EDUCORETAX
Volume 6 No.8, 2026

THE EFFECT OF TRANSFER PRICING AND FOREIGN OWNERSHIP ON TAX AVOIDANCE IN CONSUMER NON-CYCLICALS SECTOR COMPANIES

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Abstract
This study is motivated by the widespread practice of transfer pricing and the high level of foreign ownership among companies in the consumer non-cyclicals sector, which are suspected of being used to minimize corporate tax burdens. This study aims to examine the effect of transfer pricing and foreign ownership on tax avoidance, both partially and simultaneously, in consumer non-cyclicals sector companies listed on the Indonesia Stock Exchange during the 2022–2024 period. This study applies a quantitative approach using a sample of 25 companies selected through purposive sampling, resulting in 75 observations over three years. Secondary data were obtained from the companies' audited annual financial statements published on the Indonesia Stock Exchange and were analyzed using multiple linear regression with IBM SPSS Statistics. Grounded in agency theory, the results show that transfer pricing and foreign ownership have a positive and significant effect on tax avoidance, both partially and simultaneously, with an adjusted coefficient of determination of 63.3 percent. These findings are expected to serve as an evaluation for companies to improve transparency in related-party transactions, for tax authorities to strengthen supervision of multinational entities, and as a reference for further research to consider other relevant determinants of tax avoidance.
Keywords: Agency theory; Foreign ownership; Tax avoidance; Transfer pricing

INTRODUCTION

Tax avoidance is a legal action taken to minimize tax obligations by exploiting weaknesses or loopholes in the applicable tax regulations (Isnaini et al., 2024). Unlike tax evasion, which violates the law, tax avoidance does not directly breach the provisions but conflicts with the purpose of tax collection as a fair and sustainable source of state financing. Its impact is not only a significant reduction in state revenue but also injustice within the taxation system (Isnaini et al., 2024). Unlike tax evasion, which violates the law, tax avoidance does not directly breach the provisions but conflicts with the purpose of tax collection as a fair and sustainable source of state financing. Its impact is not only a significant reduction in state revenue but also injustice within the taxation system (Isnaini et al., 2024). The Tax Justice Network report estimates that countries around the world experienced tax losses of USD 482,911 million in 2022, decreasing to USD 480,423 million in 2023, and rising again to USD 492,355 million in 2024. In line with this, the OECD revealed that the practice of Base Erosion and Profit Shifting (BEPS) causes global losses estimated at USD 100 to USD 240 billion per year, equivalent to 4%–10% of total global corporate income tax revenue.

The issue of tax avoidance in Indonesia has increasingly become a concern along with the growing number of multinational companies across various industrial sectors. The State of Tax Justice 2025 report estimates Indonesia’s potential loss of tax revenue at USD 17.63 billion due to tax avoidance and tax base erosion practices. This practice is generally carried out through transfer pricing schemes that do not reflect the arm’s length principle, the use of tax haven countries, and ownership structures involving foreign entities. The World Bank (2025) report estimates that Indonesia’s tax gap averaged 6.4% of Gross Domestic Product, or approximately IDR 944 trillion per year during the 2016–2021 period. This figure reflects the large gap between potential tax revenue and the amount actually received by the state.

Transfer pricing is a pricing policy in transactions between parties that have a special relationship (Permatasari & Handayani, 2025). In practice, this mechanism is often used as a means of tax avoidance, particularly by multinational companies, by shifting profits to entities in jurisdictions with lower tax rates without directly violating tax provisions. The Ernst & Young (2026) Tax Risk Survey shows that around 26% of respondents identified transfer pricing as the main source of tax risk, and around 90% of respondents stated that transfer pricing–related policies would significantly increase the number of tax disputes. This condition reflects the difference in interests between taxpayers and tax authorities in determining the fairness of transactions between related parties, which opens up opportunities for tax avoidance practices.

In response to the increase in such practices, the Indonesian government issued Minister of Finance Regulation Number 172 of 2023 concerning the application of the arm's length principle in transactions influenced by a special relationship. This regulation requires taxpayers transacting with related parties to apply the arm's length principle and expands the authority of the Directorate General of Taxes to make corrections to unfair affiliated transactions. The issuance of this regulation shows that transfer pricing remains a primary focus of tax authority supervision. In addition, Indonesia's corporate income tax rate of 22% is relatively high and ranks third in Southeast Asia, below the Philippines (25%) and Malaysia (24%), but higher than Thailand, Vietnam, Cambodia, and Laos (20%), Brunei Darussalam (18.5%), Singapore (17%), and Timor Leste (10%). This difference in rates has the potential to encourage multinational companies to exploit loopholes to reduce their tax burden.

In addition to transfer pricing, a company's ownership structure can also be a driving factor for tax avoidance. Based on Indonesia Stock Exchange data, as of August 2024 the proportion of foreign investor ownership reached 48.5% of total share ownership. Foreign ownership has the potential to increase tax avoidance because it provides access to cross-border tax planning opportunities and strategies that exploit differences in tax systems across jurisdictions (Octaryno, 2025). The higher the proportion of foreign ownership, the broader the network of cross-border affiliated entities that can be used to shift profits through transfer pricing schemes. The complexity of these international transactions can actually widen the information gap between the company and the tax authorities even though regulations have been tightened.

In Indonesia, tax avoidance practices through transfer pricing schemes have been found in several multinational companies, particularly in the consumer non-cyclicals sector. PT Coca Cola Indonesia was proven to have carried out tax avoidance through a transfer pricing mechanism that caused a tax underpayment of IDR 49.24 billion after an advertising cost inflation of IDR 566.84 billion was discovered during 2002–2006. A similar case occurred at PT Bentoel Internasional Investama Tbk, which carried out tax avoidance in the 2013–2015 period through a loan scheme from an affiliated company in the Netherlands. A similar practice also occurred at PT JJLapp Cable Works Indonesia through the payment of a management fee to its overseas affiliate amounting to IDR 11.32 billion in the 2016 tax year, which was subsequently categorized as a disguised dividend and whose correction was upheld by the 2025 Tax Court ruling.

This phenomenon is inseparable from the characteristics of the consumer non-cyclicals sector as a provider of basic necessities with relatively stable demand even when economic conditions weaken. This sector is dominated by large multinational companies with cross-border business networks and complex foreign ownership structures, reflected in the 92.8% of companies in this sector on the main board of the Indonesia Stock Exchange that have a foreign ownership structure. This condition is a serious concern given the large contribution of the manufacturing industry to national tax revenue, which has actually shown a declining trend during 2022–2024, namely from 29.1% in 2022 to 27.2% in 2023, and falling again to 25.8% in 2024.

This study uses the 2022–2024 period on the consideration that this period represents a phase of economic recovery following the COVID-19 pandemic, so that companies' business activities again show a more consistent pattern. This period also coincides with changes in tax regulations, namely the issuance of PMK 172 of 2023, which is mandatory to apply in the 2024 tax year, as well as PMK 136 of 2024 concerning the Global Minimum Tax as an implementation of the OECD/G20 agreement. Although a number of previous studies have examined the determinants of tax avoidance, the results still show inconsistency. Ekasari et al. (2025) and Permatasari & Handayani (2025) found a positive effect of transfer pricing on tax avoidance, while Priyatno & Anjilni (2025) and Yino & Ngadiman (2025) found no significant effect. For the foreign ownership variable, Octaryno (2025) and Rahayu et al. (2024) found a positive effect, whereas Akbar et al. (2021) found a negative effect and Opravita (2023) found no effect. This gap in results, together with the scarcity of research specifically highlighting the consumer non-cyclicals sector in the period after the issuance of PMK 172 of 2023, constitutes the research gap addressed by this study.

Based on the above discussion, this study aims to examine the effect of transfer pricing on tax avoidance, to examine the effect of foreign ownership on tax avoidance, and to examine the simultaneous effect of both on tax avoidance in consumer non-cyclicals sector companies listed on the Indonesia Stock Exchange during the 2022–2024 period.

LITERATURE REVIEW

Agency Theory

Jensen & Meckling (1976) explain that an agency relationship is a relationship between the owner of the company (*principal*) and the manager (*agent*), in which the owner grants authority to the manager to run the company and make decisions on behalf of the owner. Both parties are considered to have their own interests, so the manager does not always act in accordance with the owner's interests. Owners generally focus on business continuity and long-term profit, while managers may be more oriented toward short-term results (Eprila & Chairina, 2025). Because the agent possesses more complete information regarding the company's condition, information asymmetry arises between the two parties (Fitri & Dwita, 2023), which opens up opportunities for the agent to act in their personal interest. Eisenhardt (1989) emphasizes that agency problems arise due to differences in goals between the principal and agent as well as the principal's limitations in ensuring the agent's actions because of information constraints.

In this study, the agency conflict occurs between the tax authority as the *principal* and company management as the *agent*. The tax authority has an interest in maximizing state revenue, while the company seeks to maximize profit by minimizing the tax burden (Arditra et al., 2025). The tax authority faces limitations in accessing and assessing the company's financial information and internal transactions comprehensively, while the company fully controls that information. This situation can be exploited to arrange transfer prices so that the tax burden can be minimized. This condition is aggravated by the foreign ownership structure that provides access to cross-border tax planning opportunities (Octaryno, 2025), thereby strengthening the agency conflict between company management and the tax authority.

Transfer Pricing

According to the OECD (2022), transfer pricing is the determination of the price set when a company carries out a transaction to transfer tangible goods, intangible assets, or provide services between companies that have a special relationship or are affiliated. Eprila & Chairina (2025) note that this policy is generally applied by multinational companies as an effort to maximize profit and minimize the tax burden by shifting profits to jurisdictions with lower tax rates. In Indonesia, provisions regarding transactions between related parties are regulated in

Article 18 of Law Number 7 of 1983 as amended several times, most recently by Law Number 36 of 2008 concerning Income Tax, which is further elaborated through PMK Number 213/PMK.03/2016, Government Regulation Number 55 of 2022, and most recently PMK Number 172 of 2023.

Based on Article 2 paragraph (2) of PMK Number 172 of 2023, a special relationship is a condition of dependency or attachment of one party to another caused by ownership or capital participation, control, and blood or marital relationships. The existence of a special relationship has the potential to encourage adjustments to transaction prices by raising or lowering the selling or purchase value for certain purposes, such as tax efficiency or optimization of group profit, so that the price formed may deviate from the market price (Arditra et al., 2025).

Foreign Ownership

According to Akbar et al. (2021), foreign share ownership can be defined as the proportion of shares owned by foreign investors domiciled outside Indonesia. Suranta et al. (2020) state that the foreign ownership structure consists of foreign individuals, foreign business entities, and/or foreign governments that invest their capital in Indonesia. Companies with a foreign ownership structure tend to engage in tax avoidance by using transfer pricing as well as the utilization of tax incentive facilities such as tax holidays and tax allowances (Suranta et al., 2020). The foreign ownership structure plays a crucial role in determining the level of tax compliance and the implementation of corporate tax planning.

Tax Avoidance

Hanlon & Heitzman (2010) define tax avoidance as a tax planning strategy that is continuous in nature, ranging from what is entirely legal to what is aggressive. Tax avoidance is carried out legally by exploiting loopholes in tax regulations, in contrast to tax evasion, which is illegal (Isnaini et al., 2024). One of the most widely used proxies for measuring tax avoidance is the Effective Tax Rate (ETR), namely the ratio between the tax burden and profit before tax. The lower the ETR value, the higher the indication of tax avoidance practices carried out by the company.

Hypothesis Development

Based on agency theory, the tax authority as the principal has an interest in maximizing state revenue, while management as the agent seeks to reduce the tax burden. Information asymmetry over the company's internal transactions provides room for management to arrange transfer prices so that profit reported in Indonesia can be minimized. The findings of Arditra et al. (2025), Isnaini et al. (2024), and Permatasari & Handayani (2025) show that transfer pricing has a positive effect on tax avoidance. Thus, the first hypothesis is formulated as follows.

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

Theoretically, foreign investors have the potential to improve the quality of supervision over management due to demands for compliance with international standards. However, this condition does not necessarily reduce tax avoidance practices, because foreign ownership actually provides access to cross-border tax planning opportunities and strategies that exploit differences in tax systems across jurisdictions (Octaryno, 2025). Foreign investors as owners have an interest in maximizing profit by reducing the tax burden, which encourages management to apply more aggressive tax policies. The findings of Octaryno (2025) and Rahayu et al. (2024) support this argument. Therefore, the second hypothesis is formulated as follows.

H2: Foreign ownership has a positive effect on tax avoidance.

When transfer pricing and foreign ownership occur simultaneously, the agency conflict between the company and the tax authority becomes increasingly complex. Foreign ownership provides the motivation and access to international tax planning strategies, while transfer pricing provides the technical means to shift profits. Ekasari et al. (2025) and Marlina &

Hidayah (2024) proved the simultaneous effect of these two variables on tax avoidance. Thus, the third hypothesis is formulated as follows.

H3: Transfer pricing and foreign ownership simultaneously affect tax avoidance.

METHODS

This study uses a quantitative approach, namely an approach grounded in the philosophy of positivism, used to examine a particular population or sample, with statistical data analysis and the aim of testing formulated hypotheses (Sugiyono, 2025). The object of this study is the effect of transfer pricing and foreign ownership as independent variables on tax avoidance as the dependent variable, with the subject being consumer non-cyclicals sector companies listed on the Indonesia Stock Exchange during the 2022–2024 period.

The research population comprises all consumer non-cyclicals sector companies listed on the Indonesia Stock Exchange during the 2022–2024 period. The sample was determined using the nonprobability sampling method with a purposive sampling technique, namely a sample selection technique based on certain criteria relevant to the research objective (Sugiyono, 2025). The criteria used were consumer non-cyclicals sector companies that were actively listed on the Indonesia Stock Exchange during 2022–2024, listed on the main board, published complete audited financial statements, did not incur losses, had foreign ownership, and had records of trade receivables with related parties during the research period. The sample selection process is presented in Table 1.

Table 1. Sample Selection Criteria

No	Kriteria Sampel	Jumlah
1	Consumer non-cyclicals sector companies actively listed on the Indonesia Stock Exchange during the 2022–2024 period	128
2	Companies not listed on the main board of the Indonesia Stock Exchange	(86)
3	Companies that did not publish complete audited financial statements during 2022–2024	(0)
4	Companies that incurred losses during 2022–2024	(4)
5	Companies that did not have foreign ownership during 2022–2024	(3)
6	Companies that did not have records of receivables with related parties during 2022–2024	(10)
	Companies meeting the criteria	**25**
	Total research sample (3 years)	**75**

Source: Processed by the Researcher (2026)

Based on these criteria, 25 companies were obtained as the sample, so that the total observations over three years amounted to 75 data points. The data used are secondary data in the form of audited annual financial statements downloaded through the Indonesia Stock Exchange website and the official websites of each company, as well as the Refinitiv Eikon database for the 2022–2024 period. The operationalization of the research variables is presented in Table 2.

Table 2. Variable Operationalization

Variable	Definition	Indicator	Scale
Tax Avoidance (Y)	A tax planning strategy that is continuous in nature, ranging from entirely legal to aggressive (Hanlon & Heitzman, 2010)	ETR = Tax burden / Profit before tax	Ratio
Transfer Pricing (X1)	The determination of the price set when a company carries out a transaction to transfer tangible goods, intangible assets, or services between affiliated companies (OECD, 2022)	TP = Trade receivables to related parties / Total trade receivables	Ratio
Foreign Ownership (X2)	An ownership structure consisting of foreign individuals, foreign business entities, and/or foreign governments that invest their capital in Indonesia (Suranta et al., 2020)	FO = Total shares owned by foreigners / Total shares outstanding	Ratio

Source: Processed by the Researcher (2026)

Data processing was carried out using Microsoft Excel for initial tabulation and IBM SPSS Statistics for statistical analysis. The data analysis techniques include descriptive statistical analysis, classical assumption tests, multiple linear regression analysis, the coefficient of determination test, and hypothesis testing. The classical assumption test was conducted to ensure that the regression model meets the Best Linear Unbiased Estimator (BLUE) criteria, which include a normality test using Kolmogorov-Smirnov, a multicollinearity test using tolerance and Variance Inflation Factor (VIF) values, a heteroskedasticity test using the Glejser test, and an autocorrelation test using the Durbin-Watson method Ghozali (2021). The multiple linear regression equation model used is as follows.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e \qquad (1)$$

Description: Y is tax avoidance proxied by ETR; X1 is transfer pricing; X2 is foreign ownership; α is the constant; β is the regression coefficient; and e is the error term. Partial hypothesis testing uses a one-tailed t-test because the hypotheses are formulated directionally, while simultaneous testing uses the F-test at a significance level of 0.05.

RESULTS AND DISCUSSION

Descriptive Statistics

Descriptive statistics are used to provide an initial overview of the research data through minimum, maximum, mean, and standard deviation values (Sugiyono, 2025). The results of the descriptive statistical test on 75 observations are presented in Table 3.

Table 3. Descriptive Statistics Test Results

	TP (X1)	FO (X2)	ETR (Y)
Minimum	0,000376	0,000093	0,092111
Maximum	0,994062	0,946102	0,331158
Mean	0,252230	0,401510	0,183210
Std. Deviation	0,323122	0,324187	0,061360
Observations	75	75	75

Source: Data processed with IBM SPSS Statistics (2026)

Based on Table 3, the tax avoidance variable proxied by ETR has the lowest value of 0.092111 at PT Multi Bintang Indonesia Tbk (MLBI) in 2024, which reflects an effective tax payment far below the 22% corporate tax rate, thus indicating a high tendency toward tax avoidance. The highest value of 0.331158 is found at PT Sinar Mas Agro Resources and Technology Tbk (SMAR) in 2022. The average ETR value is 0.18321 with a standard deviation of 0.06136. The average ETR being below the 22% corporate tax rate indicates that, in general, the sample companies pay taxes lower than the rate they should, which indicates the existence of tax avoidance practices during the research period.

The transfer pricing variable has the lowest value of 0.000376 at PT BISI International Tbk (BISI) in 2024 and the highest value of 0.994062 at PT Mayora Indah Tbk (MYOR) in 2024, with an average of 0.25223 and a standard deviation of 0.323122. The standard deviation being greater than the mean indicates a fairly large variation among companies in carrying out transfer pricing. Meanwhile, the foreign ownership variable has the lowest value of 0.000093 at PT Jhonlin Agro Raya Tbk (JARR) in 2022 and the highest value of 0.946102 at PT Multi Bintang Indonesia Tbk (MLBI) in 2024, with an average of 0.40151 and a standard deviation of 0.324187, which shows that the involvement of foreign investors in this sector is fairly varied.

Classical Assumption Test

The results of the classical assumption test are summarized in Table 4. The normality test using Kolmogorov-Smirnov produces an Asymp. Sig. (2-tailed) value of 0.200, which is greater than 0.05, so the residuals of the regression model are normally distributed. The multicollinearity test shows a tolerance value of 0.988 (> 0.10) and a VIF of 1.012 (< 10) for both independent variables, so there are no symptoms of multicollinearity. The heteroskedasticity test using the Glejser test produces significance values of 0.075 for transfer pricing and 0.233 for foreign ownership, both greater than 0.05, so the model is homoskedastic. The autocorrelation test produces a Durbin-Watson value of 1.774, which lies between the du value of 1.6802 and 4−du of 2.3198, so the model is free from autocorrelation problems. Thus, all classical assumptions have been met and the regression model is fit for use.

Table 4. Summary of Classical Assumption Test Results

Type of Test	Method	Result	Conclusion
Normality	Kolmogorov-Smirnov	Asymp. Sig. = 0,200	Residuals are normally distributed
Multicollinearity	Tolerance dan VIF	Tolerance = 0,988; VIF = 1,012	No multicollinearity
Heteroskedasticity	Glejser	Sig. TP = 0,075; Sig. FO = 0,233	No heteroskedasticity
Autocorrelation	Durbin-Watson	1,6802 < 1,774 < 2,3198	No autocorrelation

Source: Data processed with IBM SPSS Statistics (2026)

Multiple Linear Regression Analysis and Hypothesis Testing

The results of the multiple linear regression analysis along with the partial test are presented in Table 5.

Table 5. Multiple Linear Regression and Partial Test (t-Test) Results

Model	Coefficient B	t-value	Sig.
(Constant)	0,252	33,997	< 0,001
X1: Transfer Pricing	-0,067	-5,012	< 0,001
X2: Kepemilikan Asing	-0,129	-9,615	< 0,001

Source: Data processed with IBM SPSS Statistics (2026). Dependent variable: ETR

Based on Table 5, the following regression equation is obtained.

$$Y = 0{,}252 - 0{,}067\, X_1 - 0{,}129\, X_2 + e \qquad (2)$$

The constant value of 0.252 indicates that if transfer pricing and foreign ownership are zero, the predicted ETR value is 0.252. The transfer pricing regression coefficient of −0.067 means that every one-unit increase in transfer pricing will decrease ETR by 0.067 units, assuming other variables are constant; this decrease in ETR indicates an increase in tax avoidance practices. The foreign ownership regression coefficient of −0.129 means that every one-unit increase in foreign ownership will decrease ETR by 0.129 units, which also indicates an increase in tax avoidance practices.

The t-table value at a significance level of 0.05 with degrees of freedom df = n − k − 1 = 72 for a one-tailed test is 1.666. The transfer pricing variable has a |t-value| of 5.012 (> 1.666) with a one-tailed significance < 0.0005 and a coefficient that is negative toward ETR, so H1 is accepted. The foreign ownership variable has a |t-value| of 9.615 (> 1.666) with a one-tailed significance < 0.0005 and a coefficient that is negative toward ETR, so H2 is accepted. The results of the simultaneous test are presented in Table 6.

Table 6. Simultaneous Test (F-Test) Results and Coefficient of Determination

Model	df	F-value	Sig.
Regression	2	64,821	< 0,001
Residual	72		
Total	74		
Adjusted R Square	0,633		

Source: Data processed with IBM SPSS Statistics (2026)

Based on Table 6, the F-value of 64.821 is greater than the F-table of 3.124 with a significance of < 0.001 (< 0.05), so H3 is accepted. This means that transfer pricing and foreign ownership together have a significant effect on tax avoidance. The Adjusted R Square value of 0.633 indicates that the variation in tax avoidance can be explained by the two independent variables by 63.3%, while the remaining 36.7% is explained by other variables outside the model, such as firm size, leverage, profitability, and other corporate governance variables. This is in line with the Ernst & Young survey (2026), which identified that, in addition to transfer pricing, the sources of corporate tax risk globally are also influenced by tax incentives, indirect taxes, permanent establishment risk, and digital taxes.

The Effect of Transfer Pricing on Tax Avoidance

The test results show that transfer pricing has a positive and significant effect on tax avoidance, so H1 is accepted. The coefficient of the transfer pricing variable is negative toward ETR, which indicates that the higher the ratio of trade receivables to related parties, the greater the company's tendency to engage in tax avoidance practices. This finding is consistent with agency theory. The tax authority as the *principal* has an interest in maximizing state revenue, while management as the *agent* seeks to reduce the tax burden in order to maximize profit. This condition is aggravated by information asymmetry, in which the tax authority has limitations in accessing and evaluating the company's internal transactions comprehensively while management fully controls that information (Fitri & Dwita, 2023). It is this loophole that companies exploit to arrange transfer prices in transactions between related parties so that profit reported in Indonesia can be minimized.

This finding is consistent with Arditra et al. (2025), who state that transfer pricing has a significant effect on tax avoidance. In transactions between parties that do not have a special relationship, prices are determined by market mechanisms; however, in transactions with related parties, the prices used do not always reflect the actual market mechanism, thus opening up opportunities for companies to adjust transaction prices as an effort to reduce the tax burden. Isnaini et al. (2024), in the miscellaneous industry sector for the 2019–2022 period, also found that the higher the level of transfer pricing, the greater the tendency toward tax avoidance. Similar results were found by Permatasari & Handayani (2025), who explain that in the food and beverage subsector, transfer pricing is more dominant as a tax avoidance strategy than other factors because of the high intensity of transactions between related parties within a single business group.

On the other hand, this finding differs from Priyatno & Anjilni (2025) on energy sector companies for the 2019–2023 period, who concluded that transfer pricing has no significant effect on tax avoidance due to increasingly strict tax regulations. Yino & Ngadiman (2025), on coal mining companies for the 2021–2023 period, also show that transfer pricing is not always aimed at reducing the tax burden, but can be used for evaluating performance between entities within a group as well as adjusting pricing strategy to remain competitive. This difference in results indicates that the effectiveness of transfer pricing as a means of tax avoidance depends greatly on the characteristics of the sector studied.

The Effect of Foreign Ownership on Tax Avoidance

The test results show that foreign ownership has a positive and significant effect on tax avoidance, so H2 is accepted. The coefficient of the foreign ownership variable is negative toward ETR, which indicates that the greater the proportion of shares owned by foreign parties, the higher the company's tendency to engage in tax avoidance practices. Theoretically, the presence of foreign investors should enhance the supervisory function over management because of demands for transparency and compliance with international standards. However, in practice, foreign ownership allows companies to access various cross-border tax planning opportunities and strategies that exploit differences in policies across jurisdictions (Octaryno, 2025). Foreign investors oriented toward maximum profit encourage management to apply aggressive tax policies, while also enlarging the information asymmetry between the company and the tax authority because the tax policies applied tend to be complex and difficult to supervise optimally.

This finding is consistent with Octaryno (2025), who found that foreign ownership has a positive and significant effect on tax avoidance. Companies with foreign investors generally have broader access to international tax strategies, including the utilization of differences in tax rates and policies between countries, as well as a deeper understanding of global tax optimization. Rahayu et al. (2024) also show that the greater the involvement of foreign investors in the ownership structure, the greater its influence on policies aimed at minimizing the tax burden, because foreign shareholders desire a high rate of return on investment in the form of dividends.

Conversely, Akbar et al. (2021) found that foreign ownership has a negative and significant effect on tax avoidance, because foreign shareholders with large control tend to encourage management to pursue more compliant tax policies. Opravita (2023) even found no effect of foreign ownership on tax avoidance, explaining that foreign investors generally focus more on gaining profit from the transactions carried out. This difference in results is likely influenced by differences in sector characteristics, research period, and the type of foreign investors involved. Investors with a long-term orientation tend to emphasize compliance and company sustainability, while short-term investors are oriented toward maximizing after-tax profit.

The Simultaneous Effect of Transfer Pricing and Foreign Ownership on Tax Avoidance

The F-test results show that transfer pricing and foreign ownership together have a significant effect on tax avoidance, so H3 is accepted. This finding can be explained through the perspective of agency theory, which shows that the conflict between the company as the *agent* and the tax authority as the *principal* becomes increasingly complex when transfer pricing and foreign ownership occur simultaneously. Transfer pricing allows the company to arrange transaction prices with related parties so that taxable income reported in Indonesia can be minimized, while foreign ownership enlarges the information asymmetry between the company and the tax authority. When both conditions appear simultaneously, the company's opportunity and motivation to engage in tax avoidance become greater, while the tax authority's ability to conduct supervision becomes increasingly limited.

This finding is in line with Ekasari et al. (2025), who found that transfer pricing and foreign ownership have a positive and significant effect on tax avoidance, as well as Marlina & Hidayah (2024), who explain that companies with large foreign ownership have broader access to international tax planning strategies, thereby increasing the opportunity to exploit differences in tax rates between countries through the manipulation of related-party transaction prices. Conversely, Syarif & Koerniawan (2025) found that neither transfer pricing nor foreign ownership had a significant partial effect, although simultaneously, together with earnings management, they still had an effect. This is explained by the increasingly strong fiscal supervision system in Indonesia as well as the obligation to fully document transfer pricing, which includes the master file, local file, and country-by-country report (CbCR).

Although tax avoidance can provide financial benefits, there are a number of risks that need to be considered. The main risk is legal risk, where companies that engage in aggressive transfer pricing practices have the potential to face tax authority audits that can lead to fiscal corrections, fines, administrative sanctions, and even legal action. In addition, amid increasing transparency of information, such practices can trigger negative perceptions and reduce the trust of investors and business partners. From an ethical standpoint, multinational companies that shift profits to countries with low tax rates can be considered as not contributing optimally to state revenue, while compliant domestic companies must bear the full tax burden. Overall, this finding shows that tax avoidance in consumer non-cyclicals sector companies occurs due to a combination of motivation stemming from the foreign ownership structure and the means available through the transfer pricing mechanism.

CONCLUSION

Based on the research results regarding the effect of transfer pricing and foreign ownership on tax avoidance in consumer non-cyclicals sector companies listed on the Indonesia Stock Exchange during the 2022–2024 period, it can be concluded that transfer pricing has a positive and significant effect on tax avoidance, meaning that the higher the proportion of trade receivables to related parties as a proxy for transfer pricing, the higher the company’s tendency toward tax avoidance. Foreign ownership also has a positive and significant effect on tax avoidance, meaning that the higher the proportion of share ownership by foreign parties, the higher the tendency toward tax avoidance. Furthermore, transfer pricing and foreign ownership simultaneously have a significant effect on tax avoidance, with an explanatory power of 63.3%.

This study has several limitations. First, this study uses only two independent variables, so it potentially overlooks other factors that affect tax avoidance, such as firm size, leverage, profitability, and aspects of corporate governance. Second, this study is focused only on the consumer non-cyclicals sector, so the results may not necessarily represent other sectors with different characteristics. Third, the three-year observation period is relatively short and may not be able to fully capture the relationships among variables over the long term.

Recommendations

For future research, it is recommended to add other independent variables that potentially affect tax avoidance, such as firm size, leverage, institutional ownership, or other corporate governance variables; to broaden the sample scope beyond the consumer non-cyclicals sector; to extend the research time span so that the dynamics of the relationships among variables can be observed more deeply, particularly in the context of the implementation of PMK 172 of 2023 and PMK 136 of 2024; and to consider alternative proxies such as the value of sales transactions to related parties for transfer pricing and Cash ETR or Book-Tax Difference for tax avoidance.

For companies, it is expected that they can plan their tax strategy while still observing the arm’s length principle in special-relationship transactions in accordance with the provisions of PMK 172 of 2023, so as not to create legal risks or damage the company’s reputation. For the government and tax authorities, it is expected that they can enhance supervision of tax avoidance practices, particularly in multinational companies with high foreign ownership structures and significant related-party transaction activities, so as to create a taxation system that is fair, transparent, and encourages corporate taxpayer compliance.

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