

The Effect of Transfer Pricing and Thin Capitalization on Tax Avoidance with Profitability as a Moderating Variable

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ABSTRACT

This study aims to analyze the effect of transfer pricing and thin capitalization on tax avoidance with profitability as a moderating variable in processing industry sector companies listed on the Indonesia Stock Exchange in 2021 - 2023. The research method used in this research is a quantitative method. The sampling technique used in this research was purposive sampling and 53 companies were obtained over a 3 year period, and 159 research sample units were obtained. The data analysis technique used is multiple linear regression analysis and moderated regression analysis (MRA) using STATA 17 software. The research results partially prove that transfer pricing and thin capitalization have no effect on tax avoidance and profitability is able to provide moderation on the relationship between transfer pricing and thin capitalization on tax avoidance. Simultaneously shows that transfer pricing and thin capitalization have an effect on tax avoidance.

INTRODUCTION

The failure to get tax revenue targets in Indonesia is often rooted in differing perspectives between the government and the business sector. This divergence arises from conflicting interests: the government, as the fiscal policy regulator, relies on taxes as a primary source of national funding, while businesses identify tax obligations as financial burden that reduces their net profits. For companies, the main goal is to maximize earnings, whereas the government seeks to collect as much tax revenue as possible to support development and enhance public welfare.

Tabel 1. Distribution of GDP by Main Sectors in Indonesia

Sector	Contribution to Tax			Contribution to GDP		
	2021	2022	2023	2021	2022	2023
Manufacturing Industry	16,9%	38,1%	2,7&	19,24%	18,34%	18,67%
Financial and Management Services	-2,4%	16,2%	22,1%	4,34	4,13%	4,16%
Trading	28,3%	56,9%	6,9%	12,96	12,85%	12,94%
Corporate Services	1,3%	19,4%	25,8	1,77%	1,74%	1,83%
Information and Communications	16,4%	14,8%	11,1%	4,41%	4,15%	4,23%
Mining	59,1%	159,6%	23,7%	8,97%	12,22%	10,52%
Transportation & Warehousing	7,6%	28,1%	30,7%	4,24%	5,02%	5,89%
Construction & Real Estate	-1,4%	-0,3%	15,9%	13,16%	12,26%	12,34%

Source: Central Bureau of Statistics, 2024

In the period 2021 to 2023, the contribution of corporate revenue in the processing industry sector to fluctuated. In 2023, tax revenues experienced a drastic decline after increasing from 2021 to 2022. This decline was caused by the performance of the oil and gas and non-oil and gas processing industry sub-fields. This condition reflects the challenges faced by the sector including the risk of tax avoidance which can affect state revenues.

According Tax Justice Network (2021, 2023) Indonesia experienced tax losses due to avoidance by multinational companies in 2022 amounting to around US\$2.2 billion or around 32 trillion rupiah. This amount is equivalent to 19.8 percent of Indonesia's total national budget. Then it increased to US\$2,736.5 million or around 39 trillion rupiah in 2023.

Tax avoidance practices are often carried out through various strategies, such as those found in the case of one of the manufacturing companies, namely PT Bentoel Internasional Investama Tbk, Bentoel, which is part of British American Tobacco, is suspected of utilizing the debt structure of the parent company abroad. The Tax Justice report explains that BAT diverted part of its income from Indonesia through inter-company loans in the period 2020 to 2021.

Bentoel received many loans from a related entity based in the Netherlands, Rothmans Far East BV, was utilized to refinance bank loans and finance the acquisition of machinery and equipment (*nasional.kontan.co.id*, 2019). PT Bentoel's efforts to reduce its tax burden through legal avoidance strategies are thin capitalization actions. Thin capitalization refers to a financial structure where a company relies more heavily on debt financing than on equity (Salwah & Herianti, 2019). Thin capitalization practices are also carried out by multinational manufacturing companies, namely, PT Coca-Cola Amatil Indonesia, in 2020 - 2022 this company often uses inter-affiliated debt to reduce tax liabilities. The loan is accompanied by high interest which is claimed as operating costs, thus reducing taxable profit (*Kompas.com*).

In addition to practicing thin capitalization, PT Bentoel was also reported by the Tax Justice organization in 2019 for alleged tax avoidance by utilizing a transfer pricing scheme. This case is related to reporting lower profits in Indonesia, while large profits are reported in countries with lower tax rates. This practice is estimated to cause tax losses for Indonesia of around USD 14 million each year. In the Tax Justice report, it is explained that BAT transferred its income from Indonesia using two methods, one of which was through payments of amber, fees, and amber services to the UK (*nasional.kontan.co.id*, 2019). Several studies on the influence of thin capitalization have different results. According to (Widiyantoro & Sitorus, 2019). Transfer pricing involves defining the monetary worth of goods, services, or intangible items exchanged internally between companies under common ownership. The special relationship itself is the relationship between the parent company and its subsidiary, where the tax price aimed at the subsidiary is lower than the parent company. Although transfer pricing is an action that does not violate the law, this behavior certainly has a negative impact on tax revenues in Indonesia.

There are several studies conducted by previous researchers that have different results. The research conducted by (Sherly Oktaviani, 2021), (Ayu Andawiyah, 2023), (Pratomo & Triswidyaria, 2021) dan (Purwoko Erie Darmawan, 2020). The findings suggest that, when considered simultaneously, transfer pricing has a positive influence on tax avoidance practices. Five studies suggest that entities implementing transfer pricing practices with transfer pricing practices carried out using rates or prices lower than market prices have the potential to minimize corporate tax obligations, creating the potential for tax avoidance. This outcome diverges from the research results presented by (Elsha Fitri, 2023), (Wardana & Asalam, 2022), (Tiara Riza Falistiani Putri, 2017), (Adelia & Asalam, 2024), (Napitupulu et al., 2020), dan (Lumbantoruan et al., 2019). Suggesting that transfer pricing is not a determining factor in tax avoidance. These studies emphasize the importance of corporate taxpayer compliance with regulations governing transfer pricing practices. Companies implementing transfer pricing are required to meet and comply with the principles of fairness and business customs. The implementation of this regulation makes it increasingly difficult for companies to implement transfer pricing arrangements as a means of facilitating tax avoidance policies.

Based on the literature that the author found, research on thin capitalization conducted by (Tiara Firda Amalia, 2022), (Nur Isnaini, 2022), (Lestari & Maryanti, 2022) dan (Anindita et al., 2022) shows the study shows that thin capitalization contributes to an increase in tax avoidance practices. The three studies revealed that an increase in thin capitalization behavior, the higher the tax avoidance action. This study revealed that the more thin capitalization practices, the higher the interest burden, so it naturally eats into the company's profits and reduces the company's tax burden.

Based on the explanation above, the researcher is motivated to carry out a study entitled "The Effect of Transfer Pricing and Thin Capitalization on Tax Avoidance with Profitability as a Moderating Variable". This study uses a case study of manufacturing sector companies listed on the IDX in 2021 - 2023.

LITERATURE REVIEW

Agency Theory

One of the theories used as the basis for this study is agency theory. Jensen and Meckling in agency According to the theory, a company is viewed as an agreement between the principal, who supplies financial capital, and the agent, who manages and operates the business on their behalf (Ginting & Sudjiman, 2019). The principal is the party who gives instructions to the agent to act on behalf of the owner's interests, while the agent is the party authorized by the owner to manage and run the company's operations (Pramesthi et al., 2019). The agent has an obligation to provide accountability for the duties and responsibilities that have been entrusted to him by the principal.

In this study, the agency theory used is the third-level agency theory where this third-level agency theory explains the differences in interests that arise between the principal who acts as a regulator in the field of taxation, and the company agent who acts as a taxpayer. In this context, the government as the main owner (principal) expects a significant increase in revenue from the taxation sector, while on the other hand, company management (agent) believes that the company must be able to generate large profits with minimal tax burdens. This difference in views has the potential to cause conflict between the government and company management (Wicaksono, 2017).

Trade Off Theory

Trade-Off Theory represents a capital structure framework indicating that a firm's financial structure is shaped by balancing the advantages of debt financing against the potential costs of financial distress and agency-related issues. This model is founded on a balance between the benefits and drawbacks associated with the use of debt financing. Debt provides the advantage of tax savings because the interest paid can be deducted from income, so that pre-tax profit becomes lower and the tax burden is reduced. However, increasing the use of debt also increases the risk of financial distress or bankruptcy. This bankruptcy problem usually arises when a company includes too much debt in its capital structure. Firms approaching bankruptcy are likely to encounter substantial legal and accounting costs, along with challenges in maintaining relationships with

customers, suppliers, and employees (Brigham and Houston, 2006). Therefore, the bankruptcy costs become a factor that inhibits companies from using debt excessively.

Theoretically, the capital structure decision according to Trade-Off Theory assumes that the company seeks to maintain the desired capital arrangement aimed at improving the company's market value (Kamath, 1997 in Pangeran, 2011). This theory predicts that each firm will gradually adjust to an optimal debt ratio. An optimal capital structure is attained by weighing the advantages of debt usage such as tax benefits against the potential costs of financial distress and other capital-related expenses, a principle referred to as the static trade-off theory.

Tax Avoidance

Tax avoidance refers to a strategy employed by companies to minimize their tax liabilities through methods that remain within the boundaries of the law, although such practices are frequently viewed as unethical by both the public and regulatory authorities. Tax avoidance is a tax planning strategy that includes tax management, tax planning, aggressive taxation, tax shelters, and tax evasion. Tax avoidance practices have complex impacts. This strategy allows companies to save resources that can be allocated to business development investments or dividend distributions to shareholders. (Lee, 2024). However, on the other hand, aggressive tax avoidance can have negative impacts such as the risk of tax litigation, strict supervision from regulators, and damage to the company's reputation.

Tax avoidance can be measured through the Cash Effective Tax Rate (CETR) which is the ratio between the amount of cash payments for income tax and the company's profit before tax. A low CETR indicates an indication of high tax avoidance practices. CETR was chosen because the data is more widely available and reflects the effective tax rate paid by the company. The CETR ratio is formulated by Tax Expense divided by Profit Before Tax (Dyrenge et al., 2010).

$$CETR = \frac{\text{Tax Expense}}{\text{Profit before tax}}$$

Transfer Pricing

According to the Regulation of the Director General of Taxes Number PER-32/PJ/2011, transfer pricing is the determination of prices in transactions between parties that have a special relationship. Transfer pricing is also defined as a special value or price used in exchanges between divisions to record income in the selling division and costs in the buying division.

Transfer pricing is defined as a company policy in setting transfer prices for transactions of goods, services, intangible assets, or financial transactions between parties who have special relationships with the aim of maximizing company profits (Wulandari, 2022). In this study, the transfer pricing calculation through previous studies (Napitupulu & Situngkir, 2020) can be calculated using the following formula:

$$\text{Transfer Pricing} = \frac{\text{Receivables from affiliated parties}}{\text{Account Receivables}}$$

Thin Capitalization

Thin capitalization refers to the formation of a company's capital structure dominated by large amounts of debt and relatively small equity. (Taylor & Richardson, 2012). Companies can reduce interest expenses so that taxable income becomes smaller. This reduction has an impact on the macro level by reducing the potential for state tax revenues.

Thin capitalization is a problem in taxation because of the difference in treatment between capital investment and debt investment. This practice is often used for tax avoidance because debt interest can be deducted from taxable income (deductible expense). Thin capitalization occurs when a company is financed with a much higher proportion of debt than equity or has high leverage. The higher the company's debt level, the higher the interest expense that must be paid, so that the company's fiscal profit becomes lower (OECD, 2012). Taxable income can be reduced because tax regulations recognize debt interest as a deduction from income. Therefore, companies can take advantage of this tax reduction incentive by using debt in their capital structure. In this study, thin capitalization is calculated using the formula:

$$\text{Thin Capitalization} = \frac{\text{Total Liability}}{\text{Total Assets}}$$

Profitability

Financial ratios are used by companies to determine the development of the company's value. One of the ratios used is profitability. The use of profitability is intended to determine the company's ability to generate profits from assets owned in a certain period originating from sales or investment activities (Ariska et al., 2020). The profitability ratio is an indicator that reflects a company's ability to achieve net income (Ambar K et al., 2022). In other words, profitability is a reflection of management performance in implementing efficiency in managing company assets. (Aulia & Mahpudin, 2020).

In this study, the author measured profitability using the Return on Asset (ROA) proxy. The use of ROA is not only used to determine the company's effectiveness in managing current profits, it can also be used as historical data to predict future profits (Rahmawati & Nani, 2021). Based on previous studies (Rifka Novriani, 2024) the ROA proxy used is as follows:

$$ROA = \frac{\text{Profit After Tax}}{\text{Total Assets}}$$

Research Hypothesis

The Effect of Transfer Pricing on Tax Avoidance

Agency Theory posits that divergences in interest between principals (shareholders) and agents (executives) may prompt managers to prioritize personal gain. One manifestation of this behavior is the use of transfer pricing

strategies to lower the firm's tax obligations. This strategy enables executives to reallocate earnings toward regions with lower tax rates, thereby lowering the firm's overall tax burden. Although this approach can enhance the company's net income and potentially increase managerial incentives, it may also compromise long-term shareholder value and expose the firm to regulatory risks.

Research conducted by (Elsha Fitri, 2023), (Wardana & Asalam, 2022), (Adelia & Asalam, 2024), (Napitupulu et al., 2020), and (Lumbantoruan et al., 2019) argue that transfer pricing has a significant effect on tax avoidance. Transfer pricing is one of the tax avoidance actions, the higher the transfer pricing activities carried out by a company, the higher the level of tax avoidance that occurs. This will certainly reduce tax revenue (Napitupulu et al., 2020).

Based on the description above, the hypothesis that can be formulated is:
H1: Transfer pricing has an effect on Tax Avoidance

The Effect of Thin Capitalization on Tax Avoidance

Agency theory suggests that management is driven to maximize company profits to align with shareholder interests., one of which is by using a thin capitalization mechanism in the company's capital structure. Also related to the trade off theory where the company will use debt rather than assets as the company's capital structure. The higher the level of debt owned by the company, the lower the tax that must be paid by the company.

Research conducted by (Tiara Firda Amalia, 2022), (Nur Isnaini, 2022) and (Anindita et al., 2022) shows that thin capitalization has a positive impact on tax avoidance. The three studies revealed that the higher the thin capitalization behavior, the higher the tax avoidance action. The findings of this study indicate that increased engagement in thin capitalization practices leads to higher interest expenses for the company, which in turn reduces overall profitability and consequently lowers the tax burden payable.

Based on the description above, the hypothesis that can be formulated is:
H₂ : Thin Capitalization has an effects Tax Avoidance

The Influence Of Profitability As A Moderating Variable On The Relationship Between Transfer Pricing And Tax Avoidance

Agency Theory explains that management as agents may use transfer pricing to shift profits to jurisdictions with lower tax rates, reducing the company's tax burden for their own benefit, although it may be detrimental to the long-term interests of the owners. Trade-off theory supports that companies will balance the tax benefits of this strategy with potential risks, such as negative assessments or sanctions from tax authorities. When profitability is used as a moderating variable, more profitable companies tend to have more incentives and capacity to utilize transfer pricing in tax avoidance strategies, because high profitability provides a financial buffer to face the risks that may arise from such strategies.

This explanation is supported by research form Lutfia and Pratomo (2018) Anisyah et al. (2018) ransfer pricing has a positive influence on tax avoidance practices. Likewise, Cahyadi and Noviari (2018) explain that profitability

positively influences the company's image in implementing transfer pricing. In addition, Sari and Mubarak (2018) also stated that the image of profitability has a positive effect on transfer pricing and capital adequacy in transfer pricing.

Based on the description above, the hypothesis that can be formulated is:
H3: Profitability serves as a moderating variable in the relationship between transfer pricing and tax avoidance.

The Influence of Profitability as a Moderating Variable on the Relationship between Thin Capitalization and Tax Avoidance

Under the trade-off theory, firms tend to maintain a capital structure that is heavily reliant on debt in order to minimize their tax obligations. With high profitability, the company has a stable and sufficient cash flow to cover debt interest obligations, so it can maximize the benefits of tax deductions on debt interest. Therefore, companies with high profitability are more likely to utilize a debt-dominated capital structure to minimize their tax burden.

This explanation is supported by research from (Friyanka Viryatama, 2020) and (Ike Alvinurnita Trisanti & Aisyaturrahmi, 2023) which states that profitability has a positive and very significant influence on tax avoidance, which indicates that profitability can increase tax avoidance behavior.

Based on the description above, the hypothesis that can be formulated is:
H4: Profitability serves as a moderating variable in the relationship between thin capitalization and tax avoidance.

METHODOLOGY

This research adopts a quantitative approach utilizing panel data regression analysis, conducted with the assistance of Stata 17 software, to examine the influence of Transfer Pricing and Thin Capitalization on tax avoidance, with Profitability acting as a moderating variable. The study sample comprises 53 manufacturing companies listed on the Indonesia Stock Exchange during the 2021–2023 period. The sampling method employed is purposive sampling, based on specific criteria including the availability of annual and sustainability reports, the presence of positive profits, and the completeness of relevant research data, resulting in a total of 159 observations.

RESEARCH RESULTS

Descriptive Statistics

Table 2. Descriptive Statistics

<i>Variable</i>	Obs	Mean	Std. Dev.	Min	Max
TA	159	0.234239	0.0743397	0.03256	0.806903
TP	159	0.2445964	0.3239797	0.00026	0.99943
TC	159	0.7072701	0.6106682	0.06726	3.928398
ROA	159	0.0874862	0.696947	0.00125	0.343097
Leverage	159	0.3569717	0.1621617	0.06303	0.797094
SG	159	0.1002149	0.1550538	-0.5171	0.848978
FS	159	29.27942	1.521041	26.7035	33.73062

Source : STATA, 2025

Regression Model Selection
Chow Test

Tabel 3. Chow Test Result

Uji Chow	Prob > F
PLS	0.00001
<i>Fixed Effect (FE)</i>	0.9752

Source: Ouput STATA, 2025

The Chow Test is conducted to determine whether the Common Effect Model (CEM) or the Fixed Effect Model (FEM) is more suitable for this study. The decision criterion is based on the Prob > F value obtained from the Fixed Effect Model test. If the Prob > F value is less than the significance level of 0.05, then the null hypothesis (H0) is rejected, and the alternative hypothesis (H1) is accepted. Conversely, if the Prob > F exceeds the 0.05 threshold, H0 is accepted, indicating that CEM is preferable.

According to the test results, the Prob > F value from the FEM is 0.9752, which is higher than the significance level of 0.05. This leads to the acceptance of H0 and the rejection of H1, suggesting that the Common Effect Model (CEM) is more appropriate for this analysis than the Fixed Effect Model (FEM).

LM Test

Table 4. Breusch and Pagan Lagrangian Multiplier (LM test) results

Regression Model	Prob > Chi
PLS	0.0001
<i>Random Effect (RE)</i>	1.0000

Source: STATA, 2025

The Lagrange Multiplier (LM) Test is employed to determine whether the Common Effect Model (CEM) or the Random Effect Model (REM) is more suitable for the analysis. In this study, the Breusch-Pagan method is applied, as it is the most widely used approach among researchers for conducting the LM test. The decision rule for this test is based on the Prob > Chi2 value obtained from the Random Effect Model results. If the Prob > Chi2 value is below the 0.05 significance level, the null hypothesis (H0) is rejected and the alternative hypothesis (H1) is accepted. On the other hand, if the Prob > Chi2 value exceeds the 0.05 threshold, H0 is accepted and H1 is rejected.

According to the test results, the **Prob > Chi2** value from the REM is 1.000, which is greater than the 0.05 significance level. As a result, the null hypothesis is accepted and the alternative hypothesis is rejected, indicating that the Common Effect Model (CEM) is more appropriate for this study than the Random Effect Model (REM).

Hausman Test

The Hausman test is conducted to compare whether the Fixed Effect Model (FEM) or Random Effect Model (REM) is suitable for use in this study. The

Hausman test is conducted if the results of the Chow Test in this study are the Fixed Effect Model (FEM) and the Breusch and Pagan Lagrangian Multiplier Test (LM test) is the Random Effect Model (REM). The Hausman test was not conducted in this study because the results of the Chow Test and the Breusch and Pagan Lagrangian Multiplier Test (LM test) showed that the Common Effect Model (CEM) was more appropriate for use in this study.

Classical Assumption Test Normality Test

Table 5. Initial Normality Test Results

Variabel	Obs	W	V	z	Prob>z
e	159	0.78308	26.534	7.455	0.00000

Source: STATA, 2025

Based on the results of the normality test, the Prob> z value is 0.00000 which is smaller than 0.05, so the null hypothesis (H0) is rejected and the alternative hypothesis (H1) is accepted. This indicates that the residual data is not normally distributed. To overcome this problem, the winsorizing process is carried out as a method of improving data distribution. Winsorizing is carried out on a scale of 0.01, 0.05 and 0.10 by limiting outliers in the data to be in the 10th to 90th percentile range. In this study, winsorizing was carried out by 0.10 or 10% in all variables tested to reduce the influence of extreme outliers that can affect the regression results. After winsorizing, the data is expected to be more stable and closer to a normal distribution.

Tabel 6. Normality Test After Winsorizing

Variabel	Obs	W	V	z	Prob>z
e3	159	0.98503	1.831	1.375	0.08451

Sumber: Output Stata, 2025

Following the application of winsorizing at the 0.10 or 10% level, the results of the normality test show an increase in the **Prob > z** value to 0.08451, which exceeds the 0.05 significance threshold. This outcome indicates that the null hypothesis (H0) is accepted, while the alternative hypothesis (H1) is rejected, suggesting that the residuals are normally distributed. The winsorizing process effectively addressed the issue of extreme outliers that had previously caused deviations from normality. Therefore, the regression model now satisfies the normality assumption and is considered suitable for further analysis.

Multicolinearity Test

Tabel 7. Multicolinearity Test

Variabel	VIF	1/VIF
Leverage3	9.09	0.10999
TC3	8.65	0.115663
TC_ROA3	3.97	0.252105
TP_ROA3	3.09	0.324031
FS3	1.16	0.863469
SG3	1.05	0.947889
TP3	1.01	0.989822
Mean	4.00	

Source: Ouput Stata, 2025

Referring to the Multicollinearity test results, all variables in this study exhibit Variance Inflation Factor (VIF) values below 10. The highest VIF is observed in the leverage variable at 9.09, while the remaining variables show lower values: TC3 (8.65), TC_ROA3 (3.97), TP_ROA3 (3.09), FS3 (1.16), SG3 (1.05), and TP3 (1.01). The average (mean) of the value of all variables is 4.00. Because all VIF values are still below the general limit of 10, it can be concluded that there is no multicollinearity between the nt descriptions in the regression model. In this test, H0 states that multicollinearity occurs, while H1 states that there is no multicollinearity. Because the results show no multicollinearity, H0 is rejected and H1 is accepted, meaning that each variable in the regression model does not influence each other in a high linear manner.

Autocorrelation Test

Tabel 8. Autocorrelation Test Results

Wooldridge test for autocorrelation in panel data		
H0 : No First order autocorrelation		
F(1,2)	=	8.774
Prob>F	=	0.0976

Source: Output Stata, 2025

Based on the results of the autocorrelation test using the Wooldridge method, the Prob> F value of 0.0976 was obtained, which is greater than the significance level of 0.05. Therefore, the null hypothesis (H0), which states that no autocorrelation is present, is not rejected. This indicates that the panel regression model does not exhibit autocorrelation. The absence of autocorrelation suggests that the residuals are not correlated across time periods, confirming that the panel regression model is appropriate for use in this study.

Heteroscedasticity Test

Tabel 9. Heteroscedasticity Test

Heteroscedasticity Test		
Breusch-Pagan/Cook-Weisberg test for heteroskedasticity		
Assumption: Normal error terms		
Variable: Fitted values of TA3		
H0: Constant variance		
chi2(1)	=	14.25
Prob>chi2	=	0.0002

Sumber: Output Stata, 2025

Based on the heteroscedasticity test results using the Breusch-Pagan/Cook-Weisberg method, the chi2(1) statistic is 14.25 with a **Prob > chi2** value of 0.0002. Since the probability value is lower than the 0.05 significance level, it can be concluded that heteroscedasticity is present in the model. This finding indicates that the variance of the residuals is not constant or homoscedastic. The existence of heteroscedasticity in the regression model may reduce the efficiency of the estimators and compromise the reliability of statistical inference. In overcoming this problem, the robust standard error is used in the regression estimation to obtain results that remain valid, even though the heteroscedasticity assumption is not met (Hoechle, 2007).

Robust Standard Error

After it was known that the model experienced heteroscedasticity, retesting was carried out using regression with robust standard error to overcome this problem. The results of the robust regression showed that the Prob value > F was 0.0001, which means that the model remains significant simultaneously. The variables TP_ROA and TC_ROA have p-values of less than 0.05, so they have a significant effect on tax avoidance after the robust adjustment is made. Meanwhile, the variables TP, TC, Leverage, FS, and SG still do not have a significant effect because their p-values are greater than 0.05. By using robust regression, the coefficient estimates become more reliable and the analysis results can be trusted even though there is heteroscedasticity in the data

Tabel 10. Robust Standard Error

Linear Gression			Number of obs	=	159
			F(7, 151)	=	4.61
			Prob>F	=	0.0001
			R- Squared	=	0.2399
			Root MSE	=	0.02986

TA3	Coefficient	Robust std.err.	t	P> t	[95% conf. interval]	
TP3	-0.015278	0.008468	- 1.80	0.073	- 0.0320091	0.0014531
TC3	0.0050831	0.0221489	0.23	0.819	- 0.0386787	0.048845
TP_ROA3	1.388658	0.4446418	3.12	0.002	0.5101352	2.267181
TC_ROA3	-0.8675388	0.2360679	- 3.67	0.000	-1.333961	- 0.4011162
FS3	-0.000647	0.0019739	0.33	0.744	- 0.0045471	0.0032531
Leverage3	0.1465398	0.0558432	2.62	0.100	0.0362049	0.2568746
SG3	-0.0221409	0.255798	- 0.87	0.388	- 0.0726814	0.0283995
_Cons	0.20769	0.0569004	3.65	0.000	0.0952693	0.3201167

Sumber: Output Stata, 2025

After it was known that the model experienced heteroscedasticity, retesting was carried out using regression with robust standard error to overcome this problem. The results of the robust regression showed that the Prob value > F was 0.0001, which means that the model remains significant simultaneously. By using robust regression, the coefficient estimates become more reliable and the analysis results can be trusted even though there is heteroscedasticity in the data.

Hypothesis Test

F Test

Based on table 4.9 regression results with robust standard error, the Prob>F value is recorded at 0.0001, which means it is smaller than α (0.05). Therefore, it can be concluded that the description of transfer pricing and thin capitalization with profitability as a moderating variable together have a significant effect on tax avoidance.

Test of Determination Coefficient (R²)

The coefficient of determination (R-squared) serves as a measure of how well the independent variables account for the variation in the dependent variable. This value ranges from 0 to 1. A low R² value indicates that the explanatory power of the independent variables is minimal. In contrast, an R² value approaching 1 suggests that the independent variables offer substantial explanatory strength in predicting the dependent variable.

Based on the table, the R Square value is recorded at 0.2399, which indicates that the transfer pricing and thin capitalization variables are able to explain 23.99% of the variation in tax avoidance. The remaining 76.01% is influenced by other factors not included in this study.

T Test

The t-test aims to determine the effect of each independent variable individually on the dependent variable. This testing process is carried out by comparing the significance value to the limit of 0.05. If the significance value is less than 0.05, then the independent variable is considered to have a significant effect on the dependent variable, and vice versa if it is greater than 0.05.

The following is an explanation of the interpretation of the t-test results for each variable:

1. The transfer pricing variable (X1) has a p-value of 0.073 where the value is > 0.05 which means that the transfer pricing variable does not have a significant effect on tax avoidance.
2. The thin capitalization variable (X2) has a positive coefficient value of 0.0050831 with a p-value of 0.819 where the value is > 0.05 which means that the thin capitalization variable does not have a significant effect on tax avoidance.
3. The profitability variable in moderating transfer pricing on tax avoidance has a positive coefficient of 1.388658 with a significance level of p-value of 0.002 where the value is < 0.05 which means that the transfer pricing variable moderated by the profitability variable has an effect on tax avoidance.
4. The profitability variable in moderating thin capitalization on tax avoidance has a negative coefficient value of -0.8675388 with a p-value level of 0.000 where the value is < 0.05 , which means that the thin capitalization variable moderated by the profitability variable has a significant effect on tax avoidance.
5. The Firm Size variable in controlling the influence of transfer pricing and thin capitalization on tax avoidance has a negative coefficient of -0.000647 with a p-value level of 0.744 where the value is > 0.05 , which means that the firm size variable does not have a strong influence on tax avoidance.
6. The Leverage variable in controlling the influence of transfer pricing and thin capitalization on tax avoidance has a positive coefficient of 0.1465398 with a p-value level of 0.100 where the value is > 0.05 , which means that the leverage variable does not have a strong influence on tax avoidance.
7. The Sales Growth variable in controlling the influence of transfer pricing and thin capitalization on tax avoidance has a negative coefficient of -0.0221409 with a p-value level of 0.388 where the value is > 0.05 , which means that the firm size variable does not have a strong influence on tax avoidance. Overall, although this regression model is simultaneously significant, only some of the independent variables have an effect on CETR, namely TP moderated by ROA and TC moderated by ROA. Meanwhile, the variables TP, TC, FS, Leverage, and SG do not show any effect on CETR.

Moderated Regression Analysis (MRA)

Moderated Regression Analysis is a technique used to preserve the integrity of the sample while offering a framework for examining the influence

of moderating variables (Ghozali, 2021). This method is applied to assess whether profitability effectively moderates the relationship between transfer pricing and thin capitalization in relation to tax avoidance.

Based on the results of the MRA test in table 4.9, the following results were obtained:

1. The interaction between profitability and transfer pricing shows a significance value of 0.002, which is below the 0.05 threshold. This indicates that profitability significantly moderates the relationship between transfer pricing and tax avoidance. The positive coefficient of 1.388658 for the interaction term further suggests that higher levels of profitability strengthen the association between transfer pricing and tax avoidance.
2. The interaction between profitability and thin capitalization yields a significance value of 0.000, which is below the 0.05 significance level. This indicates that profitability significantly moderates the relationship between thin capitalization and tax avoidance. The negative coefficient of -0.8675388 for the interaction term suggests that as profitability increases, the strength of the relationship between thin capitalization and tax avoidance decreases.

DISCUSSION

The Effect of Transfer Pricing on Tax Avoidance

The results of the partial test analysis (t-test) show that the transfer pricing variable has a significance value of 0.073, which exceeds the 0.05 significance threshold. This indicates that transfer pricing does not have a statistically significant effect on tax avoidance. Therefore, the first hypothesis (H1), which proposes that transfer pricing influences tax avoidance, is rejected.

This is because in this study the average company that transacts with related parties is only 25% of the total manufacturing sector companies used. In Indonesia, the applicable accounting standards also do not explain in detail about transactions with related parties, especially regarding transfer pricing. The Financial Accounting Standards Statement PSAK 7 regarding disclosure with related parties only explains disclosures related to relationships, transactions, commitments and the balance value of related parties. Information regarding disclosure, transaction information and how to conduct transactions carried out with related parties is not an obligation to be disclosed, so that the measurement of transfer pricing transactions can be unclear due to the lack of similarity in disclosure methods between companies.

The Effect of Thin Capitalization on Tax Avoidance

The partial test analysis (t-test) reveals that the thin capitalization variable has a significance value of 0.819, which is above the 0.05 threshold. This indicates that thin capitalization does not exert a statistically significant influence on tax avoidance. Consequently, the second hypothesis (H2), which posits a positive relationship between thin capitalization and tax avoidance, is rejected. In this study, the absence of an effect may be attributed to the low Debt-to-Equity Ratio (DER) among the companies examined, which limits the impact of thin capitalization on tax planning behavior.

The descriptive statistics reveal that the average Debt-to-Equity Ratio (DER) among the observed companies is 0.7072. Although one company recorded a DER as high as 3.9, this occurred in only a single firm and for just one year. Referring to the Ministry of Finance Regulation No. 169/PMK.010/2015, the maximum allowable debt-to-equity ratio is 4:1. This regulation implies that DER values below this threshold are considered acceptable by the tax authorities and are not deemed to influence a company's tax obligations. Accordingly, this finding aligns with the results obtained in the study.

The Effect of Transfer Pricing with Profitability as a Moderating Variable on Tax Avoidance

The results of the partial hypothesis test (t-test) indicate that the interaction between profitability and transfer pricing yields a coefficient of 1.388658 with a significance level of 0.002, which is below the 0.05 threshold. This finding confirms that profitability has a significant moderating effect on the relationship between transfer pricing and tax avoidance. As a result, the third hypothesis (H3), which posits that profitability enhances the influence of transfer pricing on tax avoidance, is accepted.

As a company's profitability rises, its tax liability also tends to increase. Firms with strong profitability often have greater incentives to implement transfer pricing strategies to lessen their tax burden. Higher profits typically lead to a larger potential tax obligation, prompting companies to more actively shift income to related entities or jurisdictions with lower tax rates. This method is employed to legally minimize tax payments, thereby intensifying tax avoidance practices. Within this framework, profitability acts as a strengthening factor in the link between transfer pricing and tax avoidance, as greater earnings provide both the motivation and the financial flexibility for companies to engage in more aggressive tax planning through transfer pricing mechanisms.

The Influence of Thin Capitalization with Profitability as a Moderating Variable on Tax Avoidance

The partial hypothesis test (t-test) results show that the interaction between profitability and thin capitalization produces a coefficient of -0.8675388 with a significance value of 0.000, which is well below the 0.05 threshold. This finding confirms that profitability significantly moderates the relationship between thin capitalization and tax avoidance. Therefore, the fourth hypothesis (H4), which states that profitability serves as a moderating variable that strengthens the effect of thin capitalization on tax avoidance, is accepted.

Companies that have high profitability have greater motivation to maintain net income as high as possible. In conditions of high profit, taxes owed that must be settled nominal terms also increases, thus encouraging companies to seek legal loopholes so that the tax can be reduced. One strategy that is often used is thin capitalization, namely financing operations with debt from affiliates so that the interest on the Debt may appear as an expense and reduce taxable profit. When a company has high profitability, its bargaining power with lenders is greater

and its cash flow is more stable, so that the company is able to utilize a large amount of intra-group debt scheme without disrupting liquidity. This means that the higher the profitability, the greater the company's capacity and incentive to implement aggressive thin capitalization in order to avoid taxes.

CONCLUSIONS AND RECOMMENDATIONS

Based on the results of the tests and analysis that have been carried out, the researcher concluded several findings as follows:

1. Transfer pricing does not have a significant influence on tax avoidance.
2. Thin capitalization does not significantly affect tax avoidance.
3. Profitability acts as a moderating variable that strengthens the relationship between transfer pricing and tax avoidance.
4. Profitability also moderates the relationship between thin capitalization and tax avoidance.

ADVANCED RESEARCH

Research on the influence of transfer pricing and thin capitalization on tax avoidance with profitability as a moderation measure that will be conducted in the future is expected to produce more in-depth findings by considering the following recommendations:

1. Further researchers can increase the number of samples.
2. Further researchers can choose the nt, amber and moderation measures whose calculations are not interrelated to avoid multicollinearity.
3. Further research is advised to use different proxies for each measure to allow comparison with the proxies used in this study.
4. Further researchers can add other variables such as Capital Structure, Corporate Social Responsibility (CSR), Liquidity, Internal Audit Role, Good Corporate Governance (GCG) and others that can affect tax avoidance.

Future studies are encouraged to incorporate a more diverse range of samples and expand the research scope by including companies outside the Indonesia Stock Exchange or from sectors that are not publicly listed. Additionally, lengthening the observation period may offer deeper insights into the long-term effects of tax regulations and policy changes on tax avoidance behavior.

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