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The Effects of Transfer Pricing, Profitability, and Leverage on Tax Avoidance among Multinational Companies Listed on the Indonesia Stock Exchange, 2020–2024

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Abstract

This study aims to analyze the effects of transfer pricing, profitability, and leverage on tax avoidance among multinational companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. The study is motivated by Indonesia's relatively low tax ratio and the high potential for tax avoidance practices among multinational companies engaged in cross-border transactions. This research employs a quantitative approach using secondary data obtained from annual financial reports published on the official IDX website and the respective companies' websites. The research sample consists of 28 multinational companies selected using the purposive sampling technique. Data analysis was conducted using panel data regression with EViews 12, involving the Chow test, Hausman test, Lagrange Multiplier test, classical assumption tests, coefficient of determination, and hypothesis testing. The results indicate that, partially, transfer pricing and leverage have no significant effect on tax avoidance, whereas profitability has a positive effect on tax avoidance, as indicated by its negative relationship with the Cash Effective Tax Rate (CETR) proxy. Simultaneously, transfer pricing, profitability, and leverage have a significant effect on tax avoidance. The comparative analysis reveals differences in the effects of these variables between parent companies and subsidiaries. Transfer pricing has a significant effect on tax avoidance among subsidiaries but not among parent companies, while profitability has a significant effect among parent companies but not among subsidiaries. Leverage has no significant effect on either group. These findings indicate that tax avoidance practices among multinational companies are influenced by a combination of financial characteristics and differences in the organizational structures and operational characteristics of parent companies and their subsidiaries.

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1. Introduction

Tax revenue constitutes one of the most important sources of government financing in Indonesia because it supports public expenditure, infrastructure development, public services, and broader national development programs. Taxes represent compulsory contributions imposed on individuals and business entities without direct compensation, with the proceeds ultimately being used to finance government functions and promote public welfare. Consequently, the effectiveness of tax collection is essential for maintaining fiscal sustainability and strengthening the government's capacity to finance national development (Sormin et al., 2024). In addition to the amount of tax imposed, the effectiveness of tax administration, access to taxation information, service quality, and taxpayer compliance also play important roles in strengthening revenue collection (Putra et al., 2025).

Indonesia's tax revenue performance during the 2020–2024 period indicates a substantial recovery following the economic disruption caused by the COVID-19 pandemic, although the achievement of revenue targets remained relatively volatile. Tax revenue realization reached approximately 89.25% of the target in 2020 before increasing to 103.90% in 2021 and 115.61% in 2022, followed by approximately 108.78% in 2023 and 100.46%

in 2024. Although tax revenue exceeded the government's target in several years, the declining margin between realization and target toward the end of the observation period suggests that maintaining sustainable tax revenue growth remains an important fiscal challenge (Ramadhan & Wijaya, 2026).

The effectiveness of tax collection can also be evaluated through the tax ratio, which represents the proportion of tax revenue relative to gross domestic product and reflects the government's capacity to mobilize revenue from economic activities. Indonesia's tax ratio was approximately 8.33% in 2020, increased to 9.11% in 2021, and reached 10.40% in 2022 before slightly declining to approximately 10.31% in 2023 and 10.07% in 2024 (Ramadhan & Wijaya, 2026; Sormin et al., 2024). Despite the post-pandemic improvement, these figures remain relatively low compared with internationally referenced revenue benchmarks and the tax ratios achieved by several comparable economies, indicating that substantial taxable capacity has not yet been fully mobilized (Ramadhan & Wijaya, 2026).

A persistently low tax ratio may be associated with several structural factors, including the size of the informal economy, limitations in tax administration, taxpayer non-compliance, and corporate tax planning activities. One particularly important issue is corporate tax avoidance, through which companies legally structure transactions and financial arrangements to minimize their tax liabilities while remaining within, or exploiting gaps in, applicable tax regulations. Although tax avoidance differs from illegal tax evasion, extensive tax avoidance may reduce government revenue, weaken the fairness of the tax system, and shift a greater fiscal burden toward taxpayers with fewer opportunities to undertake sophisticated tax planning (Dewi & Subagio, 2026). Recent English-language research on the Indonesian context, drawing upon international tax-loss estimates, has also highlighted that corporate tax abuse may generate substantial fiscal losses, thereby reinforcing the importance of strengthening corporate tax supervision (Baehaki & Surifah, 2026).

The risk of tax avoidance becomes particularly relevant in multinational companies because their organizational structures involve subsidiaries, related parties, and transactions operating across different tax jurisdictions. Differences in statutory tax rates, tax incentives, accounting regulations, and treaty arrangements across countries may create opportunities for multinational corporations to allocate income, expenses, assets, and liabilities in ways that reduce their consolidated tax burden. Related-party transactions and foreign ownership have therefore become important elements in explaining corporate tax-avoidance behavior among multinational companies listed on the Indonesia Stock Exchange (Budiman & Handayani, 2025). Previous studies also indicate that transfer pricing, thin capitalization, foreign ownership, and the utilization of tax-haven jurisdictions constitute important mechanisms examined in the context of multinational corporate taxation in Indonesia (Jazmi & Masripah, 2025).

Preliminary descriptive statistics for the companies examined in this study further indicate the relevance of the tax-avoidance phenomenon. The average Current Effective Tax Rate (CETR) increased from approximately 8.86% in 2020 to 13.82% in 2022 and subsequently declined slightly to approximately 13.00% in 2024. These values remained below the prevailing Indonesian corporate income tax rate of 22%, suggesting that the effective cash-tax burden of the sampled multinational companies was substantially lower than the statutory rate during the observation period. Because CETR represents the proportion of cash taxes paid relative to pre-tax income, a lower CETR is commonly interpreted as indicating a higher tendency toward tax avoidance, although firm-specific tax losses, temporary differences, and other taxation adjustments must also be considered when interpreting the measure (Ramadhan & Wijaya, 2026).

The relevance of tax avoidance among Indonesian listed companies is further supported by recent empirical evidence concerning related-party transactions and transfer-pricing practices. Related-party transactions have been found to be associated with tax-avoidance behavior among multinational companies, while studies examining transfer pricing have produced varying results across industrial sectors and observation periods (Budiman & Handayani, 2025). Transfer pricing has been found to increase tax-avoidance tendencies in certain samples of Indonesian listed companies, whereas other studies have reported statistically insignificant effects, indicating that

the effectiveness of transfer pricing as a tax-planning mechanism may depend on company characteristics, industry structures, ownership arrangements, and regulatory environments (Choiria & Priyono, 2026; Jazmi & Masripah, 2025; Ramadhan & Wijaya, 2026).

Agency theory provides an appropriate theoretical framework for explaining corporate tax-avoidance behavior because managers, shareholders, creditors, and governments may have different economic interests regarding corporate income and tax payments. Managers acting as agents may be motivated to improve after-tax earnings and financial performance, whereas governments seek to maximize legitimate tax revenue for public financing. Information asymmetry and managerial discretion may consequently provide opportunities for management to engage in tax-planning strategies that benefit the company or particular stakeholders while potentially increasing agency costs and regulatory risks (Baehaki & Surifah, 2026; Choiria & Priyono, 2026).

Transfer pricing is one mechanism through which multinational corporations may manage taxable income by determining the prices applied to transactions involving related entities in different jurisdictions. When transactions occur between affiliated entities located in countries with different tax rates, transfer-pricing arrangements may provide opportunities for allocating a greater proportion of profits to jurisdictions offering lower tax burdens, thereby reducing the group's overall tax liability (Choiria & Priyono, 2026). However, because transfer pricing is also a legitimate managerial instrument for pricing intra-group transactions, its relationship with tax avoidance depends on whether the policies applied comply with the arm's-length principle and relevant taxation regulations (Ramadhan & Wijaya, 2026).

Profitability is another factor that may influence corporate tax-avoidance decisions because highly profitable companies generally generate larger taxable income and consequently face greater potential tax liabilities. Higher profitability may therefore provide both stronger incentives and greater financial resources for companies to undertake sophisticated tax planning, although profitable firms may also choose to maintain greater tax compliance to protect corporate reputation and reduce regulatory risks. Empirical evidence from Indonesian listed companies indicates that profitability can significantly influence corporate tax-avoidance behavior, but the direction and magnitude of the relationship may vary depending on the characteristics of the sample and the proxies applied (Pristyanti & Harared, 2026).

Leverage may also influence tax avoidance because the use of debt generates interest expenses that can reduce taxable income and produce an interest-related tax shield. Accordingly, companies with higher levels of debt may experience different incentives to engage in additional tax-avoidance activities because part of their tax burden has already been reduced through deductible financing costs. Recent studies continue to report heterogeneous relationships between leverage and tax avoidance, suggesting that capital structure, borrowing constraints, profitability, and corporate characteristics may affect this relationship (Dewi & Subagio, 2026). Leverage is also recognized as an important corporate financial-structure indicator with significant implications for company financial performance, further supporting its relevance as a firm-level explanatory variable in financial and taxation research (Sari et al., 2026).

Previous studies concerning transfer pricing, profitability, leverage, and tax avoidance in Indonesia have generally focused on individual industries or specific groups of listed companies. Recent investigations have examined, among others, energy companies, mining companies, food and beverage companies, property and real-estate companies, and consumer-sector companies (Prasetyo et al., 2026; Pristyanti & Harared, 2026; Puspitasari & Munari, 2024; Ramadhan & Wijaya, 2026; Wibowo & Sari, 2024). Such sector-specific approaches are valuable because they capture industry characteristics, but they may provide limited evidence regarding multinational corporations operating across different economic sectors.

Furthermore, previous empirical findings remain inconsistent. Some studies have reported that transfer pricing significantly affects tax avoidance, whereas other studies have found no statistically significant relationship between the two variables (Choiria & Priyono, 2026; Jazmi & Masripah, 2025; Ramadhan & Wijaya, 2026). Similar inconsistencies have been reported for profitability and leverage, with their effects varying according to the industrial sector, observation period, tax-avoidance

measurement, capital structure, and model specification employed in previous research (Dewi & Subagio, 2026; Prasetyo et al., 2026; Pristyanti & Harared, 2026; Puspitasari & Munari, 2024). These mixed findings demonstrate that further empirical investigation is necessary to clarify the relationships among transfer pricing, profitability, leverage, and tax avoidance, particularly among multinational firms operating across multiple sectors.

Accordingly, the contribution of this study is reflected in several aspects. First, the study employs a cross-sector sample of multinational companies listed on the Indonesia Stock Exchange rather than restricting the analysis to a single industry, thereby providing broader evidence concerning tax-avoidance behavior among companies with international business exposure. Second, the 2020–2024 observation period captures the economic disruption caused by the COVID-19 pandemic, the subsequent economic recovery, and the period following the enactment of Indonesia's 2021 Harmonization of Tax Regulations Law, which strengthened the regulatory emphasis on tax compliance and transparency (Budiman & Handayani, 2025). Third, this study simultaneously examines transfer pricing, profitability as measured by Return on Assets (ROA), and leverage as measured by the Debt-to-Equity Ratio (DER) within a parsimonious empirical model, allowing the individual contribution of each explanatory variable to tax avoidance to be evaluated more clearly.

By extending the analysis across sectors and incorporating a recent five-year observation period, this study is expected to provide more contemporary empirical evidence regarding tax-avoidance determinants among multinational companies in Indonesia. The findings may also provide practical implications for the Directorate General of Taxes in identifying corporate characteristics associated with tax-avoidance risk and developing more targeted supervision of related-party transactions, financing structures, and multinational corporate activities.

Based on the preceding theoretical arguments, empirical evidence, and identified research gap, this study examines "The Effects of Transfer Pricing, Profitability, and Leverage on Tax Avoidance among Multinational Companies Listed on the Indonesia Stock Exchange, 2020–2024."

2. Literature Review

2.1 Agency Theory

Agency theory explains the contractual relationship between shareholders as principals and managers as agents who are entrusted with managing corporate resources and making strategic decisions on behalf of the owners. Differences in objectives and access to information may create agency conflicts because managers may pursue policies that maximize corporate performance or managerial interests but do not necessarily correspond with the interests of other stakeholders, including the government as a tax collector. In the taxation context, managerial discretion may encourage the adoption of tax-planning strategies designed to reduce the company's tax burden and increase after-tax earnings (Adijaya & Radianto, 2025).

Agency theory is particularly relevant to tax avoidance because taxation creates a potential conflict between corporations and the government. Companies generally seek to maximize after-tax profits, whereas the government seeks to optimize tax revenue in accordance with prevailing regulations. Managers may therefore use available financial and operational discretion, including related-party transactions, financing decisions, and profitability management, to determine the level of corporate tax payments. Agency-related incentives remain relevant in explaining corporate tax behavior, although the extent of tax avoidance may differ according to financial conditions, governance mechanisms, and company characteristics (Paulus et al., 2025).

In multinational corporations, agency problems may become more complex because business operations involve multiple entities, jurisdictions, ownership structures, and related-party transactions. These characteristics provide managers with broader opportunities to structure internal transactions and financing arrangements that may influence taxable income across jurisdictions. Therefore, agency theory provides an appropriate theoretical foundation for examining transfer pricing, profitability, and leverage as potential determinants of corporate tax avoidance.

2.2 Tax Avoidance

Tax avoidance refers to corporate efforts to minimize tax liabilities by utilizing transactions, accounting policies, organizational structures, or regulatory provisions without directly violating applicable tax laws. Although tax avoidance differs from illegal tax evasion,

aggressive tax-planning practices may reduce government revenue and create concerns regarding tax fairness and corporate compliance. Tax avoidance therefore represents an important issue in corporate taxation because companies simultaneously face incentives to maximize shareholder wealth and obligations to comply with prevailing tax regulations (Adijaya & Radianto, 2025).

Tax avoidance is commonly measured using the Effective Tax Rate (ETR) or Cash Effective Tax Rate (CETR). CETR reflects the proportion of cash taxes paid relative to income before tax and therefore represents the actual cash-tax burden borne by a company. A lower CETR generally indicates a stronger tendency toward tax avoidance, whereas a higher CETR reflects a greater effective tax payment relative to pre-tax income. ETR- and CETR-based measures remain widely used in empirical studies examining tax-avoidance behavior among companies listed on the Indonesia Stock Exchange (Putri & Khairunnisa, 2026).

Corporate tax avoidance is influenced by various financial and non-financial factors. Profitability, leverage, transfer pricing, corporate governance, ownership structure, firm size, and capital intensity have frequently been examined as determinants of corporate tax strategies. However, empirical findings remain inconsistent across industries and periods, indicating that tax avoidance is a multidimensional corporate decision influenced by company-specific and institutional conditions (Prasetyo et al., 2026).

2.3 Transfer Pricing

Transfer pricing refers to the determination of prices for transactions involving goods, services, intangible assets, financing, or other economic activities between entities under common control or related ownership. In multinational corporations, transfer pricing is a normal and legitimate mechanism for determining the value of intra-group transactions. However, differences in tax rates and regulatory systems across jurisdictions may provide opportunities for multinational companies to structure related-party transactions in ways that shift taxable income between entities.

From the perspective of agency theory, managers may use their discretion over related-party transactions to achieve more favorable after-tax results. When affiliated entities operate in jurisdictions with different tax burdens, transfer-pricing arrangements may influence the geographical allocation of revenues, expenses, and taxable profits. Consequently, transfer pricing has received considerable attention in tax-avoidance research because of its potential role in multinational tax planning.

Empirical findings concerning the relationship between transfer pricing and tax avoidance remain inconsistent. Transfer pricing was found to have no significant partial effect on tax avoidance among Indonesian food and beverage manufacturing companies, although the variables included in the model jointly influenced tax avoidance (Safira & Setiyawati, 2025). This finding indicates that the existence of related-party transactions does not automatically demonstrate tax avoidance because transfer pricing may also arise from legitimate operational requirements.

Other studies have shown that transfer pricing may influence tax avoidance under particular corporate conditions, especially when ownership structure, managerial incentives, and international business arrangements provide opportunities for shifting taxable income. The relationship between transfer pricing and tax avoidance may therefore vary according to industry characteristics, regulatory environments, and corporate structures (Prasetyo et al., 2026).

The mixed empirical evidence suggests that the relationship between transfer pricing and tax avoidance should be re-examined using a broader sample of multinational companies operating across different sectors. Therefore, the first hypothesis is formulated as follows:

H1: Transfer pricing has a significant effect on tax avoidance among multinational companies listed on the Indonesia Stock Exchange.

2.4 Profitability

Profitability represents a company's ability to generate earnings from the economic resources under its control. In this study, profitability is measured using Return on Assets (ROA), which reflects the efficiency of a company in generating net income from its total assets. ROA is widely employed as an indicator of corporate financial performance because it reflects the effectiveness of asset utilization in generating earnings (Randanan & Furqan, 2025).

Companies with higher profitability generally generate greater taxable income and consequently face higher potential tax liabilities. From an agency-theory perspective,

the increasing tax burden associated with higher profitability may provide managers with stronger incentives to undertake tax-planning strategies to preserve after-tax earnings. Highly profitable firms may also possess greater financial capacity to design and implement more sophisticated tax-planning strategies.

However, empirical evidence concerning the relationship between profitability and tax avoidance remains inconsistent. Profitability measured by ROA was found to have no significant effect on tax avoidance among property and real-estate companies, suggesting that highly profitable firms do not necessarily engage in more aggressive tax-avoidance practices (Adijaya & Radianto, 2025).

Other studies have identified a significant relationship between profitability and corporate tax avoidance. Profitability measured using ROA has been found to influence tax avoidance when CETR is used as the dependent-variable proxy, although the direction and magnitude of the relationship may vary according to company characteristics and sectoral conditions (Putri & Khairunnisa, 2026).

The inconsistent findings provide an empirical basis for re-examining profitability using a cross-sector sample of multinational companies. Therefore, the second hypothesis is formulated as follows:

H2: Profitability has a significant effect on tax avoidance among multinational companies listed on the Indonesia Stock Exchange.

2.5 Leverage

Leverage reflects the extent to which a company uses debt to finance its assets and business activities. In this study, leverage is measured using the Debt-to-Equity Ratio (DER), which compares total liabilities with shareholders' equity. A higher DER indicates greater dependence on debt financing relative to equity financing.

Leverage is theoretically related to taxation because debt financing normally generates interest expenses that may reduce taxable income subject to applicable tax regulations. This interest-related tax shield may reduce the corporate income tax burden and consequently influence a company's incentive to undertake other tax-planning strategies.

High leverage may also increase creditor monitoring and financial constraints, thereby limiting managerial discretion to undertake aggressive tax-avoidance activities. Leverage was found to have a significant negative relationship with tax avoidance, indicating that companies with higher levels of debt may face greater external monitoring that restricts aggressive tax behavior (Adijaya & Radianto, 2025).

In contrast, other studies have reported statistically insignificant relationships between leverage and tax avoidance. These differences suggest that the taxation effects of debt may depend on profitability, capital structure, industry characteristics, borrowing constraints, and the regulatory environment in which the company operates (Prasetyo et al., 2026).

The inconsistent empirical findings indicate that the relationship between leverage and tax avoidance remains open to further investigation. Therefore, the third hypothesis is formulated as follows:

H3: Leverage has a significant effect on tax avoidance among multinational companies listed on the Indonesia Stock Exchange.

2.6 Transfer Pricing, Profitability, Leverage, and Tax Avoidance

Transfer pricing, profitability, and leverage represent different dimensions of corporate financial and operational decision-making. Transfer pricing reflects the management of transactions between related entities, profitability represents a company's ability to generate earnings from its assets, while leverage reflects the composition of debt and equity used to finance corporate activities. These three factors may simultaneously influence corporate tax-planning decisions because they affect the allocation of taxable income, the magnitude of the potential tax burden, and the availability of interest-related deductions.

Profitability and leverage have been identified as relevant variables in explaining tax avoidance, while transfer pricing may strengthen or modify the relationship between corporate financial characteristics and tax-avoidance behavior in certain industrial contexts (Puspitasari & Munari, 2024). The relationships among transfer pricing, leverage, profitability, and tax avoidance have also been found to differ depending on company-specific characteristics and governance structures (Prasetyo et al., 2026).

The inconsistency of previous findings is also evident across consumer-goods, mining, energy, property, and manufacturing companies. Different industrial characteristics, observation periods, proxies, and model specifications may produce different

conclusions regarding the influence of transfer pricing, profitability, and leverage on tax avoidance.

Recent evidence from companies listed on the Indonesia Stock Exchange confirms that transfer pricing continues to be examined as one of the potential determinants of tax avoidance, although its effect may not always be statistically significant (Safira & Setiyawati, 2025). Research involving Indonesian listed companies also supports the use of ROA as an important measure of corporate financial performance in empirical financial research (Randanan & Furqan, 2025).

Accordingly, this study simultaneously examines transfer pricing, profitability, and leverage to determine whether these corporate characteristics collectively explain variations in tax avoidance among multinational companies listed on the Indonesia Stock Exchange during the 2020–2024 period. Therefore, the fourth hypothesis is formulated as follows:

H4: Transfer pricing, profitability, and leverage simultaneously have a significant effect on tax avoidance among multinational companies listed on the Indonesia Stock Exchange.

2.7 Conceptual Framework

Based on agency theory and the empirical findings discussed above, tax avoidance is specified as the dependent variable, while transfer pricing, profitability, and leverage are specified as the independent variables. The conceptual relationships examined in this study are presented as follows:

Transfer Pricing (X_1) → Tax Avoidance (Y)
Profitability/ROA (X_2) → Tax Avoidance (Y)
Leverage/DER (X_3) → Tax Avoidance (Y)

The empirical model therefore evaluates both the individual effects of each independent variable and their simultaneous effect on corporate tax avoidance.

3. Metode Penelitian

This study employed a quantitative research approach to empirically examine the effects of transfer pricing, profitability, and leverage on tax avoidance. A quantitative approach was considered appropriate because the study analyzes numerical financial data and statistically tests the relationships among predetermined research variables. Similar approaches have been widely applied in empirical tax-avoidance studies using financial statement data from companies listed on the Indonesia Stock Exchange (IDX) (Ilmi & Wafiroh, 2025; Tjahyadi & Carolina, 2024).

The research subjects consisted of multinational companies listed on the Indonesia Stock Exchange during the 2020–2024 period. The unit of analysis was the company-year observation, while the research objects comprised financial information reported in the annual reports and financial statements of the sampled companies. The financial data were obtained from the official Indonesia Stock Exchange website and the official websites of the respective companies. The use of publicly available annual and financial reports as secondary data is commonly applied in quantitative corporate research because these documents provide standardized and auditable financial information required for empirical analysis (Artika et al., 2026; Randanan & Furqan, 2025).

The data extracted from the financial statements included related-party transactions, net income, total assets, total liabilities, total equity, income tax information, and income before tax. These data were subsequently used to calculate the proxies for transfer pricing, profitability, leverage, and tax avoidance. The utilization of secondary financial data from corporate annual reports is consistent with previous empirical studies examining tax avoidance and financial determinants among publicly listed Indonesian companies (Ilmi & Wafiroh, 2025; Tjahyadi & Carolina, 2024).

The population of this study comprised all multinational companies listed on the Indonesia Stock Exchange during the 2020–2024 observation period. The selection of this five-year period was based on its ability to capture different economic conditions, particularly the COVID-19 pandemic period in 2020–2021 and the subsequent economic recovery during 2022–2024. Furthermore, extending the observation period to 2024 enables the study to incorporate relatively recent corporate financial information and provides a broader temporal basis for examining changes in corporate tax behavior.

The research sample was selected using a purposive sampling technique based on predetermined criteria consistent with the objectives of the study. Purposive sampling enables researchers to select companies that satisfy specific data and observation requirements, particularly the availability and completeness of annual financial information throughout the research period. This sampling technique has been extensively employed in

recent studies using secondary financial data from companies listed on the Indonesia Stock Exchange (Artika et al., 2026; Randanan & Furqan, 2025; Tjahyadi & Carolina, 2024). Based on the established sampling criteria, 28 multinational companies were included in the final sample. With each company observed over five consecutive years, the study comprised 140 firm-year observations.

The study relied entirely on secondary data obtained from previously published corporate documents rather than data collected directly from respondents. The primary sources included annual reports and financial statements published through the official IDX website and the official websites of the sampled companies. Previous empirical studies have similarly utilized corporate annual reports and financial statements as secondary data sources for quantitative analyses involving corporate financial characteristics and taxation-related variables (Artika et al., 2026; Randanan & Furqan, 2025).

Data were collected using documentation and literature-review techniques. The documentation technique involved identifying, downloading, reviewing, and recording the relevant financial information contained in the annual reports and financial statements of the sampled companies. Meanwhile, the literature review was conducted by examining relevant scientific journal articles and previous empirical studies to establish the theoretical basis, variable measurements, and analytical procedures used in this research. The combination of documentary financial data and scholarly literature is commonly employed in quantitative research based on publicly available corporate information (Randanan & Furqan, 2025; Widodo et al., 2024).

The dataset was structured as panel data because it combined cross-sectional observations from 28 companies with time-series observations covering five consecutive years from 2020 to 2024. Panel data provide information across both entity and time dimensions, allowing variations among companies and changes over time to be incorporated into the empirical analysis. The use of panel data is therefore particularly appropriate for financial research involving multiple firms observed repeatedly over several periods (Widodo et al., 2024). Panel-data regression has also been applied in recent tax-avoidance research involving companies listed on the Indonesia Stock Exchange (Ilmi & Wafiroh, 2025; Tjahyadi & Carolina, 2024).

The initial data compilation, classification, and calculation of research variables were performed using Microsoft Excel. The resulting dataset was subsequently analyzed using EViews 12. The application of EViews 12 for panel-data regression is consistent with recent empirical studies examining tax avoidance and corporate financial characteristics in the Indonesian capital market (Ilmi & Wafiroh, 2025; Tjahyadi & Carolina, 2024).

The data analysis was conducted in several stages. First, descriptive statistical analysis was performed to summarize the characteristics of each research variable through indicators such as the mean, median, maximum, minimum, and standard deviation. Second, panel-data regression estimation was conducted using three alternative specifications: the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). Third, the most appropriate panel-data regression specification was determined through model-selection procedures consisting of the Chow test, Hausman test, and Lagrange Multiplier test. The Chow test was used to distinguish between the CEM and FEM, the Hausman test was employed to select between the FEM and REM, and the Lagrange Multiplier test was used to determine whether the CEM or REM provided the more appropriate specification (Widodo et al., 2024).

Following the panel-model selection procedure, classical assumption tests were conducted as required by the characteristics of the selected regression model. These diagnostic procedures were performed to evaluate potential statistical problems, including multicollinearity and heteroscedasticity, and other relevant assumptions depending on the final panel-data specification. Hypothesis testing was subsequently conducted to evaluate the partial and simultaneous effects of transfer pricing, profitability, and leverage on tax avoidance. The statistical significance of the estimated relationships was evaluated at the 5% significance level, while the coefficient of determination was used to assess the explanatory ability of the regression model.

4. Result and Discussion

4.1 Descriptive Statistics

The descriptive statistics of the research variables are presented in Table 1. Tax avoidance was measured using the Cash Effective Tax Rate (CETR), transfer pricing

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using Related Party Transactions (RPT), profitability using Return on Assets (ROA), and leverage using the Debt-to-Equity Ratio (DER). Descriptive analysis was conducted to provide an overview of the distribution and central tendency of each variable across the observed companies. The results also allow an initial comparison of the characteristics of parent companies and subsidiaries before further panel-data regression analysis was performed.

Table 1. Descriptive Statistics

Variable	Proxy	Minimum	Maximum	Overall Mean	Parent Companies	Subsidiaries
Tax Avoidance	CETR	0.82%	79.22%	22.14%	18.45%	24.52%
Transfer Pricing	RPT	0.04%	99.22%	25.21%	26.03%	24.68%
Profitability	ROA	0.76%	34.36%	9.95%	10.17%	9.81%
Leverage	DER	0.1703	6.4659	0.8107	0.7618	0.8424

Source: Processed secondary data using EViews 12.

The average CETR was 22.14%, with parent companies recording a lower average CETR than subsidiaries. RPT averaged 25.21%, ROA averaged 9.95%, and DER averaged 0.8107. These results indicate differences in tax payments, related-party transaction intensity, profitability, and leverage between parent companies and subsidiaries.

4.2 Panel Data Model Selection

Panel-data model selection was conducted using the Chow, Hausman, and Lagrange Multiplier tests.

Table 2. Panel Data Model Selection

Sample	Chow Test	Hausman Test	LM Test	Selected Model
Combined Companies	0.0000	0.0174	–	FEM
Parent Companies	0.0002	0.1446	0.0171	REM
Subsidiaries	0.0003	0.0345	–	FEM

Note: FEM = Fixed Effect Model; REM = Random Effect Model.

Source: Processed secondary data using EViews 12.

The results indicate that the Fixed Effect Model was selected for the combined-company and subsidiary samples, while the Random Effect Model was selected for parent companies.

4.3 Classical Assumption Tests

4.3.1 Normality Test

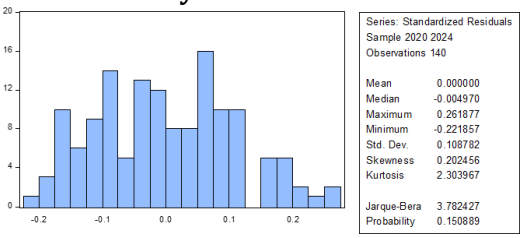

Figure 1. Normality Test Results for Combined Companies

The Jarque–Bera probability for the combined-company model was 0.150889, which exceeded the 0.05 significance level. Therefore, the residuals of the combined-company regression model were normally distributed.

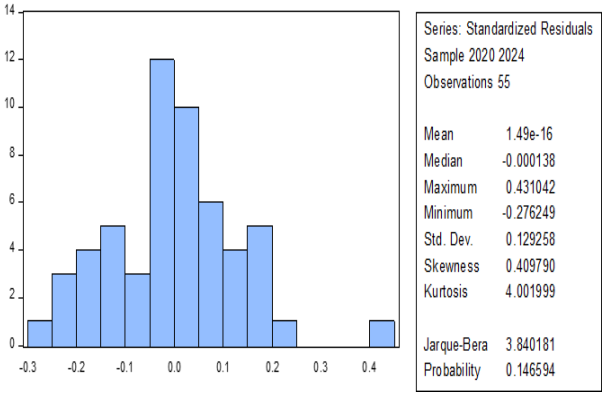

Figure 2. Normality Test Results for Parent Companies

The parent-company model produced a Jarque–Bera probability of 0.146594. Since this value was greater than 0.05, the residuals were considered normally distributed.

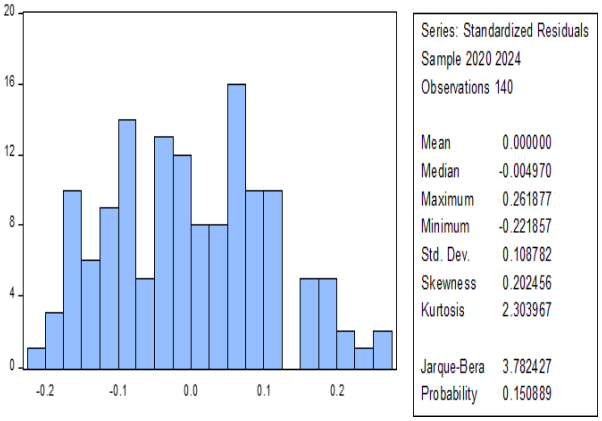

Figure 3. Normality Test Results for Subsidiaries

The subsidiary model generated a Jarque–Bera probability of 0.405636, which was above the 0.05 threshold. This result confirms that the residuals of the subsidiary regression model were normally distributed.

4.3.2 Multicollinearity Test

Table 3. Multicollinearity Test Results

Sample	RPT–ROA	RPT–DER	ROA–DER	Conclusion
Combined Companies	-0.2271	0.0216	0.3013	No multicollinearity
Parent Companies	-0.1342	-0.0338	-0.6193	No multicollinearity
Subsidiaries	-0.2873	0.0419	0.4838	No multicollinearity

Source: Processed secondary data using EViews 12.

All correlation coefficients among the independent variables were below 0.80.

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Therefore, no multicollinearity problem was identified in the combined-company, parent-company, or subsidiary regression models.

4.3.3 Heteroskedasticity Test

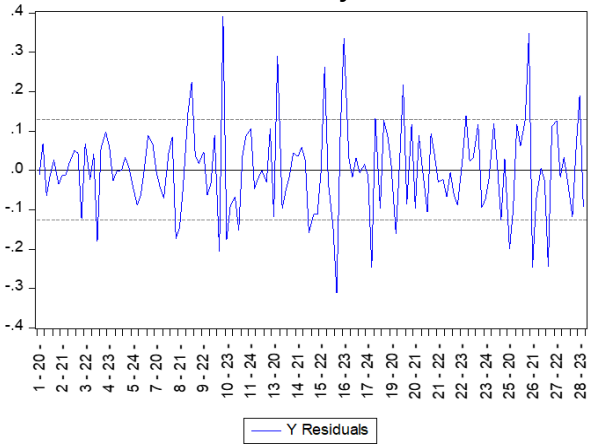

Figure 4. Heteroskedasticity Test Results for Combined Companies

The residuals of the combined-company model were randomly distributed around the zero line without forming a specific pattern. This indicates that no apparent heteroskedasticity problem was detected in the model.

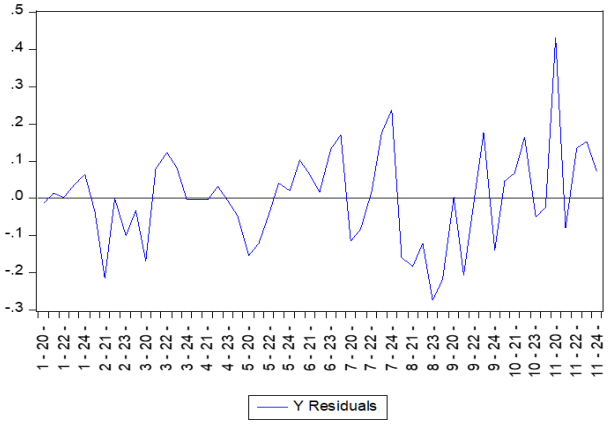

Figure 5. Heteroskedasticity Test Results for Parent Companies

The parent-company residuals were randomly dispersed above and below the zero line. The absence of a systematic pattern indicates that the model did not exhibit an apparent heteroskedasticity problem.

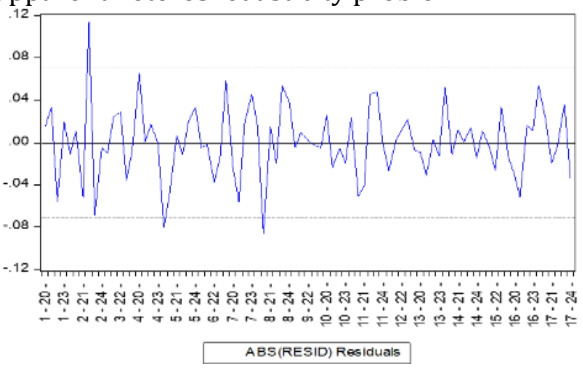

Figure 6. Heteroskedasticity Test Results for Subsidiaries

The subsidiary residuals were also randomly distributed around the zero line without forming a particular pattern. Therefore, the subsidiary model showed no apparent indication of heteroskedasticity.

4.3.4 Autocorrelation Test

Table 4. Autocorrelation Test Results

Sample	Durbin–Watson	Conclusion
Combined Companies	2.3439	No serious autocorrelation
Parent Companies	1.7446	No serious autocorrelation
Subsidiaries	2.4445	No serious autocorrelation

Source: Processed secondary data using EViews 12.

The Durbin–Watson values for the three models were relatively close to 2, indicating no serious autocorrelation problem in the combined-company, parent-company, or subsidiary models.

4.4 Panel Data Regression Results

Table 5. Panel Data Regression and Partial Test Results

Sample	Variable	Coefficient	t-Statistic	Probability	Result
Combined	Transfer Pricing	-0.150815	-1.603998	0.1116	Not significant
Combined	Profitability	-1.368001	-4.118523	0.0001	Significant
Combined	Leverage	-0.071985	-1.785208	0.0770	Not significant
Parent	Transfer Pricing	-0.039701	-0.511053	0.6115	Not significant
Parent	Profitability	-1.774128	-4.512640	0.0000	Significant
Parent	Leverage	-0.153372	-1.956387	0.0559	Not significant
Subsidiary	Transfer Pricing	-0.259453	-2.203639	0.0311	Significant
Subsidiary	Profitability	-0.915232	-1.982244	0.0517	Not significant
Subsidiary	Leverage	-0.053408	-1.183694	0.2408	Not significant

Significance level: 5%.
Dependent variable: CETR.
Source: Processed secondary data using EViews 12.

For the combined sample, profitability had a significant negative effect on CETR, while transfer pricing and leverage were not significant. Among parent companies, only profitability was statistically significant. In contrast, transfer pricing was the only significant variable among subsidiaries.

4.5 Coefficient of Determination

Table 6. Coefficient of Determination

Sample	R-Squared	Adjusted R-Squared
Combined Companies	0.4486	0.2968
Parent Companies	0.2782	0.2357
Subsidiaries	0.4130	0.2415

Source: Processed secondary data using EViews 12.

The adjusted R-squared values indicate

that transfer pricing, profitability, and leverage explained 29.68% of the variation in tax avoidance for the combined sample, 23.57% for parent companies, and 24.15% for subsidiaries.

4.6 Simultaneous Test

Table 7. Simultaneous Test Results

Sample	F-Statistic	Probability	Result
Combined Companies	2.9555	0.000021	Significant
Parent Companies	6.5513	0.000784	Significant
Subsidiaries	2.4074	0.004615	Significant

Source: Processed secondary data using EViews 12.

All probability values were below 0.05, indicating that transfer pricing, profitability, and leverage simultaneously had a significant effect on tax avoidance in the combined-company, parent-company, and subsidiary models.

4.7 Discussion

4.7.1 Effect of Transfer Pricing on Tax Avoidance

The results show that transfer pricing has a coefficient of −0.150815 with a significance value of 0.1116, indicating that transfer pricing does not have a significant effect on tax avoidance among multinational companies listed on the Indonesia Stock Exchange during 2020–2024. Since tax avoidance is proxied by CETR, the negative coefficient indicates an inverse relationship with CETR, although the relationship is statistically insignificant. Therefore, H1 is rejected.

This finding suggests that related-party transactions are not necessarily conducted primarily for tax-avoidance purposes because they may also reflect operational requirements, internal resource allocation, and legitimate transactions within multinational corporate groups. Recent evidence from Indonesian listed companies also shows that related-party transactions do not always significantly influence tax avoidance, indicating that the existence of affiliated transactions alone is insufficient to establish aggressive tax behavior (Lestari & Sari, 2026).

The insignificant effect may also reflect stronger regulatory monitoring and greater attention to transfer-pricing practices, which can limit managerial discretion in using related-party transactions for aggressive tax planning. Recent studies indicate that transfer-pricing exposure may increase regulatory scrutiny and consequently constrain aggressive tax-avoidance behavior (Wijaya & Santoso, 2026).

Nevertheless, the result differs from evidence showing that transfer pricing can influence tax avoidance among Indonesian multinational companies. This inconsistency indicates that the effect of transfer pricing may depend on company characteristics, sectoral conditions, ownership structures, and the nature of cross-border transactions (Nabila & Aryani, 2025).

4.7.2 Effect of Profitability on Tax Avoidance

Profitability has a coefficient of −1.368001 with a significance value of 0.0001, indicating a statistically significant negative effect on CETR. Because a lower CETR represents a higher level of tax avoidance, the result implies that profitability has a positive and significant relationship with tax avoidance. Therefore, H2 is accepted.

Higher profitability increases taxable income and consequently increases the potential corporate tax burden, which may strengthen managerial incentives to implement tax-planning strategies. More profitable firms may also possess greater financial resources and managerial capacity to design sophisticated tax-planning arrangements while remaining within the applicable regulatory framework. Recent empirical evidence from Indonesian listed companies confirms that profitability is positively associated with corporate tax-avoidance behavior (Stanley & Widianingsih, 2025).

The finding is also consistent with recent evidence showing that profitability and related-party transactions can positively influence tax avoidance, particularly when firms face changing taxation environments and stronger incentives to manage tax costs (Tampubolon & Setiabudi, 2026).

The importance of profitability is further supported by research on Indonesian multinational companies showing that profitability significantly influences tax avoidance. This suggests that profitability remains an important firm-level characteristic in explaining differences in corporate tax behavior (Nabila & Aryani, 2025).

Recent IDX-based research also confirms the importance of Return on Assets as an indicator of corporate financial performance, supporting its use as a proxy for firms' ability to generate profits from their asset base (Fianiningsi et al., 2026).

4.7.3 Effect of Leverage on Tax Avoidance

Leverage has a coefficient of −0.071985 with a significance value of 0.0770, indicating that leverage does not significantly affect tax avoidance. Although the coefficient is negative toward CETR and therefore corresponds to a positive direction toward tax avoidance, the relationship is statistically insignificant. Accordingly, H3 is rejected.

This result indicates that debt financing among multinational companies is not necessarily undertaken as a tax-avoidance mechanism. Corporate borrowing decisions may instead be driven by financing requirements, capital-structure policies, investment needs, liquidity considerations, and broader corporate risk management. Capital-structure decisions are fundamental components of corporate financial management and are generally influenced by multiple strategic and financial considerations beyond taxation (Sulawati et al., 2025).

The finding is consistent with evidence from non-financial multinational companies in Indonesia, where leverage was found to have no significant effect on tax avoidance despite the potential tax benefits associated with interest expenses (Nabila & Aryani, 2025).

Similar evidence shows that leverage may not significantly influence tax avoidance because debt financing and tax-planning decisions can be determined by different corporate considerations (Stanley & Widianingsih, 2025).

However, other recent studies have reported a significant relationship between leverage and tax avoidance, demonstrating that the effect of debt financing remains sensitive to sectoral characteristics and research design (Hapsari, 2025).

4.7.4 Simultaneous Effect of Transfer Pricing, Profitability, and Leverage on Tax Avoidance

The simultaneous test shows an F-statistic of 2.955465 with a probability value of 0.000021, indicating that transfer pricing, profitability, and leverage jointly have a significant effect on tax avoidance. Therefore, H4 is accepted.

This finding indicates that corporate tax avoidance cannot be explained solely by one financial characteristic. Instead, tax behavior reflects the combined influence of related-party transactions, corporate profitability, and financing structure. Similar evidence from Indonesian multinational companies shows that corporate financial and operational characteristics collectively contribute to variations in tax-avoidance behavior (Nabila & Aryani, 2025).

The result also highlights the importance of evaluating profitability and leverage as interconnected financial characteristics rather than isolated variables, because both indicators represent broader corporate performance and capital-structure conditions (Fianiningsi et al., 2026).

4.7.5 Differences Between Parent Companies and Subsidiaries

The results reveal different patterns between parent companies and subsidiaries. Transfer pricing does not significantly affect tax avoidance among parent companies, with a probability value of 0.6115, whereas it has a significant effect among subsidiaries, with a probability value of 0.0311. Profitability significantly affects tax avoidance among parent companies with a probability value of 0.0000 but is not significant among subsidiaries with a probability value of 0.0517. Leverage is not significant in either parent companies or subsidiaries, with probability values of 0.0559 and 0.2408, respectively.

The stronger role of transfer pricing among subsidiaries may reflect their greater involvement in intra-group transactions and their position within multinational corporate structures. International evidence indicates that tax-motivated profit shifting through transfer pricing can be particularly evident among foreign subsidiaries, especially when subsidiaries are connected to parent companies located in low-tax or tax-haven jurisdictions (Le & Zamarian, 2025).

Differences between parent companies and subsidiaries are also consistent with broader international evidence showing that profit-shifting responses vary within multinational groups according to the tax incentives faced by parent and subsidiary entities. Multinational groups with links to low-tax jurisdictions exhibit stronger profit responses to tax incentives, demonstrating that organizational position within a multinational group can influence corporate tax behavior (Delis et al., 2025).

Overall, the results indicate that profitability is more relevant in explaining tax avoidance among parent companies, whereas transfer pricing plays a more important role among subsidiaries. Leverage shows a consistent insignificant pattern across both

groups, suggesting that financing decisions may be driven primarily by broader capital-structure considerations rather than tax-avoidance objectives.

However, this study does not employ a specific statistical test to compare regression coefficients between parent companies and subsidiaries. Therefore, these findings should be interpreted as differences in regression patterns rather than statistically confirmed differences between the two groups.

5. Conclusion

Based on the results of this study on the effects of transfer pricing, profitability, and leverage on tax avoidance among multinational companies listed on the Indonesia Stock Exchange during 2020–2024, several conclusions can be drawn. Partially, transfer pricing does not significantly affect tax avoidance, indicating that related-party transactions are more likely to support operational activities and business strategies than to serve as a tax-avoidance mechanism. Increasing tax supervision and transfer-pricing documentation requirements may also encourage companies to exercise greater caution in conducting affiliated transactions.

In contrast, profitability has a positive and significant effect on tax avoidance, suggesting that more profitable companies tend to undertake tax-planning strategies to optimize after-tax earnings. This finding is consistent with agency theory, which explains that management may seek to maximize shareholder interests through efficient tax management. Leverage, however, does not significantly affect tax avoidance, indicating that the level of corporate debt is not a primary determinant of tax-avoidance practices.

Simultaneously, transfer pricing, profitability, and leverage have a significant effect on tax avoidance, showing that corporate tax-avoidance behavior is influenced by a combination of financial characteristics.

The comparative analysis also reveals different patterns between parent companies and subsidiaries. Transfer pricing significantly affects tax avoidance among subsidiaries but not among parent companies, whereas profitability is significant among parent companies but not among subsidiaries. Leverage is insignificant in both groups. However, because this study does not employ a specific statistical test to compare regression coefficients between the two groups, these findings should be interpreted as differences in regression patterns rather than statistically confirmed differences in effects.

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