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THE EFFECT OF TRANSFER PRICING, THIN CAPITALIZATION, AND FOREIGN OWNERSHIP ON TAX AVOIDANCE USING TAX HAVEN UTILIZATION AS MODERATION

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Abstract
This quantitative study analyzes the impact of Transfer Pricing, Thin Capitalization, and Foreign Ownership on Tax Avoidance, with Tax Haven Utilization as a moderating variable. Data is sourced from annual reports and financial statements of multinational companies listed on the Indonesia Stock Exchange from 2021–2023. Using purposive sampling, the study includes 63 companies, totaling 189 observations. Panel data regression analysis was conducted with STATA 17 at significance levels of 5%, 10%, and 25%. Results show that Transfer Pricing, Thin Capitalization, and Foreign Ownership do not significantly affect Tax Avoidance. However, Tax Haven Utilization significantly strengthens the relationship between Thin Capitalization and Tax Avoidance but does not moderate the effects of Transfer Pricing or Foreign Ownership. This suggests that tax haven jurisdictions primarily influence the impact of capital structure on tax avoidance rather than ownership or pricing policies. This study enhances understanding of Tax Avoidance determinants in multinational firms in Indonesia. Findings provide valuable insights for academics and practitioners in improving tax oversight strategies. Future research should explore additional factors such as corporate tax compliance and international tax regulations.
Keywords: Foreign Ownership, Tax Avoidance, Tax Haven Utilization, Thin Capitalization, Transfer Pricing.

INTRODUCTION

Tax avoidance is a legal practice carried out by reducing a company's tax liabilities. This differs from other actions such as tax evasion, which is prohibited because it involves violating laws to minimize tax burdens (Mardiasmo, 2019). Tax avoidance is considered legal because it merely exploits gray areas in tax policies while still complying with existing regulations. However, despite being legally permitted, this practice impacts government revenue, which is essential for infrastructure development, public services, and utilities (Otusanya, 2011). As a preventive measure against tax avoidance, international taxation implements both specific and general anti-avoidance rules. These regulations are known as the Specific Anti-Avoidance Rule (SAAR) and the General Anti-Avoidance Rule (GAAR).

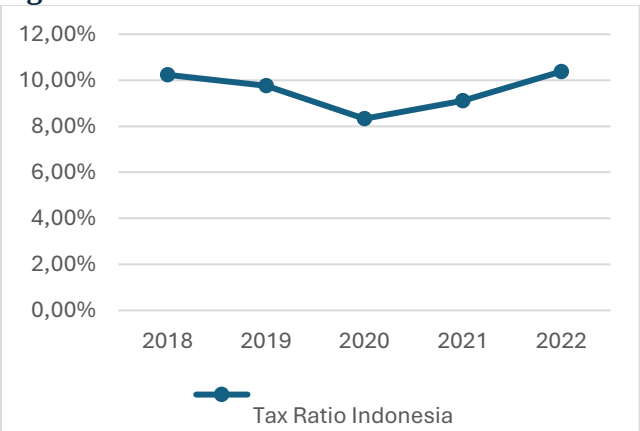
The Specific Anti-Avoidance Rule (SAAR) is designed to counter specific tax avoidance strategies by targeting particular schemes (Wijaya & Kusumaningtyas, 2020). It regulates tax avoidance schemes commonly used by multinational companies, such as the Thin Capitalization Rule and Transfer Pricing, which are often employed to significantly reduce tax obligations. Additionally, this rule governs special purpose companies and treaty shopping, although these practices are relatively uncommon. On the other hand, the General Anti-Avoidance Rule (GAAR) is a domestic regulation that grants tax authorities the power to recharacterize a company’s transactions, prioritizing the prevention of unlawful tax benefits (Wijaya & Kusumaningtyas, 2020). GAAR was introduced to complement SAAR, which is only effective in preventing specific tax schemes, while GAAR serves as a broader mechanism to regulate general tax avoidance practices.

Tax avoidance cases continue to occur globally despite the implementation of SAAR and GAAR by several countries. In 2019, Kering S.A., a renowned French luxury fashion group that owns brands such as Gucci and Yves Saint Laurent, reached a settlement with Italian tax authorities by paying approximately €1.25 billion due to a tax dispute that arose in March 2018. Mediapart and Der Spiegel, German media outlets, reported that their team had reviewed "confidential documents" revealing that Gucci had failed to pay €2.5 billion in taxes in Italy and France by shifting revenue to its subsidiary, Luxury Goods International (LGI), in

Cadempino, Switzerland, thereby benefiting from lower local tax rates (Singh, 2019). In 2021, another tax avoidance case emerged through the Pandora Papers investigation, the largest journalistic investigation in history, led by The International Consortium of Investigative Journalists (ICIJ). The investigation uncovered 11.9 million leaked documents from 29,000 entities engaged in tax avoidance through profit shifting schemes in tax havens. These documents detailed the financial transactions and hidden assets of politicians, celebrities, businesspeople, and criminals in over 100 countries (Alecci, 2023).

The global tax avoidance phenomenon has heightened the risk of domestic companies in Indonesia adopting similar strategies, particularly due to the complexity of large business structures. As a response, Indonesia enacted the Law on the Harmonization of Tax Regulations (UU HPP). This law includes provisions on Income Tax, which aims to minimize tax avoidance practices exploited by local institutions and improve Indonesia's tax ratio. The tax ratio compares total tax revenue with a country's gross domestic product (GDP) (Assiddiq, 2023). It is commonly used as an indicator of a government's ability to collect taxes and the contribution of taxes to the economy. In 2022, Indonesia recorded a tax ratio of 10.38%. Although this figure showed an increase compared to the previous year, Indonesia’s tax ratio is still considered unstable. During the same period, Indonesia's tax ratio was only slightly higher than Laos (9.46%), Myanmar (5.78%), and Brunei (1.30%). However, it remained significantly lower than Thailand (17.18%), Vietnam (16.21%), and Singapore (12.96%) (Suryani & Suyanto, 2024).

Figure 1. Indonesian Tax Ratio Data 2018-2022



The instability and low tax ratio experienced by Indonesia may be due to the continued existence of tax avoidance loopholes frequently exploited by domestic companies. When domestic companies engage in tax avoidance, Indonesia’s tax revenue decreases, leading to a lower tax ratio compared to its actual potential. The increasing interaction between domestic and multinational companies also creates specific opportunities for cross-border tax avoidance. Therefore, in that year, Indonesia issued a Government Regulation on Adjustments to Income Tax Regulations. One of the provisions in this regulation concerns the Fairness and Business Feasibility Principle (PKKU) in Article 18 of the Law on Harmonization of Tax Regulations. PKKU serves as a guideline for transactions conducted by taxpayers, ensuring they are comparable to transactions carried out by independent parties (PP 55, 2022). Entities engaging in transactions with related parties, such as affiliated transactions, must properly implement this principle. PKKU also applies to entities without special relationships, provided that affiliated parties influence transaction decisions (PP 55, 2022).

One notable case involving a multinational company in Indonesia occurred in 2019, when PT Nippon Indosari Corpindo Tbk engaged in transfer pricing practices with its affiliates, PT Indofood CBP Sukses Makmur Tbk and PT Indofood Sukses Makmur Tbk, for the purchase

of production materials. The company then sold its products at an unfair price to another affiliate, PT Indomarco Prismatama, with a transaction value of Rp 1,221,194,428,452 (D. A. Putri & Simanjuntak, 2023). These transactions caught the attention of tax authorities as they reflected an attempt to reduce tax liabilities through transfer pricing practices that violated fairness principles. If the government does not take further action, tax avoidance cases among multinational companies could continue to emerge. It is important to recognize that loopholes enabling tax avoidance by multinational corporations still persist.

LITERATURE REVIEW

Agency Theory

The grand theory in this study is based on agency theory, which describes the relationship between the principal (company owner) and the agent (management). The agency relationship can be understood as an agreement in which one party (the principal) appoints another party (the agent) to fulfill obligations on behalf of the principal, including delegating part of the decision-making authority to the agent (Jensen & Meckling, 1976). Additionally, according to Paramitha & Kurnia (2023) agency theory also discusses differing perspectives on motivation between company owners and management. This theory assumes that the primary motivation in decision-making is self-interest, where both company owners and management significantly benefit from the decisions made (Nurdiansyah & Masripah, 2023). This suggests that both parties will act in their own interests, ultimately leading to conflicts of interest (Rini et al., 2022).

Conflicts of interest arise when company owners expect substantial and realistic profit distribution, while management seeks high bonuses from the owners as compensation for their effective performance (Mahardika & Irawan, 2022). The implication of resolving this conflict is agency costs, which company owners must incur to monitor management performance and minimize potential losses caused by their differing objectives (Safrudin & Suryaningrum, 2020). In the context of tax avoidance, agency theory suggests that company owners expect management to prepare financial reports in a way that benefits them (Wahyunita et al., 2024). Opportunistic management may manipulate earnings in certain ways that negatively impact the company (Rachmad et al., 2023). One such method is aggressive tax avoidance, which often contradicts the owners' preferences (Pujiningsih & Salsabyla, 2022). This practice may serve as an alternative for management to increase company profits, which in turn fulfills the objectives of the company owners.

Trade-Off Theory

The trade-off theory suggests a balance between the tax benefits of debt and bankruptcy costs, providing insights into the optimal debt level for a company (Ai et al., 2020). According to Modigliani & Miller (1963), a company's market value depends not only on the expected after-tax return but also on the tax rate and debt level. In this context, the tax advantage of debt is the only permanent benefit, making debt financing more favorable than equity financing. In trade-off theory, interest on debt helps reduce the tax burden by providing a tax shield, which lowers taxable income and increases tax savings for the company (Megawati et al., 2021). However, while interest expenses provide tax benefits, they must be balanced against the risk of default. The optimal debt level is achieved when the tax benefits are proportional to the bankruptcy costs, influencing profitability and dynamic leverage decisions (Abel, 2018). Thus, as long as debt continues to provide financial advantages, its use remains justified. However, if the costs of using debt exceed its benefits, then debt financing is no longer recommended (Megawati et al., 2021).

Tax avoidance

Tax avoidance is a strategy employed by companies to minimize tax obligations without violating regulations; however, this practice can harm the state by reducing tax revenue (V. R. Putri et al., 2024). Tax avoidance is considered a legitimate practice as it merely exploits loopholes or weaknesses in tax regulations to reduce tax liabilities (Dewi et al., 2023). Typically, tax avoidance is carried out by claiming as many allowable deductions and tax credits as possible or prioritizing investments that provide tax benefits, such as purchasing bonds in tax-exempt regions (Apriyani & Muhyarsyah, 2021). The more extensive and complex a company's efforts to exploit gray areas in tax regulations, the more aggressive its tax strategy becomes (Ruknan et al., 2024). Thus, it can be concluded that tax avoidance is a strategy used by both corporate and individual taxpayers to minimize their tax obligations.

Transfer pricing and Tax Haven Utilization

Transfer pricing is used as an alternative method to reduce the amount of tax payable by setting unreasonable prices in affiliated transactions (Rini et al., 2022). Multinational companies utilize transfer pricing as the primary scheme in profit-shifting practices, ultimately leading to tax avoidance (Dewi et al., 2023). This occurs because transfer pricing is perceived as a tax incentive that leverages financial, economic, and jurisdictional differences, providing multinational companies with significant opportunities to minimize their tax obligations (Utami & Irawan, 2022). Companies can engage in transfer pricing by taking advantage of tax rate differences between countries (Rachmad et al., 2023). These gaps allow multinational corporations to shift tax obligations from high-tax jurisdictions to low-tax or tax-free jurisdictions. One way to implement transfer pricing is by lowering the inter-company transaction prices within the same corporate group (Nurdiansyah & Masripah, 2023). Affiliates located in high-tax countries will have lower sales revenue due to reduced selling prices, resulting in lower tax liabilities. Conversely, affiliates in low-tax countries will report higher taxable income due to lower production costs, as a result of purchasing at lower prices from high-tax jurisdictions (Hafidh, 2024). However, this does not significantly affect their tax obligations due to the low or nonexistent tax rates in those countries.

H1: Transfer pricing has a significant positive effect on tax avoidance.

H4: Tax Haven Utilization strengthens the effect of transfer pricing on tax avoidance.

Thin Capitalization and Tax Haven Utilization

Tax benefits arise from interest expenses on debt, which provide a tax shield to reduce taxable income and increase tax savings for companies (Modigliani & Miller, 1963). Due to these benefits, companies are more inclined to increase debt financing rather than issuing new shares as a source of equity. This strategy allows firms to reduce tax burdens by deducting interest payments and shifting profits (Pyroha, 2024). Companies may obtain debt financing through affiliated entities to minimize bankruptcy risks. Affiliated entities help mitigate bankruptcy risks by providing financial support to weaker companies, thereby preventing negative consequences for the entire corporate group (Gopalan et al., 2007). Thin Capitalization is commonly used by multinational corporations that leverage international tax regulations to optimize their capital structure. These companies often establish subsidiaries or branches in tax havens for investment purposes. Income from these investments can then be shifted to subsidiaries in high-tax countries, disguised as intercompany debt (Safrudin & Suryaningrum, 2020). This intercompany debt is often subject to high-interest rates, allowing companies to reduce their tax obligations by deducting these interest expenses. Meanwhile, the tax haven subsidiary receives interest income. Although interest income increases taxable earnings, its impact remains minimal since tax havens offer significantly lower tax rates than other jurisdictions. This strategy enables companies to maximize profits by reducing taxes in their home country without incurring significant tax liabilities in tax havens.

H2: Thin Capitalization has a significant positive effect on tax avoidance.
H5: Tax Haven Utilization strengthens the effect of Thin Capitalization on tax avoidance.

Foreign Ownership and Tax Haven Utilization

Foreign ownership can drive tax avoidance due to managerial actions aimed at leveraging foreign shares for personal gain, manipulating tax obligations, and exploiting regulatory loopholes to shift profits to more favorable jurisdictions (Herlina et al., 2023). Meanwhile, in local ownership, the opportunity to implement such schemes is more limited due to stricter regulations and public oversight, which can restrict corporate tax avoidance strategies (Beuselinck & Pierk, 2024). These regulations bind local company management to domestic tax laws and business norms, which tend to reduce the scope for tax avoidance. Multinational corporations (MNCs) operate across multiple countries and have the capability to manage production and distribution in diverse international markets. Parent and subsidiary companies within MNCs often originate from tax havens, which offer low tax rates or favorable tax policies. Tax havens are considered effective locations for business operations due to their significant benefits, including tax burden reduction strategies, investment diversification opportunities, and greater financial privacy (Safrudin & Suryaningrum, 2020). Menurut According to Yuanita et al. (2020), MNCs are more likely to engage in tax avoidance compared to domestic companies. This is due to their ability to leverage differences in tax regulations across countries. MNCs frequently avoid taxes through income shifting between jurisdictions, following the trend of increasing tax avoidance, and engaging in real activities such as investments that are heavily influenced by tax policies (Dyreng & Hanlon, 2023).
H3: Foreign Ownership has a significant positive effect on Tax Avoidance.
H6: Tax Haven Utilization strengthens the effect of Foreign Ownership on Tax Avoidance.

METHODS

This study is quantitative, involving the systematic investigation of phenomena through statistical, mathematical, or computational techniques (Bridges et al., 1998). It utilizes secondary data, which refers to previously obtained information collected by other parties for purposes different from the current research (Brown & Semradek, 1992). The data in this study comes from annual reports, financial statements, and other information related to affiliated relationships in Tax Haven countries. The annual reports and financial statements were obtained from the official websites of companies and the Indonesia Stock Exchange (IDX) website ww.idx.co.id. Data collection in this study was conducted through literature review and documentation techniques. Literature review involves searching, organizing, and systematically analyzing existing sources (Luna et al., 2014), including scientific writings in various forms relevant to the research topic. Meanwhile, the documentation technique involves structured and systematic recording of verbal and nonverbal data (Fontanella et al., 2006). In this study, the data consists of annual reports and financial statements of multinational companies listed on the Indonesia Stock Exchange (IDX) from 2021 to 2023.

Tax avoidance is used as the dependent variable in this study. Tax avoidance refers to corporate actions aimed at reducing tax burdens without violating regulations, although this practice harms the state by reducing tax revenue sources (V. R. Putri et al., 2024). In this study, tax avoidance is measured using the Book-Tax Difference (BTD) proxy. The first independent variable is Transfer Pricing, which refers to reducing tax obligations by setting unfair prices in intra-group transactions (Rini et al., 2022). Transfer pricing is measured using the Related Party Receivable (RPR) Ratio. The second independent variable is Thin Capitalization, a corporate strategy that prioritizes debt financing as the primary funding source (Aprilina, 2021). Thin capitalization is measured using the Maximum Allowable Debt (MAD) Ratio. The third independent variable is Foreign Ownership, which refers to investments owned by foreign

entities. In this study, it is measured using the proportion of shares owned by foreign investors relative to total outstanding shares. This study uses a moderating variable, namely Tax Haven Utilization, which represents a company's effort to establish operations in countries offering tax incentives (Gracia & Sandra, 2022). This variable is measured using a dummy variable, where 1 indicates the company has one or more subsidiaries or branches in a Tax Haven country, and 0 otherwise. This study includes control variables, namely profitability, measured by Return on Assets (ROA), and leverage, measured by Debt to Asset Ratio (DAR). The multiple regression model equation formulated in this study is as follows:

$$TA_{it} = \alpha + \beta 1TP_{it} + \beta 2TC_{it} + \beta 3FO_{it} + \beta 4THU_{it} + \beta 5TP^{*}THU_{it} + \beta 6TC^{*}THU_{it} + \beta 7FO^{*}THU_{it} + \beta 8Prof_{it} + \beta 9Lev_{it} + \varepsilon_{it}$$

TAit : Tax avoidance
α : Constant
β : Regression coefficient
TPit : Transfer pricing
TCit : Thin Capitalization
FOit : Foreign Ownership
THUit : Tax Haven Utilization
Profit : Profitability
Levit : Leverage
ε : Standard error

RESULTS AND DISCUSSION

The object of this study is non-financial multinational companies listed on the Indonesia Stock Exchange from 2021 to 2023. The total population of multinational companies recorded is 236 companies. The research data was obtained from the companies' annual reports and financial statements. The purposive sampling method was chosen as the approach for selecting samples from the population.

Table 1. Research Sample

Information	Sample
Non-financial multinational companies are listed on the Indonesia Stock Exchange (BEI) consecutively during 2021 to 2021. 2023;	236
The Company recorded net profit before tax in the current year's consolidated financial statements;	(66)
The company presents complete data and information as a basis for measuring each variable;	(107)
Number of companies	63
Observation period	3
Total sample during the observation period	**189**

The table shows that the number of sample data per year is 63, with an observation period of 3 years. Thus, the total sample data used in this study is 189. This study involves several variables, namely Tax Avoidance (TA) as the dependent variable. The independent variables include Transfer Pricing (TP), Thin Capitalization (TC), and Foreign Ownership (FO). Additionally, there is a moderating variable, Tax Haven Utilization (THU), as well as interaction terms between the independent variables and the moderating variable (TPTHU, TCTHU, and FOTHU). This study also includes control variables, namely profitability (PROF) and leverage (LEV).

In summarizing the data variables quantitatively, descriptive statistical analysis techniques can be applied, as shown in the table below.

Table 2. Results of Descriptive Statistical Analysis

Variables	Obs	Mean	Std. Deviasi	Min	Max
TA (Y)	189	0,0205407	0,053097	-0,0484375	0,4486791
TP (X1)	189	0,1521343	0,2485316	0,0001995	1
TC(X2)	189	0,5938934	0,2995311	0,1083534	1,560642
FO (X3)	189	0,3684142	0,2816819	0,0000561	0,9961694
THU (Z)	189	0,2857143	0,4529538	0	1
TPTHU (X1*Z)	189	0,058204	0,1886187	0	1
TCTHU (X2*Z)	189	0,1819736	0,3310493	0	1,560642
FOTHU (X3*Z)	189	0,1179193	0,2568022	0	0,9408114
PROF (C1)	189	0,1015875	0,098337	0,0011412	0,6163459
LEV (C2)	189	0,3849356	0,1772649	0,0600345	0,8469509

The average value of TA in this study is 0.0205407, indicating that the research sample, on average, has an accounting profit greater than fiscal profit by 2.05%. The standard deviation of TA is 0.053097, which is heterogeneous. TA has a minimum value of -0.0484375 and a maximum value of 0.4486791. The average value of TP in this study is 0.1521343, indicating that, on average, the research sample engages in Transfer Pricing through sales transactions to affiliated parties by 15.21%. The standard deviation of TP is 0.2485316, which is heterogeneous. TP has a minimum value of 0.0001995 and a maximum value of 1. The average value of TC in this study is 0.5938934, indicating that the sampled companies have not fully utilized the Thin Capitalization scheme. The standard deviation of TC is 0.2995311, which is homogeneous. TC has a minimum value of 0.1083534 and a maximum value of 1.560642. The average value of FO in this study is 0.3684142, indicating that the research sample has a relatively moderate level of foreign ownership. The standard deviation of FO is 0.2816819, which is homogeneous. FO has a minimum value of 0.0000561 and a maximum value of 0.9961694.

Normality Test

This study uses the Skewness-Kurtosis Test to assess the symmetry (skewness) and peakedness (kurtosis) of the data distribution. Skewness measures the degree of data asymmetry relative to a normal distribution, while kurtosis evaluates the peak or sharpness of the distribution compared to a normal distribution. If the skewness result is below 3 and the kurtosis result is less than 10, it can be concluded that the regression model follows a normal distribution (Kline, 2020). Data non-normality may be caused by the presence of outliers and high data variability. According to Hastings et al. (1947), winsorizing is a statistical method used to handle extreme values in the data to reduce the impact of potential outliers. The following are the results of the normality test before and after the winsorizing process, which was conducted step by step starting at the 1% level:

Table 3. Normality Test Results

Variables	Before		After	
	Skewness	Kurtosis	Skewness	Kurtosis
TA_w2	4,444655	29,84679	1,570998	4,669554
TP	2,318781	7,752109	2,318781	7,752109
TC	0,5838694	3,262216	0,5838694	3,262216
FO	0,5360497	2,217232	0,5360497	2,217232
THU	0,9486833	1,9	0,9486833	1,9
TPTHU_w3	3,96496	18,58554	2,440179	7,205195

TCTHU	1,793749	5,568393	1,793749	5,568393
FOTHU	2,119059	5,987058	2,119059	5,987058
PROF_w2	2,547686	11,20283	1,323388	4,242792
LEV	0,2169799	2,371634	0,2169799	2,371634

After data processing using winsorizing, all variables show skewness values below 3 and kurtosis values below 10, indicating a normal distribution of the data. Additionally, the high data variation in these variables has also been controlled through winsorizing, thereby enhancing the reliability and validity of the findings obtained.

Chow Test

The Fixed Effect Model (FEM) and Common Effect Model (CEM) were compared using the Chow test to determine the most suitable panel data regression model for this study. This test aims to evaluate whether the FEM model provides more accurate results compared to the CEM model. The following are the results of the Chow test conducted:

Table 4. Chow Test Results

Prob > F	0,0000
α	0,05

Based on the table above, the Chow test results show that the probability value (Prob > F) is 0.0000, which is smaller than the significance level (α) of 0.05 or 5%. Since the p-value is smaller than α, the null hypothesis (H0) is rejected, and the alternative hypothesis (H1) is accepted. Thus, the test results indicate that the most appropriate model to use is the Fixed Effect Model (FEM).

Lagrange Multiplier Test

The Random Effect Model (REM) and the Common Effect Model (CEM) were compared using the Lagrange Multiplier Test to determine the most suitable panel data regression method for this study. This test aims to evaluate whether the REM approach is superior to the CEM model in explaining the relationships between variables. The following are the results of the Lagrange Multiplier test that has been conducted:

Table 5. Lagrange Multiplier Test Results

Prob > chibar2	0,0000
α	0,05

Based on the table above, the results of the Lagrange Multiplier test show a probability value (Prob > chibar2) of 0.0000, which is smaller than the significance level (α) of 0.05. Since the p-value is smaller than α, the null hypothesis (H0) is rejected, and the alternative hypothesis (H1) is accepted. Thus, the selected model for panel data regression analysis in this study is the Random Effect Model (REM), which is considered more appropriate for describing the relationships between variables.

Hausman Test

The Random Effect Model (REM) and Fixed Effect Model (FEM) are compared using the Hausman test to determine which panel data regression technique is more appropriate for this study. Below are the results of the Hausman test that has been conducted:

Table 6. Hausman Test Results

Prob > chi2	0,8857
α	0,05

Based on the table above, the results of the Hausman test show a probability value (Prob > chi2) of 0.8857, which is greater than the significance level (α) of 0.05. When the p-value exceeds 0.05, the null hypothesis (H0) is accepted, and the alternative hypothesis (H1) is

rejected. This indicates that the chosen model for analysis is the Random Effect Model (REM), as it is considered more suitable for representing the data in this study.

Multikolinearity Test

The multicollinearity test aims to evaluate whether there is a high linear relationship between independent variables in the specified regression model. This test is conducted by analyzing the Variance Inflation Factor (VIF) values for each variable. If the VIF value exceeds 10, it indicates the presence of multicollinearity issues in the data, which may affect the model's interpretation. Conversely, if the VIF value is less than 10, the data is considered free from multicollinearity, meaning the independent variables in the model do not significantly influence each other. A high linear relationship between variables can be addressed by reducing the mean value of each predictor variable in the dataset, a process known as centering. The following are the results of the multicollinearity test before and after the centering process:

Table 7. Multikolinearity Test Results

Variables	Before Centering		After Centering	
	VIF	1/VIF	VIF	1/VIF
TP	1,97	0,507491	2,03	0,492681
TC	48,30	0,020706	9,62	0,103982
FO	4,47	0,223643	4,50	0,222390
THU_c	10,78	0,092749	8,88	0,112595
TPTHU_w3	3,03	0,329996	2,96	0,337946
TCTHU	8,67	0,115361	9,49	0,105336
FOTHU	4,88	0,205013	4,81	0,207929
PROF_w2	2,28	0,438083	3,07	0,325925
LEV_c	49,60	0,020162	2,22	0,450301

The data processing using the centering method resulted in all variables having a Variance Inflation Factor (VIF) value of less than 10. This outcome indicates that all variables in the model are free from multicollinearity issues, making the regression model valid and allowing for more accurate interpretations.

Heteroskedastisity & Autocorrelation Test

The heteroscedasticity test aims to identify whether there is an unequal variance in the residuals from one observation to another. Additionally, the autocorrelation test is conducted to detect whether there is a relationship between residuals in consecutive observations. In this study, the regression model used is the Random Effect Model (REM) with the Generalized Least Squares (GLS) approach. Theoretically, the GLS approach is designed to automatically address heteroscedasticity and autocorrelation issues. This is because the GLS model is a transformed version of the OLS model, ensuring it meets the classical assumptions of the standard least squares method (Gujarati & Porter, 2009). Therefore, heteroscedasticity and autocorrelation tests were not explicitly conducted. Based on this assumption, the applied random effect model is considered free from potential heteroscedasticity and autocorrelation symptoms, ensuring more reliable and consistent estimations.

R-Squared Test

This test measures the extent to which the independent and moderating variables in the model can explain changes or variations in the dependent variable. The following are the results of the coefficient of determination (R^2) test in this study, providing an overview of how well the model explains the relationships between variables:

Table 8. R-Squared Test Result

Within	0,1358
Between	0,1346
Overall	0,1330

Based on the test results, the coefficient of determination was found to be 0.1330. This indicates that the independent and moderating variables in the study, namely Transfer Pricing, Thin Capitalization, Foreign Ownership, and Tax Haven Utilization, can explain approximately 13.30% of the variation in Tax Avoidance efforts. Meanwhile, the remaining 86.70% is influenced by other factors beyond the scope of the examined variables.

T Test

The t-test is conducted by comparing the t-statistic with the t-table value obtained from statistical analysis. The t-table value is calculated using the degrees of freedom (df), determined by the formula df = n - k - 1. In this case, n represents the total number of data points (189), while k is the number of independent variables used in the model (3). Therefore, df = 189 - 3 - 1 = 185. The results of the t-test from the regression model in this study are presented as follows:

Table 9. T Test Result

Variables	Random Effect Model				
	Coefficient	z	Prob >|z|	Hypothesis Prediction	Conclusion
TP	-0,0086171	0,64	0,524	H1: +	Rejected
TC	0,0198511	0,93	0,355	H2: +	Rejected
FO	-0,0124798	1,04	0,301	H3: +	Rejected
THU_c	-0,0364026	1,96	0,050**		
TPTHU_w3	0,0180764	0,29	0,770	H4: +	Rejected
TCTHU	0,0390292	2,06	0,039*	H5: +	Accepted
FOTHU	0,0089156	0,41	0,678	H6: +	Rejected
PROF_w2	0,0977701	3,08	0,002*		
LEV_c	-0,0288008	0,80	0,424		
Number of Obs			189		
R-Squared			0,1330		
Prob > chi2			0,0012		

The calculated t-value for the Transfer Pricing variable is 0.64, which is smaller than the t-table value at significance levels of 5%, 10%, and 25% (t-calculated < t-table). Additionally, the probability value of this variable is greater than the significance levels set at 0.05, 0.10, and 0.25 ($p > \alpha$), indicating no statistical significance. Based on these results, it can be concluded that Transfer Pricing does not have a significant effect on Tax Avoidance, leading to the rejection of the first hypothesis (H1), which proposed a significant positive influence. The calculated t-value for the Thin Capitalization variable is 0.93, which is acceptable at a 25% significance level (t-calculated > t-table). However, the probability value for this variable is greater than the significance level of 0.25 ($p > \alpha$). This result indicates that Thin Capitalization does not have a significant effect on Tax Avoidance. Therefore, the second hypothesis (H2), which stated a significant positive effect of Thin Capitalization on Tax Avoidance, is rejected. The calculated t-value for the Foreign Ownership variable is 1.04, which is acceptable at a 25% significance level (t-calculated > t-table). However, the probability value for this variable is greater than the significance level of 0.25 ($p > \alpha$). Based on this analysis, it can be concluded

that Foreign Ownership does not have a significant effect on Tax Avoidance, leading to the rejection of the third hypothesis (H3), which proposed a significant positive influence.

The calculated t-value for the moderating variable interaction between Transfer Pricing and Tax Haven Utilization is 0.29, which is smaller than the t-table value at significance levels of 5%, 10%, and 25% (t-calculated < t-table). Additionally, the probability value of this variable is greater than the significance levels set at 0.05, 0.10, and 0.25 ($p > \alpha$). This indicates that the effect is not statistically significant. These results suggest that Tax Haven Utilization does not moderate the effect of Transfer Pricing on Tax Avoidance, leading to the rejection of the fourth hypothesis (H4). The calculated t-value for the moderating variable interaction between Thin Capitalization and Tax Haven Utilization is 2.06. This value is greater than the t-table value at a 5% significance level of 1.653 (t-calculated > t-table). Additionally, the probability value for this variable is also smaller than the significance level set at 0.05 ($p < \alpha$), indicating that the effect is statistically significant. Based on these results, it can be concluded that Tax Haven Utilization strengthens the effect of Thin Capitalization on Tax Avoidance, leading to the acceptance of the fifth hypothesis (H5). The calculated t-value for the moderating variable interaction between Foreign Ownership and Tax Haven Utilization is 0.41, which is smaller than the t-table value at significance levels of 5%, 10%, and 25% (t-calculated < t-table). Additionally, the probability value of this variable is greater than the significance levels set at 0.05, 0.10, and 0.25 ($p > \alpha$), indicating no statistical significance. These results suggest that Tax Haven Utilization does not moderate the effect of Foreign Ownership on Tax Avoidance, leading to the rejection of the sixth hypothesis (H6).

Transfer pricing and Tax Haven Utilization

The first hypothesis, which proposed a positive effect of Transfer Pricing on Tax Avoidance, was rejected. The findings indicate the presence of barriers or other factors that restrict management's ability to engage in Transfer Pricing. One such factor is the implementation of Specific Anti-Avoidance Rules (SAAR), which limits the ability of management to utilize Transfer Pricing as a tax avoidance tool in Indonesia. According to Armstrong et al. (2015) tax avoidance activities come with associated costs that companies must bear. These costs include the time and effort spent by management in designing and implementing tax avoidance strategies. Additionally, there is an increased risk of penalties if such practices are discovered by tax authorities, including interest charges and fines. Article 36, paragraph (1) of PMK 172 (2023) states that the Director General of Taxation has the authority to reassess taxable income calculations by evaluating compliance with the Arm's Length Principle. Furthermore, Article 37, paragraph (1) stipulates that if discrepancies are found in related-party transactions that do not conform to fair market values, the difference is considered an indirect dividend distribution and is subject to income tax. Consequently, tax avoidance through Transfer Pricing is deemed ineffective in achieving the intended incentives due to these additional costs and regulatory constraints.

Similarly, the fourth hypothesis, which proposed that Tax Haven Utilization strengthens the effect of Transfer Pricing on Tax Avoidance, was also rejected. The effectiveness of Transfer Pricing as a tax avoidance tool in Tax Haven jurisdictions has been diminishing due to international tax agreements and stricter oversight by tax authorities. This trend is reflected in the increasing cooperation among Tax Haven countries in sharing best practices related to fiscal policies and tax administration (Shome, 2021). These measures align with the Base Erosion and Profit Shifting (BEPS) standards initiated by the OECD. Specifically, BEPS Actions 8-10 encourage multinational corporations to align their tax strategies with fair Transfer Pricing principles, thereby limiting opportunities for tax avoidance through Transfer Pricing (Svažič, 2019). Furthermore, under the worldwide income system, corporate income generated in Tax Haven jurisdictions remains subject to taxation in Indonesia. If a Tax Haven jurisdiction

imposes little to no income tax, Indonesian-based companies cannot utilize the foreign tax credit under Article 24. This tax credit is only applicable when taxes have been paid abroad. As a result, companies cannot reduce their tax liability in Indonesia since no tax is paid in the Tax Haven jurisdiction. This demonstrates that the low-tax policies of Tax Haven countries are less effective in providing tax benefits through Transfer Pricing.

Thin Capitalization and Tax Haven Utilization

The second hypothesis, which proposed a positive effect of Thin Capitalization on Tax Avoidance, was rejected. The debt-to-equity ratio cap of 4:1, as stipulated in Minister of Finance Regulation No. 169/PMK.010/2015, has been deemed effective in reducing tax avoidance practices, particularly by enforcing fiscal corrections for companies exceeding this threshold (Pohan et al., 2021). In practice, companies that fail to comply with this regulation face fiscal corrections that increase their tax burden. This restriction limits companies' flexibility in using debt as a means to reduce tax obligations. According to Kumar (2022), the post-pandemic environment has driven companies to prioritize economic recovery and growth strategies. Under these circumstances, Thin Capitalization is no longer predominantly used as a tax reduction strategy through interest expense recognition. Instead, corporate debt is primarily allocated for urgent needs, such as business expansion and operational recovery following the downturn caused by the pandemic. This is further supported by the trend of corporate debt being largely composed of short-term, non-interest-bearing loans (Nurdiansyah & Masripah, 2023). Consequently, maximizing Thin Capitalization as a tax-saving strategy is deemed ineffective and potentially disadvantageous for companies during post-pandemic economic recovery.

However, a different outcome was observed regarding the moderating effect of Tax Haven Utilization. The fifth hypothesis, which proposed that Tax Haven Utilization strengthens the relationship between Thin Capitalization and Tax Avoidance, was accepted. In an effort to curb tax avoidance through Thin Capitalization, the OECD introduced General Anti-Avoidance Rules (GAAR) under BEPS Action 4, aimed at limiting excessive debt structuring. Tax Haven jurisdictions such as the British Virgin Islands, Cook Islands, Belize, and the Isle of Man have joined the Inclusive Framework on BEPS, signaling their commitment to international guidelines on Thin Capitalization (OECD, 2024). Despite their participation, the enforcement of Action 4 in Tax Haven countries appears largely symbolic. This is evident from the fact that the interest limitation/earnings stripping rules, a key mechanism for controlling Thin Capitalization, have yet to be effectively implemented in these jurisdictions. The regulatory inefficiencies surrounding Thin Capitalization in Tax Haven countries have altered management's investment perspective. During post-pandemic recovery, companies may establish subsidiaries or branches in Tax Havens. Earnings from these investments can then be repatriated to Indonesian entities under the guise of intercompany loans (Safrudin & Suryaningrum, 2020). Funding through intercompany debt in Tax Haven jurisdictions carries a lower bankruptcy risk. Such entities can mitigate financial distress by providing financial support to more vulnerable affiliates, thereby preventing negative spillover effects that could impact the entire corporate group (Gopalan et al., 2007). Consequently, leveraging interest-bearing debt through Tax Havens in the post-pandemic period can help management achieve bonus incentives.

Foreign Ownership and Tax Haven Utilization

The third hypothesis, which proposed a positive effect of Foreign Ownership on Tax Avoidance, was rejected. Foreign ownership, particularly by Foreign Institutional Investors (FII), tends to encourage corporate tax compliance. Companies with significant foreign institutional ownership often originate from countries with high tax morality, pushing them to adhere to stricter compliance standards (Hasan et al., 2022). Additionally, these investors typically have a long-term investment horizon, prioritizing corporate stability and sustainability

over short-term profit maximization through aggressive tax avoidance strategies. Superior corporate governance practices introduced by foreign investors contribute to greater transparency and accountability in tax management. Foreign shareholders frequently come from jurisdictions with strong investor protection mechanisms, which motivate them to prioritize high-quality financial reporting and maintain corporate reputations in the eyes of the public and local authorities (Beuselinck et al., 2017). Consequently, foreign shareholders tend to enforce stringent oversight over earnings management strategies, including asset allocation decisions that multinational corporations use to accelerate business expansion in global markets. These strategies may be implemented regardless of whether they aim to minimize tax burdens or merely support sustainable business growth.

Similarly, the sixth hypothesis, which proposed that Tax Haven Utilization strengthens the relationship between Foreign Ownership and Tax Avoidance, was also rejected. One key factor contributing to this outcome is the ownership structure of subsidiaries within multinational groups, where the primary focus is business expansion—such as brand introduction and market penetration—rather than tax reduction (Sunigovets, 2020). In this context, corporate strategies are directed more toward enhancing competitiveness and market share rather than aggressive tax avoidance. As a result, the utility of Tax Haven policies becomes limited because corporate priorities lean toward long-term business sustainability and global reputation rather than exploiting tax advantages. Moreover, implementing effective tax avoidance strategies in foreign-owned subsidiaries requires a combination of strategic resources, including management's ability to interpret and apply complex international tax regulations. However, navigating tax regulations in Tax Haven jurisdictions often presents significant challenges. This differs from multinational corporations operating through parent company structures, where management typically has greater access and readiness to handle intricate international tax laws. This advantage allows parent companies to utilize various tax minimization techniques, such as inter-affiliate trade manipulation or intellectual property migration (Contractor, 2016). In contrast, foreign-owned subsidiaries' tax avoidance decisions are more influenced by long-term business strategies, such as market expansion through asset investments that enhance competitiveness. Thus, Tax Haven Utilization does not necessarily moderate the relationship between Foreign Ownership and Tax Avoidance, as corporate priorities are more strategically oriented rather than merely leveraging low tax rates in Tax Haven jurisdictions.

CONCLUSION

The results of the first hypothesis test indicate that Transfer Pricing does not have a significant effect on Tax Avoidance. Thus, the first hypothesis, which states that there is a positive effect of Transfer Pricing on Tax Avoidance, is rejected. The results of the second hypothesis test indicate that Thin Capitalization does not have a significant effect on Tax Avoidance. Thus, the second hypothesis, which states that there is a positive effect of Thin Capitalization on Tax Avoidance, is rejected. The results of the third hypothesis test indicate that Foreign Ownership does not have a significant effect on Tax Avoidance. Thus, the third hypothesis, which states that there is a positive effect of Foreign Ownership on Tax Avoidance, is rejected. The results of the fourth hypothesis test indicate that Tax Haven Utilization cannot moderate the effect of Transfer Pricing on Tax Avoidance. Thus, the fourth hypothesis, which states the role of Tax Haven Utilization in strengthening the effect of Transfer Pricing on Tax Avoidance, is rejected. The results of the fifth hypothesis test indicate that Tax Haven Utilization can strengthen the effect of Thin Capitalization on Tax Avoidance. Thus, the fifth hypothesis is accepted. The results of the sixth hypothesis test indicate that Tax Haven Utilization cannot moderate the effect of Foreign Ownership on Tax Avoidance. Thus, the sixth

hypothesis, which states the role of Tax Haven Utilization in strengthening the effect of Foreign Ownership on Tax Avoidance, is rejected.

Suggestions

Multinational companies are advised to ensure that Transfer Pricing, Thin Capitalization, and the management of Foreign Ownership are conducted transparently and in compliance with applicable tax regulations. The public is encouraged to strengthen tax literacy to understand the importance of taxes as a source of state revenue used for national development. The government is expected to strengthen regulations related to Thin Capitalization to prevent tax avoidance through high-interest debt schemes, particularly those involving entities in Tax Haven countries. One strategic step that can be taken is adopting and implementing Action 4 of the Base Erosion and Profit Shifting (BEPS) initiative by the OECD, which includes interest limitation or earning stripping rules.

Future research is recommended to expand the population scope beyond multinational companies. Additionally, future studies may consider using alternative variables to measure their impact on tax avoidance, such as asset provision (capital intensity). This approach aligns with the characteristics of multinational companies that have diverse assets across various countries.

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