



THE EFFECT OF PROFITABILITY AND THIN CAPITALIZATION ON TAX AVOIDANCE MODERATED BY TRANSFER PRICING IN ENERGY SECTOR COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

Aris Suko Wibowo¹⁾; Diana Sari²⁾

¹⁾ arissuko@gmail.com, Universitas Widyatama

²⁾ diana.sari@widyatama.ac.id, Universitas Widyatama

Abstract

The contribution of taxes to state revenue in Indonesia is very high. In 2021, 2022, and 2023, tax revenue contributed an average of 77.17 percent of total state income and grants, with 7.23 percent of tax revenue coming from the mining and quarrying sector. The tax burden on companies leads to efforts for tax avoidance. Several factors that influence tax avoidance are profitability, thin capitalization, and transfer pricing. This study aims to determine the effect of profitability and thin capitalization on tax avoidance moderated by transfer pricing. The research objects are companies in the energy sector listed on the Indonesia Stock Exchange for the period 2021 to 2023. The research method used is quantitative with secondary data sources. The sample size is 31 companies, observed over 3 years, resulting in 93 observations. Regression analysis was performed using the Eviews 12 software. The results show that profitability does not affect tax avoidance. Thin capitalization practices have a positive and significant effect on tax avoidance. Transfer pricing does not strengthen the relationship between profitability and tax avoidance. Transfer pricing does not strengthen the relationship between thin capitalization and tax avoidance.

Keywords: Profitability, Tax avoidance, Thin capitalization, Transfer pricing

INTRODUCTION

The contribution of taxes to state revenue in Indonesia is very high. Tax revenue in 2023 amounted to IDR 2,154.20 trillion or 77.38 percent of the total state revenue and grants amounting to IDR 2,783.92 trillion. The contribution of tax revenue compared to state revenue and grants in 2021, 2022, and 2023 were respectively 76.96 percent, 77.19 percent, and 77.38 percent. The average contribution of tax revenue from 2021 to 2023 is 77.17 percent of the total state revenue and grants (Central Government Financial Report 2021-2023). Tax revenue from the mining and quarrying sector makes a significant contribution to total tax revenue. From 2019 to 2023, the proportion of tax revenue from the mining and quarrying sector averaged 7.23 percent of total tax revenue (Annual Report of the Directorate General of Taxes, 2019-2023).

The tax burden on companies and company owners leads to efforts to avoid taxes. Tax avoidance is the most challenging issue to prevent in every tax jurisdiction. Companies take advantage of unclear regulations in the context of tax avoidance to obtain favorable tax outcomes (Arham et al., 2020). Companies tend to seek ways to reduce the amount of tax payments. The methods and techniques used in tax avoidance are in a gray area, tending to exploit the weaknesses of tax regulations to reduce the amount of taxes owed (Pohan, 2016).

The phenomenon of tax avoidance came to public attention in 2020. Indonesia is estimated to suffer a loss of US\$4.86 billion or equivalent to IDR 68.7 trillion using an exchange rate of IDR 14,149 per US dollar annually due to tax avoidance (Tax Justice Network, 2020). Corporate tax avoidance contributes US\$4.78 billion or equivalent to IDR 67.6 trillion, while individual taxpayers contribute US\$78.83 million or equivalent to IDR 1.1 trillion. Global Witness (2019) reported that during the period 2019 to 2017, Adaro Energy used its subsidiary in Singapore, Coaltrade Services International, to pay US\$125 million less in taxes than it should have to the Indonesian government. Adaro is also suspected of reducing its tax obligations in Indonesia by transferring more money to tax-free places. Adaro is suspected of



engaging in transfer pricing or moving its revenues and profits abroad to reduce the taxes paid to the Indonesian government. Adaro exploited this loophole by selling coal to Coaltrade Services International at a lower price. The coal was then sold to other countries at a higher price. The taxable income in Indonesia becomes smaller. In other words, the sales and profits reported in Indonesia are lower than they should be (Global Witness, 2019).

In studies on tax avoidance, researchers typically distinguish between tax non-compliance, tax evasion, and tax avoidance. Tax evasion refers to deliberate criminal non-compliance with tax obligations. Tax avoidance refers to deliberate actions to reduce one's taxes legally. When taxpayers try to find legal loopholes to pay less tax, their actions, while technically legal, may be contrary to the spirit of the law and are considered non-compliant (Wenzel, 2002). Tax avoidance is an effort by taxpayers to avoid taxes legally and safely because it does not contradict applicable tax regulations. Taxpayers tend to exploit weaknesses in tax laws and regulations to minimize the amount of taxes owed (Pohan, 2016).

Several studies have been conducted to determine the various factors influencing tax avoidance efforts. These factors include profitability, thin capitalization, and transfer pricing (Hanlon & Heitzman, 2010). Several previous studies have found the impact of profitability on tax avoidance. Sari et al. (2021) stated that the return on assets variable as a measure of profitability does not have a significant effect on tax avoidance. The same was stated by Mulyati et al. (2019) in their research, stating that profitability does not affect tax avoidance. Wanda & Halimatusadiah (2021) also found that profitability has a negative impact on tax avoidance. ROA is used as a measure of profitability because it can provide an adequate measure of the overall effectiveness of the company and consider profitability. The higher the ROA value, the better the company's asset management, resulting in higher profits for the company. When the profits earned increase, the amount of income tax will also increase in line with the increase in company profits, which will encourage companies to engage in tax avoidance (Mulyati et al., 2019). There are differing opinions on the impact of profitability on tax avoidance. Santoso et al. (2021) stated that profitability with the proxy of return on assets (ROA) has a positive effect on tax avoidance practices. Darsani & Sukartha (2021) found similar results, where profitability affects tax avoidance.

In the field of taxation, the term thin capitalization is known. Thin capitalization is the formation of a company's capital structure with a much higher proportion of debt compared to equity. This occurs because tax regulations allow interest expenses to be deductible in the calculation of taxable income, while dividends are not deductible expenses (OECD, 2019). Thin capitalization is used in tax avoidance practices because interest expenses can become deductible expenses. Therefore, companies can take advantage of incentives in the form of tax deductions at higher rates due to interest expenses (Utami & Irawan, 2022). Rahayu (2010) in his research revealed that there are five common tax avoidance practices, namely transfer pricing, thin capitalization, treaty shopping, controlled foreign corporations, and the use of tax haven countries. Thin capitalization is defined as loans in the form of money or capital from shareholders financing their subsidiaries. The parent company will provide contributions in the form of debt rather than equity (Rahayu, 2010). Consequently, the subsidiary will be burdened with interest expenses, which are deductible elements in the calculation of taxable income. Ultimately, the subsidiary's tax liability is also reduced.

Taylor & Richardson (2012) found that thin capitalization, transfer pricing, income shifting, multinationality, and the use of tax havens are significantly associated with tax avoidance. Based on the magnitude and significance level of regression coefficients in that study, thin capitalization and transfer pricing are the main drivers of tax avoidance. Falbo & Firmansyah (2018) in their research also found that thin capitalization positively affects tax



avoidance. This is consistent with the research of Utami & Irawan (2022) which shows that thin capitalization has a positive impact on tax avoidance.

Several studies have examined the relationship between transfer pricing and tax avoidance. Putri & Mulyani (2020) in their research found that transfer pricing positively affects tax avoidance. The research conducted by Dewi et al. (2023) stated that transfer pricing significantly affects tax avoidance. Other studies found that transfer pricing positively affects tax avoidance (Aristyatama & Bandiyono, 2021). The research results of Panjalusman et al. (2018) showed that transfer pricing affects but does not significantly affect tax avoidance. This is consistent with the research conducted by Nurrahmi & Rahayu (2020) which stated that transfer pricing positively affects tax avoidance. On the other hand, Fadillah & Lingga (2017) found that transfer pricing does not have an effect on tax aggressiveness. Irawan et al. (2020) stated that transfer pricing has a significantly negative effect on tax avoidance. This indicates that companies do not use transfer pricing activities as a medium for tax avoidance. Falbo & Firmansyah (2018) in their research also found that transfer pricing does not affect tax avoidance. Based on the above explanation, the author addresses the issue by conducting research on the effect of profitability and thin capitalization on tax avoidance moderated by transfer pricing.

LITERATURE REVIEW

Agency Theory

According to Jensen & Meckling (1976), agency theory is based on an agency relationship that arises from a contract in which one or more owners of economic resources (principals) involve another party (agent) to manage those resources. The company owners, as principals, delegate authority to managers (agents) for making business decisions. The problem arises because agents do not always make decisions that aim to meet the interests of the company owners, leading to agency conflicts. Jensen & Meckling (1976), as cited in Darsani & Sukartha (2021), state that agency theory explains the contractual relationship between the principal (grantor) and the agent (grantee). Shareholders, acting as principals, delegate business decisions to managers who act as their agents. In the context of tax avoidance, agency theory can explain the conflict between tax authorities (government representatives) and taxpayers (companies). The government (principal) has the legal right to collect taxes from the income earned by taxpayers (agents), but taxpayers have their own interest in maximizing profits. This difference in interests results in suboptimal state tax revenues due to the opportunistic actions of taxpayers. These different perspectives create conflict between tax authorities as collectors and companies as taxpayers (Darsani & Sukartha, 2021).

Tax Avoidance

The theory of tax avoidance was notably stated by Hanlon & Heitzman (2010). Tax avoidance theory encompasses the relationship between shareholders, management, and the government, as well as potential agency problems that may arise in corporate tax avoidance. Tax avoidance includes the reintegration of corporate governance into the tax avoidance literature. It involves considering the corporate-level governance structure and its effects on responses to taxation, as well as considering tax authorities acting as an additional governance mechanism for companies. Factors influencing individual tax avoidance and compliance have been extensively studied in public economics. Theoretically, individual tax compliance is determined by tax rates, the probability of detection and penalties, sanctions, and risk aversion, as well as intrinsic motivations such as civic duty. Most of these factors also apply to corporate tax avoidance Hanlon & Heitzman (2010).

Additional problems arise in companies with widespread ownership due to the separation between ownership and control. Risk-neutral shareholders expect managers acting



on their behalf to focus on maximizing profits, including seeking opportunities to reduce tax liabilities as long as the expected additional benefits exceed the additional costs. Tax avoidance is not a reflection of agency problems in itself (Hanlon & Heitzman, 2010). The separation between ownership and control can lead to corporate tax decisions reflecting managers' personal interests. The challenge for shareholders and boards of directors is to find a combination of control mechanisms and incentives that minimize these agency costs (Jensen & Meckling, 1976).

Tax avoidance refers to deliberate actions to reduce one's tax liability legally. When taxpayers seek legal loopholes to pay less tax, their actions, although technically legal, may conflict with the spirit of the law and be considered non-compliant (Wenzel, 2002). Hanlon & Heitzman (2010) broadly define tax avoidance as activities that explicitly reduce the nominal tax from pre-tax income. According to these definitions, tax avoidance is an action still permitted under applicable tax regulations. In relation to agency theory, shareholders expect managers acting on their behalf to focus on maximizing profits, including seeking opportunities to reduce tax liabilities as long as the expected additional benefits exceed the additional costs. The separation between ownership and control can lead to corporate tax decisions reflecting managers' personal interests. The challenge for shareholders and boards of directors is to find a combination of control mechanisms and incentives that minimize these agency costs (Hanlon & Heitzman, 2010).

The separation between ownership and control implies that if tax avoidance is considered a valuable activity, the company's owners should design appropriate incentives for managers to make efficient tax decisions. The intended decision is the corporate tax decision that increases the owners' post-tax wealth, where the additional benefits of the transaction exceed the additional costs. This can be done explicitly based on tax outcomes or implicitly through contracts linking salaries to post-tax results (Hanlon & Heitzman, 2010).

Tax avoidance is an effort to avoid taxes carried out by taxpayers legally and safely because it does not violate applicable tax regulations. Taxpayers tend to exploit weaknesses in tax laws and regulations to minimize the amount of tax owed (Pohan, 2016). Companies conduct tax reviews with the aim of minimizing the tax liabilities to be paid. This is due to the profits earned by large companies, which are reluctant to pay high taxes. Companies will try to minimize profits by charging as many costs as legally allowed and seeking alternative financing through debt, resulting in interest expenses for the company. Along with increased profits, this will affect the company's asset value; it will impact the company's size, making managers more likely to engage in tax avoidance (Mulyati et al., 2019) (Olkiewicz, 2018).

Profitability

Profitability is a ratio used to assess a company's ability to generate profit. This ratio also provides a measure of the effectiveness of the company's management, as indicated by the profit generated from sales and investment income. The main goal that a company aims to achieve is maximum profit, alongside other objectives (Kasmir, 2021). Munawir, as cited in Sari et al. (2021), states that profitability indicates a company's ability to generate profit over a certain period. The profitability of a company is measured based on the company's success and its ability to use its activities productively.

Mulyati et al. (2019) state that one of the measures of company performance is profitability. The profitability of a company shows its ability to generate profit over a certain period at specific levels of sales, assets, and equity. Profitability consists of several ratios, including net profit margin (NPM), return on equity (ROE), and return on assets (ROA). NPM compares net income with sales over an accounting period. ROE compares net sales to a company's equity. ROA compares a company's net profit with its total assets. Researchers ROA to measure a company's profitability. According to Sari et al. (2021), ROA is related to a



company's net profit and income tax liabilities. The higher the ROA, the higher the company's profit, indicating better asset management. The higher the ROA generated, the higher the company's income, which encourages the company to engage in tax avoidance.

Wiratmoko, as cited in (Darsani & Sukartha, 2021) states that the profitability obtained by a company influences the steps it will take to maximize net profit. The higher the profitability, the greater the profit that can be generated, and thus, the higher the tax on those profits. Companies with high profits do not want to pay high taxes, they tend to engage in tax avoidance. In other words, the higher the company's profit, the greater the tendency to engage in tax avoidance to reduce the tax burden.

Thin Capitalization

Generally, there are two ways a company can be financed. One is by issuing shares in the company's equity, and the other is by borrowing. Tax issues may arise from the balance between these two financing methods. These issues are sometimes referred to, albeit somewhat loosely, as thin capitalization problems (OECD, 2019). Thin capitalization refers to a situation where a company is financed with a higher proportion of debt compared to equity. According to (OECD, 2019), thin capitalization is a practice where companies prefer to use debt over equity in their financing. Thin capitalization involves the arrangement of debt and equity composition for tax purposes. If it exceeds a certain amount determined by tax authorities, the interest cost on such debt must be positively adjusted fiscally to prevent Base Erosion and Profit Shifting.

Based on capital structure theory, debt can provide tax incentives for companies through the ability of interest expenses to reduce taxable income (Modigliani & Miller, 1963). Multinational companies have the incentive to finance their foreign subsidiaries with debt when the tax rate in the subsidiary's country is higher than the domestic tax rate. Tax regulations allow interest expenses that have been paid or are still in the form of interest debt to be deductible when calculating taxable income, so the higher the interest expense, the lower the taxable income (Taylor & Richardson, 2012).

In many countries, debt and equity are taxed differently. In Indonesia, interest on debt can reduce taxable income, while dividends and some other returns on capital cannot reduce taxable income and are subject to non-creditable final taxes. These regulations have evolved to address profit shifting through interest and equivalent economic payments, reduce business competition distortion between multinational and national companies, reduce investment distortion, avoid double taxation, and promote economic stability (OECD, 2019).

The Government of the Republic of Indonesia issued Minister of Finance Regulation Number 169/PMK.010/2015 to anticipate the use of thin capitalization. Debt-to-equity ratio is set at a maximum of four to one (4:1). If the debt-to-equity ratio of a taxpayer exceeds the ratio, the allowable interest expense in calculating taxable income shall be the interest expense according to the debt-to-equity ratio.

Transfer Pricing

In multinational companies, there are various international transactions between company members, whether it be the sale of goods or services. Most of these business transactions usually occur between related companies or companies with special relationships. Universally, transactions between taxpayers with special relationships are known as transfer pricing. These transactions can result in the transfer of tax bases or costs from one taxpayer to another, which can be engineered to reduce the total tax owed by the related taxpayers (Sari et al., 2021). Transfer pricing often carries a negative connotation because it is used by multinational companies to set prices with the aim of shifting income from one entity to another in different countries. The goal is to reduce taxable income in high-tax countries and move profits to low-tax countries (Sari et al., 2021).



The impact of transfer pricing can be either overpricing or underpricing. The implication of transfer pricing that deviates from market prices is the potential tax shift from high-tax countries to lower-tax countries. This potential tax shift causes tax distortions between companies with special relationships. To eliminate these distortions, recalculations are made to determine the amount of income. One approach that can be used for recalculations is profitability. This approach assesses the fairness of transfer pricing based on the fairness of the total gross profit obtained by the company (Sari et al., 2021).

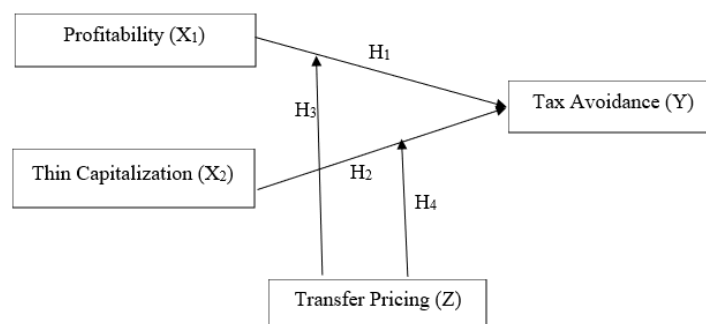
Transfer pricing refers to prices in transactions influenced by special relationships (Minister of Finance Regulation Number 172 of 2023). PSAK 7 of 2015 on Related Party Disclosures regulates the disclosure of relationships, transactions, balances of related parties, and commitments in consolidated financial statements and parent entity financial statements. Parties with special relationships can engage in transactions that parties without special relationships cannot perform. Related party transactions involve the transfer of resources, services, or obligations between the reporting entity and related parties, regardless of whether a charge is made.

Article 18 paragraph (3) of the Income Tax Law states that the Director General of Taxes has the authority to reassess the amount of income and deductions, and to determine debt as equity to calculate the taxable income of taxpayers with special relationships to other taxpayers according to the fairness and normality of business practices not influenced by special relationships. This reassessment of taxable income is done using the comparable uncontrolled price method, the resale price method, the cost-plus method, or other methods.

Conceptual Framework

Based on the phenomenon, theoretical framework, and previous research, the following hypotheses can be drawn: H1: Profitability has a positive effect on tax avoidance in energy sector companies listed on the Indonesia Stock Exchange for the period from 2021 to 2023. H2: Thin capitalization has a positive effect on tax avoidance in energy sector companies listed on the Indonesia Stock Exchange for the period from 2021 to 2023. H3: Transfer pricing strengthens the relationship between profitability and tax avoidance in energy sector companies listed on the Indonesia Stock Exchange for the period from 2021 to 2023. H4: Transfer pricing strengthens the positive relationship between thin capitalization and tax avoidance in energy sector companies listed on the Indonesia Stock Exchange for the period from 2021 to 2023. Conceptual framework as shown in Figure 1.

Figure 1: Conceptual Framework



Source: Research Processed Data

METHODS

Nuryaman & Christina (2015) define the object of research as the characteristics inherent in the research subject. These characteristics, when given a value, will vary between individuals. In research terminology, this object of research is called a research variable. A



research variable is a characteristic, feature, property, or condition inherent in multiple subjects, which can vary in value between different subjects. In this research, the objects of study are profitability, thin capitalization, transfer pricing, and tax avoidance in energy sector companies listed on the Indonesia Stock Exchange for the period from 2021 to 2023.

The data source used is secondary data. Secondary data refers to data that is available and created by certain parties in the form of documents (Nuryaman & Christina, 2015). The data source used in this study is the financial data of companies as published by the Indonesia Stock Exchange. The data collection method used is secondary data analysis. Secondary data analysis involves collecting data by reading, recording, and analyzing data and information found in available reports or documents, whether published or unpublished.

A population is a generalization area consisting of objects or subjects with specific qualities and characteristics determined by the researcher to be studied and then conclusions drawn from (Sugiyono, 2013). The population represents the entire group of people, events, or anything of interest that the researcher wants to investigate. The population is the total collection of elements from which conclusions will be drawn (Nuryaman & Christina, 2015). Based on the above definition, the population in this study is the financial report data of energy sector companies listed on the Indonesia Stock Exchange (IDX) for the period from 2021 to 2023. There are 87 energy sector companies listed on the Indonesia Stock Exchange. The criteria used as the research sample are: (1) Energy sector companies on the main board that are continuously listed on the Indonesia Stock Exchange from 2021 to 2023 (2) Energy sector companies that publish complete financial reports during the period from 2021 to 2023 (3) Energy sector companies with earnings before tax during 2021 to 2023 that did not incur losses. The sample size is 31 companies, observed over 3 years, resulting in 93 observations. Regression analysis was performed using the Eviews 12 software.

Variable operationalization is carried out by observing the dimensions, aspects, and behavioral characteristics of a concept, and then translating them into observable and measurable elements in order to create or develop measurement indices for those concepts (Nuryaman & Christina, 2015). Based on the title, the following variables are studied: The independent variables in this research are profitability and thin capitalization, The dependent variable in this research is tax avoidance, and the moderating variable in this research is transfer pricing. Profitability is measured by return on assets, which is net profit after tax divided by total assets. Thin capitalization is measured by total debt divided by total equity. Tax avoidance is measured by income tax expense divided by earnings before tax. Transfer pricing is measured by receivables from related parties divided by total receivables.

This research uses panel data analysis. Panel data is a combination of cross-section and time series data. Data analysis begins with descriptive statistical analysis. Next, the selection of the panel data regression model is conducted, whether it is the common effect model, fixed effect model, or random effect model. The selection of this model is done using the Chow Test, Hausman Test, and Lagrange Multiplier Test. The subsequent steps are the analysis of the coefficient of determination, formulation of research hypotheses, hypothesis testing, determination of significance, and drawing conclusions.

RESULTS AND DISCUSSION

From a sample size of 31 companies observed over 3 years, the total number of observations obtained is 93. The data distribution and descriptive statistics as shown in Table 1.



Table 1.
Descriptive Statistics of Profitability, Thin Capitalization Tax Avoidance
and Transfer Pricing of Energy Sector Companies Listed on the Indonesia Stock
Exchange in 2021-2023

	ROA	DER	ETR	TP
Mean	0.141498	0.590876	0.258425	0.230709
Median	0.090800	0.380000	0.223700	0.104800
Maximum	0.603600	3.701000	0.964900	0.944200
Minimum	0.000200	0.020000	0.009700	0.000100
Std. Dev	0.137657	0.619412	0.163773	0.282960
Skewness	1.422162	2.317944	1.979386	1.262468
Kurtosis	4.504695	9.967285	8.283506	3.414875
Jarque-Bera	40.12288	271.3838	168.9009	25.37128
Probability	0.000000	0.000000	0.000000	0.000003
Sum	13.15930	54.95150	24.03350	21.45590
Sum Sq. Dev.	1.743339	35.29772	2.467592	7.366095
Observation	93	93	93	93

Source: Research data

Based on the descriptive statistics, it is known that for the profitability variable (ROA), the average value is 0.141498 with a standard deviation of 0.137657. The minimum value of the profitability variable is 0.0002 and the maximum value is 0.6036. The standard deviation value that is close to the average indicates that the profitability values of the companies under study are quite varied. The lowest profitability value in this study is from PT. Delta Dunia Makmur Tbk. (DOID) in 2021, which is 0.0002. This indicates that the net profit after tax divided by total assets is 0.0002. The highest profitability value is from PT Golden Energi Mines Tbk. (GEMS) in 2022, which is 0.6036. This indicates that the net profit after tax divided by the total assets of GEMS in 2022 is 60.36 percent.

The thin capitalization variable (DER) in this study has an average value of 0.590876 and a standard deviation of 0.619412. The standard deviation value close to the average indicates that the thin capitalization values of energy sector companies are quite varied. The minimum value of the thin capitalization variable is 0.0200, while the maximum value is 3.7010. The smallest thin capitalization value in this study is from PT. Sunindo Pratama Tbk. (SUNI) in 2022, which is 0.0200. This means that the debt compared to equity value of SUNI in 2022 is only 0.0200. The largest thin capitalization value is from PT. Adaro Minerals Indonesia Tbk. (ADMR) in 2021. The debt-to-equity ratio of ADMR in 2021 is 3.7010.

The dependent variable in this study, tax avoidance measured by ETR, has an average value of 0.258425. The standard deviation of tax avoidance is 0.163773. This standard deviation value indicates a fairly varied distribution of tax avoidance variable values. The minimum value of the tax avoidance variable is 0.0097, while the maximum value of this variable is 0.9649. The company with the smallest tax avoidance variable value is PT. Wintermar Offshore Marine Tbk. (WINS) in 2023, which is 0.0097. This means that the income tax expense compared to the earnings before tax of WINS in 2023 is 0.97 percent. The company with the highest tax avoidance variable value is PT. Delta Dunia Makmur Tbk. (DOID) in 2021, which is 0.9649. This means that in 2021, DOID had an income tax expense of 96.49 percent of the earnings before tax. The transfer pricing variable used in this study as a moderating variable has an average value of 0.230709 with a standard deviation of 0.282960. The standard deviation value



exceeding the average indicates that the transfer pricing values of the companies under study are highly varied. The minimum transfer pricing value is 0.0001, while the maximum value of this variable is 0.9442. The company with the minimum transfer pricing value is PT. Sillo Maritime Perdana Tbk. (SHIP) in 2023, which is 0.0001. This means that the total value of receivables from related parties compared to the total value of receivables is 0.01 percent. The company with the maximum transfer pricing value in this study is PT. Elnusa Tbk. (ELSA) in 2022, which is 0.9442. This means that in 2022, the total value of receivables of ELSA from related parties is 94.42 percent compared to its total receivables.

The results of the tests using Eviews 12 show the Adjusted R Square coefficient of determination as shown in Table 4.7. The coefficient of determination is indicated by the nominal Adjusted R Square value of 0.084506. This nominal value means that the variables profitability (X1), thin capitalization (X2), and transfer pricing (Z) in this study explain the tax avoidance (Y) variable by 8.45 percent. The remaining 91.55 percent is not explained in this study.

The estimated regression equation relationship produced is as follows:

$$ETR = 0.27982 - 0.35343*ROA + 0.06526*DER + 0.00125*ROATP - 0.07582*DERTP + [CX=R]$$

The results of the partial hypothesis test (T-test) as shown in Table 2.

Table 2. Results of the partial hypothesis test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2239.323	504.5923	4.437886	0.0000
X1	-0.210760	0.175815	-1.198754	0.2339
X2	0.101141	0.048416	2.088995	0.0396
Z	0.200889	0.116841	1.719341	0.0891
X1*Z	-0.754705	0.692205	-1.090292	0.2786
X2*Z	-0.171774	0.110562	-1.553645	0.1239

Source: Data Processed (2024)

The Effect of Profitability on Tax Avoidance

The t-test results for the profitability variable (X1) show a calculated t value of 1.198754, which is less than the t-table value of 1.98637 ($1.198754 < 1.98637$), and a probability value of 0.2339, which is greater than 0.05. Based on these figures, H01 is accepted and Ha1 is rejected. This means that profitability does not affect tax avoidance in energy sector companies in Indonesia.

Sari et al (2021) found that profitability measured by the return on assets variable does not have a significant effect on tax avoidance. Mulyati et al (2019) found similar results where profitability does not affect tax avoidance. Wanda and Halimatusadiah (2021) in their research found that profitability has a negative impact on tax avoidance. A higher ROA value indicates better management of company assets by management, resulting in greater profits for the company. This increase in profits will encourage management to engage in tax avoidance efforts.

Based on the regression results, it can be seen that profitability statistically does not affect tax avoidance practices in Indonesian energy sector companies. This conclusion is shown by the t-test results on the profitability variable (X1) of 1.198754, which is smaller than the t-table value of 1.98637 ($1.198754 < 1.98637$), and a probability value of 0.2339, which is greater than 0.05. Based on these figures, H01 is accepted and Ha1 is rejected. This means that profitability does not affect tax avoidance in energy sector companies in Indonesia. The results of this study are consistent with several previous studies. Research conducted by Sari et al (2021), Mulyati et al (2019), and Wanda and Halimatusadiah (2021) states that profitability does not significantly affect tax avoidance. The management of companies in this study, which are energy sector companies listed on the Indonesia Stock Exchange from 2021 to 2023, does



not consider profitability as a factor for engaging in tax avoidance. Profitability, which is the ratio of net profit after tax divided by total assets, is not considered by management as a factor for engaging in tax avoidance.

The Effect of Thin Capitalization on Tax Avoidance

The regression results in this study show that thin capitalization affects tax avoidance. In Table 4.8, it is noted that the t-calculated value for the thin capitalization variable (X2) is 2.088995, which is greater than the t-table value of 1.98637 ($2.088995 > 1.98637$), and the probability value is 0.0396, which is less than 0.05 ($0.0396 < 0.05$). Based on these figures, H02 is rejected and Ha2 is accepted. This means that thin capitalization has a significant effect on tax avoidance. The results of this study are consistent with previous studies that state that thin capitalization has a positive effect on tax avoidance, as found by Falbo & Firmansyah (2018) and Utami & Irawan (2022). These findings imply that energy sector companies listed on the Indonesia Stock Exchange from 2021 to 2023 use thin capitalization practices as one means of engaging in tax avoidance. This practice involves increasing debt and incurring interest expenses on the debt. These interest expenses can be used as deductions in calculating the company's taxable income. Companies prefer to charge interest on debt to shareholders rather than distribute dividends to shareholders. The main reason is that interest expenses on debt can reduce gross income in the calculation of taxable income. Meanwhile, dividend payments cannot be considered as deductions from gross income in calculating taxable income.

The practice of thin capitalization is carried out by increasing debt from shareholders rather than increasing equity. Loan costs in the form of interest paid to shareholders are allowed to reduce gross income in calculating taxable income. With this practice, management will be able to save on corporate tax costs. Based on this study, the practice of thin capitalization has a positive and significant effect on tax avoidance efforts by company management. Tax avoidance through this method is legal as it does not violate applicable tax regulations. If the government wants to minimize tax avoidance efforts from this thin capitalization practice, researchers suggest actions the government can take. The government can issue a Minister of Finance Regulation on amendments to Minister of Finance Regulation Number 169/PMK.010/2015. The suggested action is to change the debt-to-equity ratio. According to Minister of Finance Regulation Number 169/PMK.010/2015, the maximum debt-to-equity ratio for the purpose of calculating corporate income tax is four to one (4:1). To minimize tax avoidance from thin capitalization practices, the government can change this ratio to, for example, 3:1 or even 2:1. Many countries apply a debt-to-equity ratio (DER) of 3:1, and some even apply 2:1 (Darussalam, 2015). By adjusting the ratio from 4:1 to 3:1 or even 2:1, tax avoidance efforts from thin capitalization practices are expected to decrease.

The Effect of Transfer Pricing in Moderating the Relationship between Profitability and Tax Avoidance

The regression results show a coefficient of -0.754705. The probability value of the profitability variable multiplied by transfer pricing is 0.2786 (>0.05). The t-value of the profitability variable multiplied by transfer pricing is 1.090292, which is smaller than the t-table value of 1.98637 ($1.090292 < 1.98637$). This means that H03 is accepted, indicating that transfer pricing cannot strengthen the relationship between profitability and tax avoidance. The coefficient value of the profitability*transfer pricing variable is -0.754705, which is smaller compared to the regression coefficient of profitability on tax avoidance of -0.21076. This shows that transfer pricing weakens the relationship between profitability and tax avoidance. Therefore, transfer pricing cannot strengthen the relationship between profitability and tax avoidance. The results of this study indicate that transfer pricing cannot strengthen the relationship between profitability and tax avoidance in energy sector companies listed on the Indonesia Stock Exchange from 2021 to 2023. This suggests that the practice of transfer pricing



by shifting income to affiliated companies in countries with lower income tax rates and shifting larger expenses to affiliated companies in countries with higher income tax rates cannot strengthen the impact of company profitability on tax avoidance efforts.

The Effect of Transfer Pricing in Moderating the Relationship between Thin Capitalization and Tax Avoidance

The regression results show a coefficient for thin capitalizationtransfer pricing of -0.17177. The t-value for the thin capitalizationtransfer pricing variable is 1.55364, which is smaller than the t-table value of 1.98637 ($1.55364 < 1.98637$). The probability value for the thin capitalizationtransfer pricing variable is 0.1239 (>0.05). This means that H04 is accepted, indicating that transfer pricing cannot strengthen the relationship between thin capitalization and tax avoidance. The coefficient value for the thin capitalizationtransfer pricing variable is -0.17177, while the coefficient value for the thin capitalization variable is 0.10114. This shows that transfer pricing weakens the relationship between thin capitalization and tax avoidance. Therefore, transfer pricing cannot strengthen the relationship between thin capitalization and tax avoidance. The results of this study differ from those conducted by Hayani & Darmawati (2023), who stated that transfer pricing increases the effect of thin capitalization on tax avoidance. The results of this study indicate that transfer pricing cannot strengthen the relationship between thin capitalization and tax avoidance in energy sector companies listed on the Indonesia Stock Exchange from 2021 to 2023. This suggests that companies use the practice of thin capitalization by increasing debt from shareholders rather than increasing shareholder equity to legally reduce the amount of income tax payable. This occurs because interest expenses on loans paid to shareholders can be used as deductions from gross income in calculating taxable income. Furthermore, the practice of transfer pricing by shifting income to affiliated companies in countries with lower income tax rates and shifting larger expenses to affiliated companies in countries with higher income tax rates in this study cannot strengthen tax avoidance efforts through thin capitalization practices.

CONCLUSION

Based on the research and discussion on the Effect of Profitability and Thin Capitalization on Tax Avoidance Moderated by Transfer Pricing in energy sector companies listed on the Indonesia Stock Exchange from 2021 to 2023, the conclusions are as follows: (1) profitability does not affect tax avoidance in energy sector companies listed on the Indonesia Stock Exchange from 2021 to 2023, (2) Thin capitalization practices affect tax avoidance in energy sector companies listed on the Indonesia Stock Exchange from 2021 to 2023, (3) Transfer pricing cannot strengthen the relationship between profitability and tax avoidance in energy sector companies listed on the Indonesia Stock Exchange from 2021 to 2023 and (4) Transfer pricing cannot strengthen the relationship between thin capitalization and tax avoidance in energy sector companies listed on the Indonesia Stock Exchange from 2021 to 2023.

Recommendation

Based on the research and discussion on the Effect of Profitability and Thin Capitalization on Transfer Pricing Moderated by Transfer Pricing in energy sector companies listed on the Indonesia Stock Exchange from 2021 to 2023, there are several points that can be applied by various parties as follows. For the government, tax avoidance through thin capitalization practices can be reduced by changing the provisions regarding the debt-to-equity ratio as currently regulated in Minister of Finance Regulation Number 169/PMK.010/2015. Currently, the debt-to-equity ratio (DER) allowed for income tax calculation purposes is set at a maximum of four to one (4:1). It is suggested that the government, in this case, the Minister of Finance, change this ratio to 3:1 or even 2:1. With this ratio, tax avoidance through thin



capitalization practices will be reduced. This is because the interest expenses charged to shareholders can no longer be as high as when the maximum DER provision was 4:1. For companies, tax avoidance through thin capitalization practices remains an effective way to minimize corporate income tax burdens. However, company management needs to calculate very carefully when charging loan costs to shareholders. If the loan costs charged exceed the applicable DER provisions, then a positive fiscal correction will be made, and if this is found later by the tax authorities, the company will incur administrative penalties in the form of interest. These administrative penalties in the form of interest will certainly increase the income tax burden. For future researchers, this study is expected to contribute ideas that can certainly be further developed. Previous researchers can examine other business sectors besides the energy sector discussed in this study. Previous researchers can also further develop this study, one of which is to examine what the highest DER ratio that can be applied in the new Minister of Finance Regulation should be.

REFERENCES

- Arham, A., Firmansyah, A., Nor, A. M. E., & Vito, B. (2020). A Bibliographic Study on Tax Avoidance Research in Indonesia. *International Journal of Psychosocial Rehabilitation*, 24, 2020. <https://doi.org/10.37200/IJPR/V24I7/PR270956>
- Aristyatama, H. A., & Bandiyono, A. (2021). Moderation of Financial Constraints in Transfer Pricing Aggressiveness, Income Smoothing, and Managerial Ability to Avoid Taxation. *Jurnal Ilmiah Akuntansi Dan Bisnis*, 16(2), 279. <https://doi.org/10.24843/jiab.2021.v16.i02.p07>
- Darsani, P. A., & Sukartha, I. M. (2021). The Effect of Institutional Ownership, Profitability, Leverage and Capital Intensity Ratio on Tax Avoidance. *American Journal of Humanities and Social Sciences Research*, 5, 13–22. www.ajhssr.com
- Dewi, R., Kusumawati, N., Afiah, E. T., Nurizki, A. T., & Bina Bangsa, U. (2023). Pengaruh Thin Capitalization dan Transfer Pricing terhadap Penghindaran Pajak dengan Pemanfaatan Tax Havens Country sebagai Variabel Moderating. *Jurnal Revenue Jurnal Akuntansi*, 4(1), 342–253. <https://doi.org/10.46306/rev.v4i1>
- Fadillah, A. N., & Lingga, I. S. (2017). Pengaruh Transfer Pricing, Koneksi Politik dan Likuiditas terhadap Agresivitas Pajak. *Jurnal Akuntansi, Program Studi Akuntansi, Fakultas Bisnis, Universitas Kristen Maranatha*, 332–343.
- Falbo, T. D., & Firmansyah, A. (2018). Thin Capitalization, Transfer Pricing Aggressiveness, Penghindaran Pajak. *Indonesian Journal of Accounting and Governance*, 2(1).
- Global Witness. (2019). Indonesia's Shifting Coal Money - Taxing Times for Adaro. https://www.globalwitness.org/documents/19747/Taxing_Times_for_Adaro.pdf
- Hanlon, M., & Heitzman, S. (2010). A review of tax research. *Journal of Accounting and Economics*, 50(2–3), 127–178. <https://doi.org/10.1016/j.jacceco.2010.09.002>
- Irawan, F., Kinanti, A., & Suhendra, M. (2020). The Impact of Transfer Pricing and Earning Management on Tax Avoidance. *Talent Development & Excellence*, 12(3s), 3203–3216. <http://www.iratde.com>
- Jensen, M. C., & Meckling, W. H. (1976). THEORY OF THE FIRM: MANAGERIAL BEHAVIOR, AGENCY COSTS AND OWNERSHIP STRUCTURE. *Journal of Financial Economics*, 3(4), 305–360.
- Kasmir. (2021). Analisis Laporan Keuangan . Rajagrafindo Persada.
- Modigliani, F., & Miller, M. H. (1963). Corporate Income Taxes and the Cost of Capital: A Correction. *American Economic Review*, 53(3), 433–443.



- Mulyati, Y., Juni, H., Subing, T., Fathonah, A. N., & Prameela, A. (2019). Effect of Profitability, Leverage and Company Size on Tax Avoidance. *International Journal of Innovation, Creativity and Change*. *Www.Ijicc.Net*, 6(8). www.ijicc.net
- Nurrahmi, A. D., & Rahayu, S. (2020). Pengaruh Strategi Bisnis, Transfer Pricing, Dan Koneksi Politik Terhadap Tax Avoidance (Studi Pada Perusahaan Di Sektor Pertambangan Yang Terdaftar Di Bursa Efek Indonesia). *Jurnal Akuntansi & Ekonomi FE UN PGRI Kediri*, 5(2).
- OECD. (2019). *Model Tax Convention on Income and on Capital 2017 (Full Version)*. OECD Publishing. <https://doi.org/10.1787/g2g972ee-en>
- Olkiewicz, M. (2018). Quality improvement through foresight methodology as a direction to increase the effectiveness of an organization. *Contemporary Economics*, 12(1), 69–80. <https://doi.org/10.5709/ce.1897-9254.264>
- Panjalusman, P. A., Nugraha, E., & Setiawan, A. (2018). Pengaruh Transfer Pricing Terhadap Penghindaran Pajak. *JURNAL PENDIDIKAN AKUNTANSI & KEUANGAN*, 6(2), 105. <https://doi.org/10.17509/jpak.v6i2.15916>
- Pohan, C. A. (2016). *Manajemen Perpajakan Strategis Perencanaan Pajak dan Bisnis*. Gramedia Pustaka Utama.
- Putri, N., & Mulyani, S. D. (2020). Pengaruh Transfer Pricing Dan Kepemilikan Asing Terhadap Praktik Penghindaran Pajak (Tax Avoidance) Dengan Pengungkapan Corporate Social Responsibility (Csr) Sebagai Variabel Moderasi. *Prosiding Seminar Nasional Pakar Ke 3*. www.idx.co.id
- Rahayu, N. (2010). Praktik Penghindaran Pajak oleh Foreign Direct Investment. *Jurnal Ilmu Administrasi Negara*, 10, 171–180.
- Santoso, J. B., Sadeli, D., & Surtikanti. (2021). Pengaruh Pengecilan Modal, Transaksi Hubungan Istimewa, dan Profitabilitas terhadap Tax Avoidance. *Jurnal Pajak Dan Keuangan Negara*, 152–164.
- Sari, D., Hermawan, A., & Fitriana, U. (2021). Influence of Profitability, Company Size and Tunneling Incentive on Company Decisions of Transfer Pricing (Empirical Studies on Listed Manufacturing Companies Indonesia Stock Exchange period 2012-2019). *Turkish Journal of Computer and Mathematics Education*, 12(4), 796–805.
- Tax Justice Network. (2020). *The State of Tax Justice 2020: Tax Justice in the time of COVID-19*.
- Taylor, G., & Richardson, G. (2012). International Corporate Tax Avoidance Practices: Evidence from Australian Firms. *International Journal of Accounting*, 47(4), 469–496. <https://doi.org/10.1016/j.intacc.2012.10.004>
- Utami, M. F., & Irawan, F. (2022). Pengaruh Thin Capitalization dan Transfer Pricing Aggressiveness terhadap Penghindaran Pajak dengan Financial Constraints sebagai Variabel Moderasi. *Owner: Riset & Jurnal Akuntansi*, 6(1), 386–399. <https://doi.org/10.33395/owner.v6i1.607>
- Wanda, A. P., & Halimatusadiah, E. (2021). Pengaruh Solvabilitas dan Profitabilitas terhadap Penghindaran Pajak. *Jurnal Riset Akuntansi*, 1(1), 59–65. <https://doi.org/10.29313/jra.v1i1.194>
- Wenzel, M. (2002). The impact of outcome orientation and justice concerns on tax compliance: The role of taxpayers' identity. *Journal of Applied Psychology*, 87(4), 629–645. <https://doi.org/10.1037/0021-9010.87.4.629>