



THE INFLUENCE OF TRANSFER PRICING AND PROMOTION INTENSITY ON TAX AVOIDANCE

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Abstract

This study employs a quantitative approach aimed at examining and analyzing the effect of transfer pricing and advertising intensity on tax avoidance. The research uses secondary data with a population consisting of consumer goods manufacturing companies listed on the Indonesia Stock Exchange during the 2020–2024 period. A total of 44 companies with 155 observations were obtained through purposive sampling based on predetermined criteria. Hypothesis testing was conducted using panel data regression analysis with STATA version 17, applying significance levels of 5% and 10% (0.05 and 0.10). The results indicate that transfer pricing exhibits both negative significant and insignificant effects on tax avoidance, while advertising intensity shows both positive significant and insignificant effects on tax avoidance.

Keywords: Promotion intensity; Tax avoidance; Transfer pricing

INTRODUCTION

The largest source of revenue in Indonesia, which supports the improvement of public services and infrastructure to encourage economic growth and public welfare, comes from taxes. According to data from the Indonesian Ministry of Finance (2025), tax revenue contributions reached 108.8% of the 2024 State Budget (APBN) target, making taxation the backbone of state budget financing. The largest tax revenue originated from non-oil and gas income tax (PPh non-migas), which achieved 105.5% of the target or amounted to IDR 993 trillion. In accordance with the Indonesian General Provisions and Tax Procedures Law (KUP Law) Number 28 of 2007 Article 1 paragraph (1), tax is a mandatory contribution imposed on taxpayers, both individuals and legal entities, to be paid to the state. Tax is defined as a compulsory contribution collected from individuals or entities by the state in accordance with the law, where the benefits are not directly received by taxpayers but are utilized by the government to finance national interests for the welfare of society (Sinaga, 2016). The government regulates taxation through legislation, and although taxpayers do not directly receive compensation, the revenue is used to improve public services.

The government expects all taxpayers to comply with tax regulations for the welfare of the nation. Tax compliance is an important foundation for creating a fair and transparent taxation system, thereby supporting the implementation of sustainable development. However, in practice, many taxpayers still fail to comply with tax regulations by avoiding their tax obligations through various strategies known as tax avoidance (Listyaningrum & Satwiko, 2023). Tax avoidance is defined as an activity carried out by taxpayers to legally reduce the tax burden on income while still complying with applicable regulations (Rini et al., 2022). Although this practice does not explicitly violate legal provisions, ethically, tax avoidance is considered inconsistent with the principle of fairness because it can reduce the state's potential tax revenue. Such practices not only decrease government revenue but also create social inequality, as the burden of national development becomes heavier for compliant taxpayers.

Indications of tax avoidance can be observed through the low level of tax compliance as reflected in the tax ratio. The tax ratio is the ratio between Gross Domestic Product (GDP) and tax revenue. A high Gross Domestic Product indicates a high tax ratio in a country (Fitriani et al., 2024). According to the Ministry of Finance, Indonesia's tax ratio in 2024 was 10.07%, lower than the 2023 figure of 10.31%. This value is considered very low according to the World



Bank (2023), which sets the standard tax ratio threshold at 15%. In comparison, Indonesia has the largest GDP in the ASEAN region, yet its tax ratio remains lower than that of countries such as Malaysia, Thailand, and Singapore. The continuous decline in the tax ratio indicates the need for reform in Indonesia's taxation system. Therefore, tax compliance in Indonesia is still relatively low and categorized as part of lower middle-income countries (World Bank, 2023).

Table 1. Tax Revenue Targets and Realization for the Period 2020–2024

Year	Tax Revenue Target (in trillion rupiah)	Tax Revenue Realization (in trillion rupiah)	Target Achievement
2020	1.198,8	1.070,0	83,9%
2021	1.229,6	1.231,8	100,19%
2022	1.485,1	1.716,8	115,6%
2023	1.818,3	1.869,2	102,8%
2024	1.988,9	1.932,4	97,2%

Source: Direktorat Jenderal Pajak (<https://goodstats.id>)

The table above shows fluctuations in tax revenue realization each year. In 2020, tax realization did not achieve the predetermined tax revenue target. In 2021, however, tax revenue realization successfully met and even exceeded the target. Furthermore, in 2022, the achievement of tax revenue targets reached its highest level within the last five years, amounting to 115.6% of the target. In 2023, tax revenue achievement decreased by 12.8%, accompanied by an increase in the tax revenue target. Finally, in 2024, the target achievement also declined by 5.6% compared to the previous year. Although many of the targets had been achieved, fluctuations in tax revenue realization still occurred, indicating a low level of taxpayer awareness and the possible existence of tax avoidance practices (Stawati, 2020).

The increasing number of tax avoidance cases in Indonesia has become a significant concern (Hasanah & Widiastuti, 2022). For example, several Foreign Investment Companies (PMA) were reported to continuously declare losses over certain periods. In 2005, approximately 750 PMA companies engaged in tax avoidance practices by reporting repeated losses for up to five consecutive years, thereby avoiding tax payments to the state treasury (Astuti & Aryani, 2016). In addition, in 2015, PT Bentoel Internasional Investama Tbk. was also suspected of engaging in tax avoidance practices after being acquired by British American Tobacco (BAT) through Rothmans Far East B.V., a Netherlands-based company. This scheme was carried out through the payment of loan interest, royalties, and management service fees to affiliated companies located abroad. These transactions resulted in a reduction of taxable income in Indonesia because interest and royalty expenses were recognized as deductible expenses that reduced taxable income. This practice became a clear example of tax avoidance in the multinational consumer goods manufacturing sector, where companies utilized cross-border affiliated relationships to minimize domestic tax burdens, causing state revenue losses estimated at US\$11 million annually (Kontan, 2019).

One of the strategies frequently employed by companies to minimize tax burdens is transfer pricing practices. Transfer pricing is viewed as a commonly used method among affiliated companies to legally engage in tax avoidance and has become an important instrument in tax planning (Septiani et al., 2021). In general, companies implement transfer pricing strategies to shift profits from jurisdictions with high tax rates to countries imposing lower tax rates (Darussalam et al., 2013). According to data from the World Bank, 60% of transactions worldwide are conducted between parties with affiliated relationships (Irawan et al., 2020).



State revenue may potentially experience material declines if transfer pricing practices are continuously implemented by affiliated companies.

In 2019, a tax avoidance case occurred within the consumer goods industry, which is known as one of the fastest-growing industries. PT Nippon Indosari Corporindo Tbk. conducted transfer pricing activities in purchasing raw materials from its affiliated parties, PT Indofood Sukses Makmur Tbk. and PT Indofood CBP Sukses Makmur Tbk., which subsequently conducted sales transactions amounting to IDR 1,221,194,428,452 to PT Indomarco Prismaatama (Putri & Simanjuntak, 2023). Tax avoidance practices through corporate transactions aimed at reducing tax obligations via transfer pricing contradict the arm's length principle. Therefore, the government must strive to suppress tax avoidance cases to ensure optimal tax revenue collection.

Tax avoidance practices are not only influenced by transfer pricing activities but may also arise from corporate decisions related to promotional activities intended to increase sales. Advertising expense refers to costs incurred by companies to support various promotional and marketing activities, whether in the form of services or goods, to the wider public (Karundeng et al., 2022). To maintain their existence in increasingly competitive business environments, companies require strategies to reach markets and gain broad public recognition, one of which is through advertising. Advertising strategies may be implemented through various media, including television as an electronic medium. Promotional activities through advertising generate costs for companies, where increased advertising intensity is directly proportional to the amount of advertising expenses incurred. Advertising expenses can be utilized as deductions from taxable income, thereby reducing the amount of tax payable by companies. In 2014, PT Coca Cola Indonesia reportedly incurred advertising expenses amounting to IDR 566.84 billion for the promotion of Coca Cola beverage products. As a result, there was a discrepancy in taxable income, which according to the Directorate General of Taxes (DJP) should have amounted to IDR 603.48 billion, whereas PT Coca Cola Indonesia reported only IDR 492.59 billion (Kontan, 2014). Based on the provisions of Article 2 of the Minister of Finance Regulation Number 2/PMK.03/2010, all expenses incurred for promotional activities, including advertisements in electronic and print media, product introductions, sponsorships, exhibitions, and other regulated media, may be accumulated as deductions from gross income. Consequently, these provisions provide opportunities for companies to reduce their tax burdens.

Referring to the phenomena and research gaps identified in previous studies, further research is necessary regarding several factors that may influence tax avoidance practices by using transfer pricing and promotion intensity as independent variables. In addition, this study also considers other variables that potentially affect tax avoidance, such as fixed asset intensity and inventory intensity, in order to control factors that may influence the primary relationships among variables.

LITERATURE REVIEW

Agency Theory

Jensen & Meckling (1976) Agency theory explains the existence of a contractual relationship between the principal as the party granting authority and the agent as the party receiving authority, in which the principal delegates part of the decision-making authority to the agent. This theory is intended to establish a contractual framework capable of minimizing costs arising from information asymmetry and uncertainty in the relationship between agents (managers) and principals (owners) (Putri & Pratiwi, 2022). This theory is closely related to tax avoidance because it explains the conflict between tax authorities (government) and taxpayers (companies). In this context, the government acts as the principal, possessing the legal right to collect taxes from the income earned by taxpayers, namely companies. The government expects



taxpayers to remit taxes to the state treasury for public interests. On the other hand, taxpayers have personal interests in maximizing profits and minimizing the tax burden they must pay. This imbalance of interests between the government and companies becomes the primary cause of conflict, ultimately resulting in suboptimal state tax revenue due to tax avoidance practices.

Agency theory assumes that tax avoidance arises as a consequence of conflicts of interest between principals and agents. This condition encourages managers to make decisions that lead to tax avoidance practices, which subsequently become one of the main issues discussed within agency theory (Yanti & Dwi Astuti, 2023).

Hypothesis Development

Transfer pricing is a strategy for determining transaction prices between related parties, particularly within multinational companies (Rini et al., 2022). This practice is often utilized to shift profits from countries with high tax rates to countries with lower tax rates through pricing arrangements that deviate from the arm's length principle, either through mark-ups or mark-downs, thereby reducing tax liabilities and decreasing state revenue (Awodiran, 2014). Therefore, transfer pricing has become a major focus of tax authority supervision, especially in developing countries that are vulnerable to losing potential tax revenue due to limited monitoring resources (Beebejaun, 2018).

Transfer pricing arrangements may manipulate accounting profits, thereby affecting the amount of taxes received by the government, dividends distributed to shareholders, and managerial bonuses. From the perspective of agency theory, transfer pricing practices reflect conflicts of interest between management as the agent and principals, such as the government and minority shareholders. Management tends to maximize personal interests through bonus incentives and tunneling practices, namely the transfer of profits and assets for the benefit of controlling parties while the burden is borne by minority shareholders (Alexander, 2024). Consequently, minority shareholders and the government become disadvantaged parties because the reduction in reported profits directly impacts lower dividends and tax payments.

Research conducted by Mukarramah & Nugroho (2025) and Nugroho et al. (2024) indicates that transfer pricing is utilized by companies to shift tax burdens from high-tax countries to lower-tax jurisdictions through transactions among related parties. These findings are consistent with the studies of Rustandi & Herawaty (2024), Kusumawati et al. (2024), Putri et al. (2024), Widiani & Trisnawati (2024), and Amidu et al. (2019) which demonstrate a positive relationship between transfer pricing and tax avoidance, where greater differences in tax rates and larger volumes of affiliated transactions result in lower corporate tax burdens.

H₁: Transfer Pricing has a positive effect on tax avoidance.

Advertising expense is a marketing activity carried out by an entity regarding the products or services it offers. With a strong profit orientation, companies seek to increase sales of their products or services through promotional activities. Promotion functions to deliver information to the public so that consumers become more familiar with and better understand the products produced by the company (Suharto et al., 2022). When the public becomes more familiar with a company, the company's image in the eyes of society improves. Management therefore decides to incur promotional expenses to enhance the company's reputation. Companies with good reputations often allocate substantial costs to promotional activities (Pradipta et al., 2024).

High advertising expenses may also be utilized as a strategy to reduce a company's taxable income (Novitasari & Suharni, 2019). From the perspective of agency theory, the relationship between principals and agents encourages management to manage financial statements in ways that minimize tax burdens for the benefit of shareholders and managerial incentives (Yani et al., 2025), which ultimately conflicts with the government's interest in maximizing tax revenue.



Research conducted by Suharto et al. (2022) shows that advertising expenses have a positive effect on tax avoidance. These findings indicate that large advertising expenses can be used as a corporate strategy to optimize efforts in reducing tax burdens. Similar results were also found in the study by Yani et al. (2025) which concluded that advertising expenses positively influence tax avoidance.

H₂: Promotion intensity has a positive effect on tax avoidance.

METHODS

The population of this study consists of manufacturing companies in the consumer goods sector listed on the Indonesia Stock Exchange (IDX) and consistently registered during the 2020–2024 period. The sample includes manufacturing companies in the consumer goods sector listed on the Indonesia Stock Exchange (IDX) over a five-year period, namely from 2020 to 2024, with the selected samples determined based on criteria established by the author. According to Sugiyono (2013) purposive sampling is a sampling technique conducted by considering certain predetermined criteria. Therefore, several criteria were established to determine the sample selection.

1. Manufacturing companies in the consumer goods sector listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period.
2. Manufacturing companies in the consumer goods sector that published audited financial statements during the 2020–2024 period.
3. Manufacturing companies in the consumer goods sector that possessed complete data in accordance with the researcher's requirements during the 2020–2024 period.

Tax Avoidance

Tax avoidance is measured using the Effective Tax Rate (ETR), Cash Effective Tax Rate (CETR), and Book Tax Difference (BTD). The researcher uses these three measurements to compare the dependent and independent variables at a certain significance level. ETR is calculated as the ratio of income tax expense to profit before tax, providing a direct measure of how much tax is effectively paid by the company relative to its income.

$$ETR = \frac{\text{Income Tax Expense}}{\text{Profit Before Tax}}$$

CETR is calculated as the ratio between cash taxes paid and the company's profit before tax. CETR is used to overcome the limitations of ETR by measuring the actual cash amount paid by the company for taxes.

$$CETR = \frac{\text{Cash Taxes Paid}}{\text{Profit Before Tax}}$$

BTD is calculated by subtracting taxable income reported to tax authorities from accounting income reported in financial statements. A large BTD may serve as a strong indicator of aggressive tax avoidance activities.

$$BTD = \frac{\text{Pretax accounting income} - \text{taxable income}}{\text{Total assets}}$$

Transfer Pricing

Transfer pricing is measured using the ratio of receivables from related parties. Related-party receivables reflect intercompany transactions that are frequently utilized in transfer pricing practices within holding company structures, making this measurement appropriate for assessing the tendency of such practices.

$$TP \text{ Receivable} = \frac{\text{Trade Receivables from Related Parties}}{\text{Total Trade Receivables}}$$



Promotion Intensity

Promotion intensity is measured using the ratio of advertising expenses incurred by the company to total annual sales. This ratio reflects the extent of promotional activities through advertising relative to the company's total sales.

$$\text{Advertising Intensity} = \frac{\text{Advertising Expenses}}{\text{Sales}}$$

Fixed Asset Intensity

Fixed asset intensity is calculated based on the proportion of company investment in fixed assets. The increase in fixed assets is measured by dividing total fixed assets by total assets during a certain period.

$$\text{Fixed Asset Intensity} = \frac{\text{Total Fixed Assets}}{\text{Total Assets}}$$

Inventory Intensity

Inventory intensity is measured through a ratio that indicates the level of inventory utilization within the company. This ratio describes the proportion of company investment allocated to inventory compared to total assets.

$$\text{Inventory Intensity} = \frac{\text{Total Inventory}}{\text{Total Assets}}$$

$$\begin{aligned} ETR_{it} &= \alpha + \beta_1 TP_{it} + \beta_2 IP_{it} + \beta_3 FAI_{it} + \beta_3 INV_{it} + \varepsilon_{it} \\ CETR_{it} &= \alpha + \beta_1 TP_{it} + \beta_2 IP_{it} + \beta_3 FAI_{it} + \beta_3 INV_{it} + \varepsilon_{it} \\ BTD_{it} &= \alpha + \beta_1 TP_{it} + \beta_2 IP_{it} + \beta_3 FAI_{it} + \beta_3 INV_{it} + \varepsilon_{it} \end{aligned}$$

Keterangan:

ETR_{it} : Effective Tax Rate

CETR_{it}: Cash Effective Tax Rate

BTD_{it} : Book-Tax-Difference

α : Constant

β : Regression Coefficient

TP_{it} : Transfer pricing

IP_{it} : Promotion Intensity

FAI_{it} : Fixed Asset Intensity

INV_{it} : Inventory Intensity

RESULTS AND DISCUSSION

Results

Table 2. Descriptive Statistics

Variabel	Obs	Mean	Std. Dev.	Min	Max
ETR	155	0.2218289	0.0399214	0.0320147	0.3126998
CETR	155	0.3006016	0.316432	0.0213108	3.223221
BTD	155	0.0039136	0.0232395	-0.0518945	0.0911874
TP	155	0.2531363	0.3224982	0.0000646	1.349579
IP	155	0.049482	0.0510834	0.0000255	0.2069396
FAI	155	0.4597916	0.1688889	0.049314	0.8360078
INV	155	0.1703736	0.0867265	0.0263262	0.4129918

Source: Output STATA v.17 (2025)

Based on the descriptive statistics, ETR has a mean value of 0.2218 with a standard deviation of 0.0399, a minimum value of 0.0320, and a maximum value of 0.3127, indicating that the companies' accounting tax burden is relatively stable. CETR has a mean value of



0.3006 and a standard deviation of 0.3164, with a minimum value of 0.0213 and a maximum value of 3.2232, reflecting considerable variation in cash tax payments among companies. BTD shows a mean value of 0.0039 with a standard deviation of 0.0232, a minimum value of -0.0519, and a maximum value of 0.0911, indicating relatively small differences between accounting income and taxable income.

The transfer pricing variable has a mean value of 0.2531 with a standard deviation of 0.3224, a minimum value of 0.0000646, and a maximum value of 1.3496, indicating substantial differences in the intensity of affiliated transactions. Promotion intensity has a mean value of 0.0494 and a standard deviation of 0.0510, with a minimum value of 0.0000255 and a maximum value of 0.2069, reflecting variations in corporate promotional strategies. Meanwhile, fixed asset intensity has a mean value of 0.4598 with a standard deviation of 0.1689, a minimum value of 0.0493, and a maximum value of 0.8360. Inventory intensity has a mean value of 0.1704, a standard deviation of 0.0867, a minimum value of 0.0263, and a maximum value of 0.4130, indicating differences in asset structures among companies.

Table 3. Normality Test Result

Before			After		
Variable	Skewness	Kurtosis	Variable	Skewness	Kurtosis
ETR	-1.703614	9.795751	ETR	-1.703614	9.795751
CETR	6.33127	52.96712	CETR _w	2.233196	8.949078
BTB	0.9702235	4.771764	BTB	0.9702235	4.771764
TP	1.190866	3.249254	TP	1.190866	3.249254
IP	1.024732	3.100782	IP	1.024732	3.100782
FAI	0.0621176	2.51187	FAI	0.0621176	2.51187
INV	0.5800138	2.924642	INV	0.5800138	2.924642

Source: Output STATA v.17 (2025)

The test results indicate that ETR and BTB have satisfied the normality assumption, as evidenced by skewness values below 3 and kurtosis values below 10. In contrast, CETR exhibited very high skewness and kurtosis values, indicating the presence of extreme outliers. To reduce data distortion without eliminating observations, a 3% winsorizing procedure was applied in accordance with the recommendation of Aguinis et al. (2013). After winsorizing, the skewness and kurtosis values of CETR fell below the normality threshold, resulting in a more stable data distribution.

Chow Test

Table 4. Chow Test

	ETR	CETR	BTB
Prob > F	0.0000	0.0000	0.0000
α	0.05	0.05	0.05

Source: Output STATA v.17 (2025)

The Chow Test results show that the Prob > F value for all three models (ETR, CETR, and BTB) is 0.0000, which is below the significance level of 0.05. Therefore, H₀ is rejected, and the appropriate model to be used in the panel data analysis is the Fixed Effect Model (FEM).

Lagrange Multiplier Test

Table 5. Lagrange Multiplier Test

	ETR	CETR	BTB
Prob > chibar²	0.0009	0.0036	0.0000
α	0.05	0.05	0.05

Source: Output STATA v.17 (2025)



The results of the Lagrange Multiplier (LM) Test show that the Prob > chibar² values for all models are below 0.05, namely 0.0009 (ETR), 0.0036 (CETR), and 0.0000 (BTD), leading to the rejection of H₀. Therefore, the appropriate model to be used in the panel data analysis is the Random Effect Model (REM).

Hausman Test

Table 6. Hausman Test

	ETR	CETR	BTD
Prob > chi²	0.2876	0.834	0.2512
α	0.05	0.05	0.05

Source: Output STATA v.17 (2025)

The results of the Hausman test presented in the table show that the probability values are above the 5% significance level. Therefore, H₀ is accepted, and the most appropriate model to be used is the Random Effect Model (REM).

Multicollinearity Test

Table 7. Multicollinearity Test

Variable	VIF	1/VIF
FAI	3.25	0.307475
INV	2.49	0.400915
IP	1.68	0.594362
TP	1.61	0.620004

Sorce: Output STATA v.17 (2025)

All independent variables have VIF values far below the common threshold of 10. In addition, the 1/VIF values for all variables are above 0.10, which further confirms that the relationships among the independent variables do not indicate excessive correlation with one another. Therefore, it can be concluded that the regression model does not experience multicollinearity.

Adjusted R-Square

Table 8. Adjusted R-Square

	ETR	CETR	BTD
Number of Obs	155	155	155
Prob > Chi2	0.0301	0.0750	0.0287
R-Squared Overall	0.0471	0.0332	0.0864

Source: Output STATA v.17 (2025)

Based on the adjusted R² values, the ETR model of 0.0471 indicates that the transfer pricing and promotion intensity variables are able to explain 4.71% of the variation in tax avoidance, while the remaining variation is explained by other factors. In the CETR model, the adjusted R² value of 0.0332 indicates an explanatory power of 3.32%. Meanwhile, the BTD model has the highest adjusted R² value, namely 0.0864, meaning that 8.64% of the variation in tax avoidance can be explained by the independent variables included in the model.

Partial Test (T-Test)

Tabel 9. T-Test ETR

ETR					
	Coefficient	Z	Prob	Hypothesis Prediction	Conclusion
TP	-0.034253	-2.73	*0.003	H ₁ : +	H ₁ is accepted
IP	-0.120714	-1.05	0.146	H ₂ : +	H ₂ is rejected



FAI	-0.043616	-1.32	**0.093
INV	-0.054446	-0.9	0.185
_cons	0.260364	11.33	0.000

Source: Output STATA v.17 (2025)

Notes: *<5%, **<10%

The results of the t-test indicate that the transfer pricing (TP) variable has a coefficient value of -0.034253 with a probability value of 0.003 (< 0.05), meaning that TP has a significant effect on tax avoidance as measured by ETR. This negative coefficient indicates that an increase in transfer pricing reduces the ETR value, which conceptually reflects an increase in tax avoidance. Therefore, H1 is accepted. Meanwhile, the promotion intensity (IP) variable has a coefficient value of -0.1207143 with a probability value of 0.146 (> 0.05), indicating that IP does not have a significant effect on tax avoidance. Therefore, H2 is rejected.

Tabel 10. T-Test CETR

CETR					
	Coefficient	Z	Prob	Hypothesis Prediction	Conclusion
TP	0.002783	0.05	0.478	H ₁ : +	H ₁ is rejected
IP	0.67174	1.7	**0.099	H ₂ : +	H ₂ is rejected
FAI	-0.030008	-0.24	0.407		
INV	0.304641	1.23	**0.099		
_cons	0.218298	2.3	0.022		

Source: Output STATA v.17 (2025)

Notes: *<5%, **<10%

The results of the t-test in the CETR model show that the transfer pricing (TP) variable has a positive coefficient of 0.0027838 with a probability value of 0.478 (> 0.05). Therefore, TP does not have a significant effect on tax avoidance as measured by CETR, and H1 is rejected. Meanwhile, the promotion intensity (IP) variable has a positive coefficient of 0.6717403 with a probability value of 0.099, which is significant at the 10% level. However, since CETR is an inverse proxy for tax avoidance, this positive coefficient indicates that an increase in promotion intensity actually decreases the level of tax avoidance. Therefore, the direction of this relationship is inconsistent with the research hypothesis, and thus H2 remains rejected.

Tabel 11. T-Test BTD

BTD					
	Coefficient	Z	Prob	Hypothesis Prediction	Conclusion
TP	-0.008356	-1.26	*0.098	H ₁ : +	H ₁ is rejected
IP	0.030314	0.57	0.297	H ₂ : +	H ₂ is rejected
FAI	0.015399	0.94	0.216		
INV	-0.036689	-1.18	**0.063		
_cons	0.005125	0.43	0.352		

Source: Output STATA v.17 (2025)

Notes: *<5%, **<10%

The results of the t-test in the BTD model show that the transfer pricing (TP) variable has a coefficient value of -0.0083564 with a probability value of 0.098, which is significant at the 10% level. However, the negative direction indicates that H1 is rejected and suggests that transfer pricing is not utilized by companies to increase the difference between accounting



income and taxable income. Meanwhile, the promotion intensity (IP) variable has a positive coefficient value of 0.030314 with a probability value of 0.297 (> 0.05), indicating that there is no significant effect on tax avoidance based on the BTD measurement. Therefore, H2 is also rejected.

The Effect of Transfer Pricing on Tax Avoidance Measured by ETR

The test results indicate that transfer pricing has a negative and significant effect on ETR. Considering that ETR is an inverse proxy for tax avoidance, this negative coefficient suggests that an increase in related-party transactions reduces the ETR value, which implies a higher level of corporate tax avoidance. Therefore, the direction of this relationship is substantively consistent with the research hypothesis predicting a positive effect of transfer pricing on tax avoidance, and thus H1 is accepted.

These findings are consistent with agency theory, which states that managers as agents have incentives to maximize personal utility, including minimizing the company's tax burden through strategies that remain within legal boundaries, such as transfer pricing arrangements. Transfer pricing practices may be used for tax avoidance when companies set unreasonable prices in affiliated transactions to shift profits from countries with high tax rates to countries with lower tax rates (Widiani & Trisnawati, 2024). Therefore, unreasonable transfer pricing arrangements constitute one of the practices carried out by affiliated companies for tax avoidance purposes.

This study is in line with the findings of Amidu et al. (2019), Nugroho et al. (2024), Putri et al. (2024) and Rustandi & Herawaty (2024) which demonstrate that transfer pricing positively affects tax avoidance, indicating that such practices are more commonly used as tax avoidance tools by companies with affiliated relationships, particularly in countries with lower tax rates.

The Effect of Promotion Intensity on Tax Avoidance Measured by ETR

The regression results show that tax avoidance is not influenced by promotion intensity, although theoretically, from the perspective of agency theory, promotional expenses may be utilized by managers to reduce taxable income (Gouwvara & Susanty, 2023). These findings indicate that such opportunistic behavior does not occur within manufacturing companies in the consumer goods sector, meaning that promotional expenses are not used as instruments to reduce tax burdens. This result reflects that promotional expenditures are primarily directed toward improving the company's operational performance and remain under the supervision of shareholders or the board of directors. Strict oversight of these strategic expenses limits managers' opportunities to manipulate promotional costs as part of tax avoidance schemes, thereby making the potential for tax avoidance through promotional expenditures relatively low.

These findings are consistent with the studies conducted by Pratiwi et al. (2020), Anita et al. (2020), Diyani & Rahman (2022), and Gouwvara & Susanty (2023) which state that promotional expenses are mainly incurred to build brand image and increase sales, thus reflecting long-term marketing strategies rather than serving as instruments for tax avoidance.

The Effect of Transfer Pricing on Tax Avoidance Measured by CETR

The regression results show that transfer pricing does not affect tax avoidance, resulting in the rejection of the hypothesis. This finding indicates that the magnitude of related-party transactions is not directly associated with reductions in the company's cash tax payments. From the perspective of agency theory, these results illustrate the limitations faced by managers in utilizing affiliated transactions for opportunistic purposes due to internal and external monitoring by shareholders, auditors, and tax authorities. These control mechanisms play an important role in suppressing the potential misuse of transfer pricing as a means of tax avoidance.



The insignificant effect of transfer pricing on tax avoidance may also be explained by the tightening of tax regulations in Indonesia, particularly through Minister of Finance Regulation (PMK) No. 213/PMK.03/2016, which requires transfer pricing documentation and the implementation of the arm's length principle. This high level of supervision restricts management's ability to use transfer pricing as a tax avoidance instrument (Chrysilla & Sandra, 2023).

This study is consistent with Putri & Pratiwi (2022) who argue that affiliated transactions are more commonly used for operational purposes and internal efficiency rather than for tax avoidance. Therefore, the existence of related-party transactions does not necessarily reduce tax burdens, supporting the findings of this study that variations in transfer pricing are unable to explain changes in CETR among manufacturing companies in the consumer goods sector.

The Effect of Promotion Intensity on Tax Avoidance Measured by CETR

The test results indicate that promotion intensity has a positive and significant effect. Since CETR is an inverse proxy for tax avoidance, this positive coefficient indicates that an increase in promotion intensity reduces the level of tax avoidance. Therefore, the direction of this relationship is inconsistent with the research hypothesis, resulting in the rejection of the hypothesis.

These findings indicate that increased promotional expenditures are more likely to reflect market expansion strategies and brand strengthening rather than tax planning instruments. Companies allocating substantial funds for promotional activities generally focus on increasing sales and maintaining long-term reputations, thereby preserving tax compliance in order to avoid reputational risks and tax sanctions. Advertising activities encourage companies to maintain a positive brand image, which indirectly increases public attention and scrutiny from tax authorities (Gouwvara & Susanty, 2023). Consequently, companies under closer supervision by tax authorities tend to be more cautious in engaging in tax avoidance practices.

The findings of this study are consistent with Anita et al. (2020) and Pratiwi et al. (2020) which conclude that promotional expenditures are not utilized as tax avoidance strategies but instead serve as instruments for improving corporate image and increasing sales.

The Effect of Transfer Pricing on Tax Avoidance Measured by BTD

The regression results indicate that transfer pricing has a negative effect on tax avoidance measured using BTD, leading to the rejection of the hypothesis. These findings suggest that increases in related-party transactions are not used by companies to widen the gap between taxable income and accounting income, indicating that transfer pricing practices are not utilized as instruments for profit shifting or tax avoidance. From the perspective of agency theory, these findings reflect limitations on managers' opportunistic behavior due to shareholder monitoring of affiliated transactions.

The negative relationship may also be explained by the strict tax regulations in Indonesia, particularly the requirement to prepare Transfer Pricing Documentation (TP Doc) as regulated under PMK No. 213/PMK.03/2016. These regulations require companies to demonstrate the fairness of affiliated transactions, thereby limiting manipulation through transfer pricing and encouraging transactions to be conducted at arm's length values, which ultimately explains why BTD did not increase in this study (Rahman & Utami, 2021).

These findings are consistent with Irawan et al. (2020), Putri et al. (2024), and Nadhifah & Arif (2020) which demonstrate that transfer pricing negatively affects tax avoidance because related-party transactions in Indonesia are more commonly utilized for supply chain integration, cost efficiency, and operational stability.



The Effect of Promotion Intensity on Tax Avoidance Measured by BTD

The results of this study indicate that promotion intensity does not affect tax avoidance, leading to the rejection of the hypothesis. From the perspective of agency theory, although managers as agents have opportunities to utilize promotional expenses as deductible expenses to reduce taxable income, these findings indicate that such opportunistic behavior does not occur within manufacturing companies in the consumer goods sector. Promotional expenses tend to be utilized according to their economic function as marketing strategies aimed at increasing demand and strengthening brand image. Furthermore, strong supervision from shareholders, boards of commissioners, public scrutiny, and tax authorities over promotional activities limits managers' ability to manipulate promotional expenses as instruments for tax avoidance (Suharto et al., 2022).

These findings are consistent with Pratiwi et al. (2020), Anita et al. (2020), Diyani & Rahman (2022), and Gouwvara & Susanty (2023) which conclude that promotional expenses do not play a significant role in tax avoidance practices because their recording is relatively rigid and supported by strict documentation.

CONCLUSION

This study concludes that transfer pricing has a significant negative effect on tax avoidance as measured by the Effective Tax Rate (ETR) and Book-Tax Difference (BTD), and has no significant effect when measured using the Cash Effective Tax Rate (CETR). Therefore, the first hypothesis (H1) is rejected. These findings indicate that transfer pricing activities within manufacturing companies in the consumer goods sector are not utilized as instruments of tax avoidance, but are instead directed toward operational interests among affiliated entities. The strictness of tax regulations and the implementation of the arm's length principle encourage companies to be more cautious in conducting affiliated transactions.

Furthermore, promotion intensity is proven to have a significant positive effect on tax avoidance only when measured using CETR, meaning that the second hypothesis (H2) is accepted for this measurement. These results indicate that promotional expenses may be utilized by companies as a means of cash-based tax management. However, under the ETR and BTD measurements, promotion intensity does not significantly affect tax avoidance, resulting in the rejection of H2. These findings indicate that promotional expenditures do not influence the effective tax burden or the differences between accounting income and taxable income, and instead primarily reflect corporate marketing strategies aimed at improving reputation and business competitiveness.

Suggestions

For future researchers, it is recommended to broaden the scope of variables that may influence tax avoidance in order to obtain a more comprehensive understanding by considering existing phenomena and conditions. In addition, future studies may incorporate moderating variables such as tax haven utilization, institutional ownership, corporate governance, audit quality, or other relevant variables that may provide deeper insights into tax avoidance practices.

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