by the authors, 2024 (www.idx.co.id).

This study uses simple linear regression analysis and MRA techniques. The simple linear regression equation model used is as follows:

#### Model 1

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

where:

- $CETR_{it}$  = TA company  $i$  at time  $t$ ;
- $\alpha$  = constant;
- $\beta_1$  = regression coefficient;
- $TP_{it}$  = TP company  $i$  at time  $t$ ;
- $\varepsilon_{it}$  = error company  $i$  at time  $t$ .

#### Model 2

$$CETR_{it} = \alpha + \beta_1 TP_{it} + \beta_2 FOROWN_{it} + \beta_3 TP_{it} * FOROWN_{it} + \varepsilon_{it} \quad (2)$$

where:

- $CETR_{it}$  = TA company  $i$  at time  $t$ ;
- $\alpha$  = constant;
- $\beta_1, \beta_2, \beta_3$  = regression coefficient;
- $TP_{it}$  = TP company  $i$  at time  $t$ ;
- $FOROWN_{it}$  = FOROWN company  $i$  at time  $t$ ;
- $TP_{it} * FOROWN_{it}$  = interaction between TP to FOROWN company  $i$  at time  $t$ ;
- $\varepsilon_{it}$  = error company  $i$  at time  $t$ .

The following is an explanation of the measurement of research variables:

1. *Tax avoidance (TA)* is defined as the efforts made by companies to minimize their tax burden legally in accordance with applicable tax regulations (Suandy, 2016). This variable is measured using the cash effective tax rate (*CETR*), calculated as:

$$CETR = \frac{\text{Tax expense}}{\text{Earning before tax}} \quad (3)$$

2. *Transfer pricing (TP)* refers to company actions that utilize TP mechanisms between affiliated entities to shift income from high-tax jurisdictions to countries with lower or no tax rates (Kolondam & Permatasari, 2024). This variable is measured using the ratio:

$$TP = \frac{\text{Account receivable in affiliated company}}{\text{Total account receivable}} \quad (4)$$

3. *Foreign ownership (FOROWN)* represents the proportion of a company's shares that are owned by foreign investors or foreign entities (Nur et al., 2021). The measurement for this variable is calculated as:

$$FOROWN = \frac{\text{Total shares owned by foreign}}{\text{Total outstanding shares}} \quad (5)$$

While this study utilizes MRA to test interaction effects between TP and FOROWN, other approaches, such as panel data regression or structural equation modeling (SEM), could also be considered. However, SEM requires a large sample size and is more suitable for latent variables, which are not the focus of this study. Similarly, panel regression models offer advantages in controlling firm-specific effects over time, but are less efficient when observations are limited, as in this study. Therefore, MRA is selected as the most appropriate method given the research objective and data structure.

## 4. RESULTS

Descriptive statistical testing aims to provide an initial description of the characteristics of the research data, such as average, median, standard deviation, maximum, and minimum, to understand the distribution and pattern of data before conducting further analysis (Ghozali, 2021).

**Table 2.** Descriptive statistics

Variables	N	Minimum	Maximum	Mean	Std. Dev.
TP	85	0.00023	0.91856	0.1977966	0.24736095
TA	85	1.47	81.46	24.9834	12.30517
FOROWN	85	24.83	98.97	72.4099	22.22218
Valid N (listwise)	85				

Source: Data processed by the authors using SPSS 26.

Descriptive statistical testing aims to provide an initial understanding of the characteristics of the research data. The summary of the descriptive statistics is presented in Table 2, showing variations in TP, TA, and FOROWN among the sampled manufacturing firms. TA has a minimum value of 1.47% at PT Tjiwi Kimia Tbk Paper Mill (TKIM) in 2022 and a maximum value of 81.46% at PT Sekar Bumi Tbk (SKBM) in 2019, with an average of 24.98%,

a median of 23.70%, and a standard deviation of 12.31. TP shows a minimum value of 0.00023 at PT Delta Jakarta Tbk (DLTA) in 2023 and a maximum value of 0.91856 at PT Budi Starch Sweetener Tbk (BUDI) in 2023, with an average of 0.198, a median of 0.072, and a standard deviation of 0.247. FOROWN has a minimum value of 24.83% at PT Tjiwi Kimia Paper Mill Tbk (TKIM) in 2019 and a maximum value of 98.97% at PT Organon Pharma Indonesia

Tbk (SCPI) in 2023, with an average of 72.41%, a median of 80.94, and a standard deviation of 22.22.

The results indicate that the mean value of *TA* is 24.98, with a standard deviation of 12.31, which suggests a moderate variation in *TA* practices among manufacturing firms. The mean *TP* ratio of 0.198 and its relatively high standard deviation of 0.247 indicate that some companies are heavily involved in intercompany transactions. Meanwhile, *FOROWN* shows a high mean value of 72.41%, implying that most sampled firms have a significant proportion of foreign shareholders. The high variability observed in *TP* and *FOROWN* variables indicates differing strategies and ownership compositions employed by firms in minimizing their tax burden. These findings align with previous studies, such as Chugan and

Panchal (2024) and Huang et al. (2019), which found that manufacturing firms tend to engage in *TP* practices due to their complex supply chain structures. These results demonstrate the diversity in *TP* practices, tax effectiveness, and *FOROWN* structures among the sampled manufacturing firms. The descriptive statistics also highlight that firms with high *FOROWN* may have a greater tendency to engage in aggressive tax planning due to international tax arbitrage opportunities.

According to Ghazali (2021), the t-test aims to test the significance of the effect of the independent variable on the dependent variable partially, while the coefficient of determination ( $R^2$ ) test aims to measure the extent to which the independent variable is able to explain the dependent variable.

**Table 3.** The result of data processing

Variable	Model 1			Model 2		
	B	T-value	Sign	$\beta$	T-value	Sign
Constant	5.306	25.393	0.000	7.153	4.367	0.000
<i>TP</i>	-1.244	-2.647	0.010*	-8.141	-3.309	0.001*
<i>FOROWN</i>				-0.246	-1.315	0.192
<i>TP * FOROWN</i>				0.953	3.171	0.002*
Adjusted R <sup>2</sup>		0.067			0.224	
F-value		7.761			9.097	
Significant		0.001*			0.000*	

Note: \* significant at 0.05.

Source: Data processed by the authors, 2024.

#### Model 1

$$CETR = 5.306 - 1.244TP + 0.933 \quad (6)$$

The constant value of 5.306 indicates that if the *TP* value is fixed, the *TA* value is 5.306. The *TP* coefficient of -1.244 indicates that each increase in *TP* by one unit will reduce *CETR* by 1.244, and vice versa. Based on the significance test (t-test), the *TP* coefficient of -1.244 has a significance value of 0.010, which is smaller than 0.05. This shows that *TP* has a significant negative effect on *CETR*, so the research hypothesis (*H1*) is accepted. Furthermore, the strength of the regression model is shown by the adjusted  $R^2$  value of 0.067, which indicates that *TP* is only able to explain 6.7% of *CETR* variability, while the remaining 93.3% is influenced by other variables outside this research model. Given its significance level below 0.05, this result supports the hypothesis that *TP* has a negative correlation with *CETR*, consistent with the assumption that *TP* practices are employed to shift profits to lower-tax jurisdictions. However, the relatively low adjusted  $R^2$  suggests that although *TP* has a significant effect, its contribution to explaining *CETR* remains limited.

#### Model 2

$$CETR = 7.153 - 8.141TP - 0.246FOROWN + 0.953TP \times FOROWN + 0.776 \quad (7)$$

The analysis results show that the *TP \* FOROWN* interaction variable has a coefficient of 0.953 with a significance value of 0.002, which is less than 0.05. This indicates that *FOROWN* moderates the relationship between *TP* and *TA*, so the second hypothesis (*H2*) is accepted. Based on the moderation type, the *FOROWN* coefficient of

-8.141 is not significant (significance value of 0.192 > 0.05), while the *TP \* FOROWN* interaction coefficient is significant (significance value of 0.002 < 0.05). Therefore, *FOROWN* is categorized as a pure moderator, which affects the relationship between *TP* and *CETR* without having a direct effect on *CETR*. The strength of this model is reflected in the adjusted  $R^2$  value of 0.224, which indicates that *TP* with *FOROWN* moderation is able to explain 22.4% of *CETR* variability, while the remaining 77.6% is influenced by other factors outside this study. The increase in adjusted  $R^2$  from 0.067 to 0.224 after introducing the interaction term indicates that the model's explanatory power improves with the inclusion of *FOROWN* moderation. The finding that *FOROWN* acts as a pure moderator confirms that *FOROWN* does not directly affect *TA*, but significantly strengthens the negative relationship between *TP* and *TA*. This supports the notion that firms with high levels of *FOROWN* are more likely to engage in aggressive tax planning by exploiting international tax arbitrage opportunities.

## 5. DISCUSSION

The empirical findings show that *TP* has a significant negative effect on *TA*, indicating that the smaller the related receivables owned by the company, the less likely the company is to engage in *TA* (Supriyanto et al., 2022). This study supports the perspective that regulatory enforcement and compliance pressure can turn *TP* into a tax transparency mechanism. Strict regulatory oversight has an important role in ensuring that *TP* is applied in accordance with the principles of reasonableness and business prevalence, thereby reducing opportunities for *TA* (Choi et al., 2020). *TP*-related regulations are stipulated in Minister of

Finance Regulation No. 213/PMK.03/2016, which serves as a control instrument that limits aggressive tax planning practices by requiring companies to prove the reasonableness of TP strategies. Companies that prioritize legitimacy and corporate social responsibility are more likely to comply with tax regulations, including TP guidelines, to maintain reputation and relationships with stakeholders (Apriyani & Muhyarsyah, 2021).

Although this study finds a negative relationship between TP and TA, it is important to acknowledge that TP is often perceived as a conduit for TA, particularly when firms exploit regulatory gaps and weak enforcement. In many jurisdictions, TP has been scrutinized as a method of base erosion, especially when prices are not aligned with economic substance. This duality of TP as both a legitimate planning tool and a potential TA strategy highlights the complexity of tax regulation in multinational operations. ALP plays a role in explaining the relationship between TP and TA. This principle requires transactions between affiliated entities to be carried out as transactions with independent parties, to limit TP practices aimed at reducing the tax burden (Barker et al., 2017). The results of this study indicate that FOROWN strengthens the relationship between TP and TA, which can be attributed to the stricter application of ALP in multinational companies. This leads to differences in compliance with ALP may be a factor affecting the relationship of TP to TA in various companies.

As a result, TP negatively affects TA, and that this relationship is strengthened by FOROWN highlights the role of both internal governance and external institutional pressures in promoting tax compliance. Agency theory suggests that foreign shareholders enforce stricter monitoring, thereby reducing managerial opportunism in using TP for TA. Stakeholder theory emphasizes that firms with FOROWN are more responsive to global stakeholder expectations to maintain legitimacy and reputation. Institutional theory further explains that cross-jurisdictional regulatory pressures and international governance standards encourage more transparent and compliant TP practices. Accordingly, in this context, TP operates not as a tool of TA but as a regulated mechanism for tax allocation, with FOROWN enhancing its effect in reducing TA.

The results of this study are consistent with previous research by Herlina et al. (2023), Supriyanto et al. (2022), and Widiyantoro and Sitorus (2020) have identified similar patterns about TP. If properly regulated, it does not inherently aim to facilitate TA. Different findings from Anderson and Ismail (2023), Muhajirin et al. (2021), and Putri and Mulyani (2020) suggest that TP is often used as a TA tool. Alexander (2024), Maheswari et al. (2024), and Pratama and Larasati (2021) state that TP has no effect on TA. The difference between these studies and the current findings may be due to differences in industry regulations and corporate governance structures. Manufacturing companies are often subject to strict tax compliance measures due to their involvement in complex cross-border transactions (Wahyudi & Fitriah, 2021). As a result, TP in the manufacturing sector may function differently compared to other sectors that have looser regulatory oversight.

By incorporating the moderating factor of FOROWN into the model, there is an increase in the  $R^2$  value from 6.7% to 22.4%. This indicates that FOROWN has an important role in strengthening the relationship between TP and TA. Handayani and Ibrani (2019) stated that the shareholding structure, including controlling foreign and local shareholders with ownership above 20%, affects corporate tax decisions. This finding is in line with Lase and Oktari's (2024) research, which shows that FOROWN can contribute to shaping corporate tax policy, both in improving tax compliance and in optimizing TP strategies for tax efficiency purposes. It follows that the higher the FOROWN in a company, the greater the impact in strengthening the relationship between TP and TA practices.

In this study, FOROWN acts as a pure moderator in the relationship between TP and TA. This means that FOROWN has no direct relationship with TP or TA, but significantly strengthens or weakens the effect of TP on TA. This finding suggests that although FOROWN is not an independent variable that contributes directly to TA, its presence in the moderation model has a significant effect on the direction and strength of the relationship between TP and TA. Thus, FOROWN cannot be categorized as an intervening, exogenous, or antecedent variable, but purely acts as a moderating variable that determines the extent to which TP affects TA in the context of firms with different levels of FOROWN.

The differences in findings in this study are due to variations in measurement methods, industry sectors, research periods, and moderating variables used.

1. TP is measured through the ratio of related party transaction receivables to total receivables (Solikhah et al., 2021).

2. TA is calculated using tax expense to earnings before tax, rather than metrics such as GAAP ETR or Cash ETR (Dhaliwal et al., 2004).

3. Focusing on the manufacturing sector, manufacturing companies are more integrated in global supply chains, subject to stricter international trade regulations, and tend to have higher tax compliance (Balaji & Viswanadham, 2008). Compared to natural resource-dominated sectors, such as mining, which are more affected by commodity price volatility and fiscal incentive policies.

4. Covering the period 2019–2023, this study provides recent insights into TP and TA practices after the implementation of BEPS policies in Indonesia.

5. In addition, the moderating variable of FOROWN offers a perspective on how FOROWN moderates the relationship between TP and TA in the context of multinational corporate tax compliance.

The empirical findings highlight the importance of strengthening TP regulations for tax authorities. Strengthening TP documentation requirements, periodic audits, and non-compliance sanctions are needed to prevent the misuse of TP in TA. For companies, especially those with significant FOROWN, tax transparency is crucial in maintaining investor confidence and avoiding sanctions. The preparation of comprehensive TP documentation and the implementation of tax governance according to international standards can

improve tax compliance, as well as reduce tax disputes between companies and tax authorities (Petrova, 2021). In addition, multinational companies in Indonesia need to integrate local and global tax regulations in their compliance framework to effectively mitigate tax risks.

## 6. CONCLUSION

The conclusion of this study confirms that tightly regulated TP is not always an instrument of TA, but can serve as a tax transparency mechanism, especially in the manufacturing sector that faces stricter tax compliance due to involvement in global supply chains and international trade regulations. The empirical results show that TP has a significant negative effect on TA, indicating that the lower the exposure of related party transactions in a firm's receivables, the less likely the firm is to engage in TA. In line with the implementation of the ALP, which is intended to prevent the exploitation of affiliated transactions for TA.

Furthermore, this study demonstrates that FOROWN functions as a pure moderator in the relationship between TP and TA, without having a direct effect on either variable. The inclusion of FOROWN in the regression model significantly increases the explanatory power of TP on TA, as reflected in the R<sup>2</sup> value increase from 6.7% to 22.4%. This suggests that firms with higher FOROWN are

more likely to experience a stronger relationship between TP and TA, potentially due to stricter TP compliance requirements in multinational corporations. These findings are supported by agency, stakeholder, and institutional theories, highlighting the role of foreign investors and global regulatory pressures in promoting tax compliance. This implies a need for stronger transfer pricing regulations through proper documentation, regular audits, and strict sanctions. For multinationals, aligning domestic and international tax strategies is key to reducing risks and avoiding disputes.

This study has several limitations, including its focus on the 2019–2023 period and reliance on public information, which restricts the ability to capture long-term trends. It only considers FOROWN as a moderating variable, excluding other potential factors like corporate governance or tax audit intensity. The findings are specific to the manufacturing sector, limiting their generalizability, while the quantitative approach using secondary data does not explore the underlying motives behind TP strategies. Additionally, reliance on financial statements may affect data accuracy due to potential transparency issues. Future research should incorporate additional variables, expand the scope to other industries, and explore cross-country comparisons or the impact of digitalization on TP and TA practices for a more comprehensive understanding.

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