



THE EFFECT OF TRANSFER PRICING AND TAX LEVERAGE ON TAX AVOIDANCE IN THE ENERGY SECTOR

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Abstract

This study examines and analyzes the effect of transfer pricing and tax leverage on tax avoidance in energy sector companies, with profitability as a control variable. Tax avoidance is measured using the Book-Tax Difference (BTD) proxy, transfer pricing through related-party transactions, and leverage in accordance with the debt-to-equity ratio limitation of 4:1 stipulated under Minister of Finance Regulation No. 169/PMK.010/2015. This research is motivated by Indonesia's suboptimal tax-to-GDP ratio and the persistent inconsistency of prior empirical findings on the determinants of tax avoidance. Employing a quantitative approach, the study focuses on energy sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. Samples were selected using purposive sampling, yielding 57 companies with 285 observations. Hypothesis testing was performed using panel data regression with the Random Effects Model, estimated through Generalized Least Squares (GLS) in STATA version 17. The results reveal that transfer pricing has a positive and significant effect on tax avoidance, indicating that intra-group related-party transactions remain an instrument of corporate tax planning through profit shifting to lower-tax jurisdictions. Conversely, tax leverage has no significant effect on tax avoidance, suggesting that the regulatory debt-to-equity limitation effectively restrains the use of excessive debt as a tax avoidance strategy, with debt financing directed primarily toward operational and investment needs. These findings reinforce agency theory and underscore the importance of strengthening transfer pricing regulation and supervision to safeguard state tax revenue potential.

Keywords: Tax Avoidance; Tax Leverage; Transfer pricing

INTRODUCTION

Taxes are one of the sources of government revenue that play a strategic role in financing national development, as affirmed in Law No. 7 of 2021 on the Harmonization of Tax Regulations. Taxes not only serve as an instrument of government revenue but also as a tool for the distribution of social justice, a regulator of economic activity, and a driver of fiscal autonomy (Law No. 7 of 2021, State Gazette of the Republic of Indonesia Year 2021 No. 246; Sanchez & Mulyani, 2020). Nevertheless, Indonesia's tax contribution remains suboptimal. According to the OECD report Revenue Statistics in Asia and the Pacific 2025, Indonesia's tax-to-GDP ratio in 2023 was only 12%, far below the Asia-Pacific regional average of 19.8%. This low ratio indicates that there remains significant potential for tax revenue that has not yet been fully tapped. One of the causes of low tax revenue is the practice of tax avoidance. Tax avoidance refers to a taxpayer's legal effort to reduce their tax burden by exploiting loopholes in tax regulations (Pasaribu et al., 2019; Abdul Malik, 2022). Although not illegal, this practice can reduce potential government revenue and negatively impact the government's fiscal capacity (Otusanya, 2011). Various studies indicate that tax avoidance is widely practiced by large corporations, particularly those with cross-border operations and complex transaction structures (Susanto et al., 2022).

One mechanism frequently used by companies to engage in tax avoidance is transfer pricing. Transfer pricing is the process of setting prices in transactions between parties that have a special relationship. In a negative context, transfer pricing allows companies to shift profits to jurisdictions with lower tax rates, thereby reducing the tax burden in their home country (Darussalam et al.; PMK No. 172 of 2023). The case of Adaro through its affiliate in Singapore illustrates how transfer pricing can be used to shift profits, thereby significantly reducing the potential tax payable in Indonesia (Global Witness, 2019; CNBC Indonesia, 2019). In addition to transfer pricing, a company's financing structure through the use of debt can also influence



tax avoidance practices. The greater a company's debt, the greater the interest expenses that can be deducted from taxable income. However, the government restricts the use of debt as a means of tax avoidance through PMK No. 169/PMK.010/2015, which sets a maximum debt-to-equity ratio of 4:1 for tax purposes. If this limit is exceeded, interest expenses cannot be recognized as a tax deduction (Bachriansyah et al., 2019). This restriction aims to reduce the practice of leverage under PMK No. 169/PMK.010/2015, which companies often use to reduce their tax burden.

Previous research on transfer pricing and leverage under PMK No. 169/PMK.010/2015 in relation to tax avoidance has yielded inconsistent results. Some studies found that transfer pricing has a significant positive effect on tax avoidance (Kolondam & Permatasari, 2024; Mukarramah & Nugroho, 2025), while other studies found no significant effect (Barus et al., 2024; Wardana & Asalam, 2022). Similarly, regarding leverage under PMK No. 169/PMK.010/2015, some studies indicate that it has a positive effect on tax avoidance (Fadhila & Andayani, 2022), while other studies show that it has no effect on tax avoidance (Gultom, 2021; Safitra & Totanan, 2025). These inconsistent findings indicate that the relationship between transfer pricing, leverage, and tax avoidance remains inconclusive and requires further empirical investigation.

The energy sector was chosen as the subject of this study because it has a complex financing structure, large transaction values, and a high level of cross-border affiliate involvement. This means that the energy sector faces a greater risk of tax avoidance compared to other sectors (Ivano et al., 2025; Rahman et al., 2023). Therefore, the energy sector provides an appropriate context for examining the influence of transfer pricing and leverage on corporate tax avoidance. Given these conditions, this study is necessary to re-examine the effects of transfer pricing and leverage under PMK No. 169/PMK.010/2015 on tax avoidance in energy sector companies.

LITERATURE REVIEW

Agency Theory

Agency theory, proposed by Jensen and Meckling (1976), explains the relationship between principals (owners) and agents (managers), in which principals delegate decision-making authority to agents to manage the company (Magister et al., 2020). However, differences in interests may arise, particularly regarding tax obligations. While principals and the government expect companies to comply with tax regulations, agents often view taxes as a cost that reduces company profits, thereby encouraging tax avoidance practices to maximize profitability (Wardana, 2022). This conflict of interest demonstrates the relevance of agency theory in explaining tax avoidance behavior (Alisha Ansar et al., 2021).

Tax Avoidance

Tax avoidance is a legal strategy used by taxpayers to reduce tax liabilities by exploiting loopholes in tax regulations through tax planning (Hanlon & Heitzman, 2010; Sinaga & Oktaviani, 2022). Companies commonly implement tax avoidance by utilizing tax incentives or shifting income to entities subject to lower tax rates, thereby reducing the tax burden reported in their financial statements (Prasetyo et al., 2022; Prastiwi & Walidah, 2020). Although legally permitted, tax avoidance may reduce government tax revenues and negatively affect public budgets and services funded by taxation (Aulia Indy, 2024). Therefore, despite its legality, governments generally regard tax avoidance as an unethical practice because of its potential adverse impact on state revenue and public welfare (Dudi Pratomo, 2023).

Transfer Pricing

According to the Organization for Economic Cooperation and Development (OECD), transfer pricing refers to the pricing of transactions between related entities within a



multinational enterprise group. It involves setting prices for transactions between entities under common ownership or control (Kumar et al., 2021). Transfer pricing is widely used by multinational companies and can be viewed from two perspectives. From a neutral perspective, it is considered a legitimate business strategy, whereas from a negative perspective, it is used to shift profits to lower-tax jurisdictions in order to minimize tax liabilities. Although transfer pricing is legally permitted, it may become illegal when misused. The practice can also reduce government tax revenues by lowering the amount of tax paid by multinational companies (Akhadya & Ariefiara, 2018).

Tax Leverage

Leverage reflects the extent to which a company finances its assets through debt and is commonly measured using the Debt-to-Equity Ratio (DER) (Ramadhanty & Hariadi, 2024). In Indonesia, the Ministry of Finance regulates the maximum allowable debt-to-equity ratio through Minister of Finance Regulation No. 169/PMK.010/2015 (PMK 169), which limits the ratio to 4:1 for tax purposes and has been effective since the 2016 fiscal year (Kementerian Keuangan, 2015). This regulation replaced the previous provision under Decree of the Minister of Finance No. 1002/KMK.04/1984, which established the same 4:1 debt-to-equity limit

Profitability

Profitability refers to a company's ability to generate profits and reflects management's effectiveness in utilizing company resources to maximize earnings (Alifian & Susilo, 2024; Kasmir, 2017). In this study, profitability is included as a control variable and is measured using Return on Assets (ROA), which indicates the extent to which a company's assets generate net income (Hery, 2015).

Hypothesis Development

Transfer pricing refers to the pricing policy for transactions between affiliated entities within the same corporate group to allocate revenues and costs (Pohan, 2018). Although it is a legitimate business practice, transfer pricing may be used to shift profits from high-tax to low-tax jurisdictions, thereby reducing corporate tax liabilities and government tax revenues (Maulana et al., 2018). From an agency theory perspective, information asymmetry allows managers to use transfer pricing as a tax avoidance strategy, creating conflicts of interest between tax authorities and corporate management (Dansen Yino & Ngadiman, 2025). Prior studies by Mukarramah and Nugroho (2025), Barus et al. (2024), and Lelang Aya et al. (2022) found that transfer pricing has a positive effect on tax avoidance. Therefore, the first hypothesis is formulated as follows:

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

Leverage measures the extent to which a company finances its assets through debt (Amalina, 2023; Agustina et al., 2023). Higher leverage increases interest expenses, which are tax-deductible and may reduce taxable income, thereby encouraging tax avoidance (Prasetya & Muid, 2022). To limit excessive debt-based tax planning, the Indonesian government introduced Minister of Finance Regulation No. 169/PMK.010/2015, which restricts the deductible Debt-to-Equity Ratio (DER) to 4:1 for tax purposes. From an agency theory perspective, managers may use debt financing to minimize tax liabilities, creating conflicts of interest with tax authorities. Previous studies by Juliyanti and Wibowo (2021), Paramita et al. (2023), and Fadhila and Andayani (2022) found that leverage has a positive effect on tax avoidance. Therefore, the second hypothesis is formulated as follows:

H₂: Tax Leverage has a positive effect on tax avoidance.

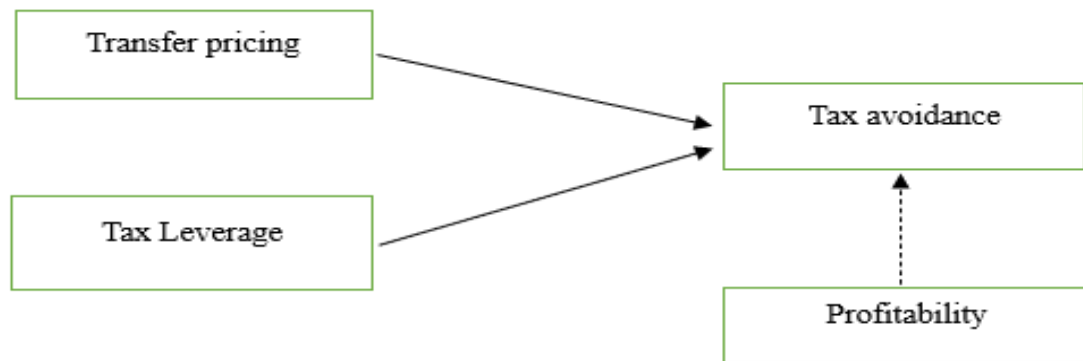


Figure 1. Research Model
Source: Processed Data (2025)

METHODS

The population of this study consists of energy sector companies listed on the Indonesia Stock Exchange (IDX) and consistently registered during the 2020–2024 period. The energy sector was selected because of its strategic role in the Indonesian economy and its potential exposure to tax avoidance practices due to the complexity of its business activities (Yantri, 2022). The sample includes energy sector companies listed on the Indonesia Stock Exchange (IDX) over the five-year period from 2020 to 2024. The selected samples were determined using the purposive sampling method based on criteria established by the researcher. According to Sugiyono (2013), purposive sampling is a sampling technique that considers predetermined criteria. Therefore, the sample selection was based on the following criteria:

1. Energy sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period.
2. Energy sector companies that published audited annual financial statements during the 2020–2024 period.

RESULTS AND DISCUSSION

Table 1. Results of Descriptive Statistical Tests

Descriptive Statistics					
	Obs	Mean	Std. dev	Min	Max
BTD	285	-.0045967	.3301293	-4.793852	1.081087
Transfer pricing	285	.2134151	.2617046	0	.9850814
Tax Leverage	285	-.4547379	8.782348	-146.4866	6.003645
Profitability	285	.0469207	.2985399	-3.540018	2.268211

Source: Processed Data (2025)

Based on the results of the descriptive statistical analysis presented in Table 1, the number of observations (Obs) for all variables is 285. The Tax Avoidance variable, proxied by Book-Tax Differences (BTD), has a mean value of -0.0046 with a standard deviation of 0.3301, indicating a moderate variation in tax avoidance practices among the sample companies. The minimum and maximum values are -4.7939 and 1.0811, respectively, suggesting a relatively wide distribution of tax avoidance. The Transfer Pricing (TP) variable has a mean value of 0.2134 and a standard deviation of 0.2617, indicating that the level of transfer pricing activities varies moderately across companies. The variable ranges from a minimum value of 0 to a maximum value of 0.9851. Furthermore, the Tax Leverage variable has a mean value of -0.4547 with a standard deviation of 8.7823, indicating substantial variation in leverage among the sample companies. The minimum and maximum values are -146.4866 and 6.0036, respectively, reflecting a wide dispersion of leverage levels. Meanwhile, the control variable, Profitability



(ROA), has a mean value of 0.0469 and a standard deviation of 0.2985, indicating moderate variation in the companies' ability to generate profits from their assets. The minimum and maximum values are -3.5400 and 2.2682, respectively.

Test of Classical Assumptions

Test of Normality

Table 2. Normality Test Results

Variable	Skewness	Kurtosis
BTD	0.0000	0.0000
TP	0.0000	0.0101
Tax Lev	0.0000	0.0000
ROA	0.0000	0.0000

Source: Processed Data (2025)

Based on the results of the normality test presented in Table 2, all variables satisfy the normality assumption. Data are considered normally distributed if the skewness value is less than 3 and the kurtosis value is less than 10. As shown in the table, the skewness values for Book-Tax Differences (BTD), Transfer Pricing (TP), Tax Leverage, and Return on Assets (ROA) are 0.0000, while the kurtosis values range from 0.0000 to 0.0101. Since all values are well within the acceptable thresholds, it can be concluded that all variables are normally distributed and suitable for panel data regression analysis.

Multicollinearity Test

Table 3. Results of the Multicollinearity Test

Variable	VIF	1/VIF
TP	1.00	0.996017
Tax Lev	1.00	0.996227
ROA	1.00	0.999325
Mean VIF	1.00	

Source: Processed Data (2025)

Based on the multicollinearity test results presented in Table 3, all independent variables have a Variance Inflation Factor (VIF) of 1.00, which is well below the recommended threshold of 10. The tolerance values (1/VIF) range from 0.9960 to 0.9993, indicating that the independent variables are not highly correlated with one another. Therefore, it can be concluded that the regression model is free from multicollinearity, and all independent variables are appropriate for further regression analysis.

Autocorrelation Test

Autocorrelation was assessed using the Wooldridge test. However, because the Random Effects Model (REM) was estimated using Generalized Least Squares (GLS), which accounts for the correlation structure of the error terms, a separate correction for autocorrelation was not required. GLS provides efficient parameter estimates even in the presence of autocorrelation; therefore, the regression model is considered to have adequately addressed potential autocorrelation.

Heteroscedasticity Test

Heteroscedasticity refers to the condition where the variance of the residuals is not constant across observations, potentially leading to inefficient estimates and biased standard errors. However, because this study employs the Random Effects Model (REM) estimated using Generalized Least Squares (GLS), a separate heteroscedasticity test is not required. GLS is designed to account for heteroscedasticity and provides efficient and unbiased parameter estimates (Gujarati & Porter, 2009; Melati & Suryowati, 2018).



Hypothesis Testing and Analysis

Adjusted R-squared Test

Adjusted R-squared is not commonly used to evaluate the goodness-of-fit of panel data models, such as the Fixed Effects Model (FEM) and Random Effects Model (REM), because these models rely on within, between, and overall R-squared measures (Baltagi, 2005; Gujarati & Porter, 2009; Wooldridge, 2012). Based on the Random Effects Model (REM), the overall R-squared is 0.4225, indicating that transfer pricing, tax leverage, and profitability (ROA) explain 42.25% of the variation in tax avoidance (BTD), while the remaining 57.75% is explained by other factors not included in the model. This result suggests that the model has moderate explanatory power.

t-Test (Partial)

The t-test was conducted to examine the individual effect of each independent variable on the dependent variable. A variable is considered to have a significant effect if its probability value is less than or equal to the 5% significance level ($p \leq 0.05$). Therefore, the t-test results indicate whether each research hypothesis is supported and whether the independent variables significantly influence the dependent variable.

Table 3. Results of the t-Test

Description	Regression Model: Random Effect Model				
	Coefficient	t	Prob > t (1/2)	Prediction	Conclusion
_cons	-0.0629695	-2.65	0.004		
Transfer pricing	0.1091027	-0.13	0.049	H1: +	Accepted
Tax Leverage	-0.0002253	14.66	0.4465	H2: +	Rejected
Profitability	0.7456455	-6.31	0.000		Accepted
Number of obs					285
Adjusted R-square					0.4561
Prob > F					0.0000

Source: Processed Data (2025)

The results show that the Transfer Pricing variable has a positive coefficient and a p-value of 0.049, which is below the 10% significance level ($p < 0.10$). This indicates that transfer pricing has a positive and significant effect on tax avoidance. Therefore, H1 is supported.

The Tax Leverage variable has a negative coefficient with a p-value of 0.4465, which exceeds the 10% significance level ($p > 0.10$). This indicates that Tax Leverage does not have a significant effect on tax avoidance. Therefore, H2 is not supported.

As the control variable, Profitability (ROA) has a positive coefficient and a p-value of 0.000, which is below the 10% significance level ($p < 0.10$). This indicates that profitability has a positive and significant effect on tax avoidance, confirming its influence on the regression model.

Test (F-Test)

The F-test was conducted to examine the joint effect of the independent variables on the dependent variable. The results show a Prob > Chi² value of 0.0000, which is below the 5% significance level ($p < 0.05$). This indicates that Transfer Pricing, Tax Leverage, and Profitability (ROA) jointly have a significant effect on Tax Avoidance (BTD). Therefore, the regression model is statistically significant and has sufficient explanatory power.

The Effect of Transfer Pricing on Tax Avoidance

The results indicate that transfer pricing has a positive and significant effect on tax avoidance, suggesting that greater related-party transactions increase the Book-Tax Difference (BTD) through profit shifting to lower-tax jurisdictions. This finding supports agency theory, which argues that managers have incentives to minimize corporate tax liabilities to maximize



after-tax profits. By utilizing transactions between affiliated entities, management can legally reduce the company's tax burden. These findings are consistent with previous studies by Mukarramah and Nugroho (2025), Kolondam and Permatasari (2024), and Rizki and Nugroho (2024), which reported that transfer pricing is a significant determinant of corporate tax avoidance.

The Effect of Tax Leverage on Tax Avoidance

The results show that Tax Leverage has no significant effect on tax avoidance. This finding suggests that the debt limitation imposed by Minister of Finance Regulation No. 169/PMK.010/2015, which sets a maximum debt-to-equity ratio of 4:1, restricts companies from using excessive debt as a tax avoidance strategy. The average Tax Leverage of the sampled energy companies remained below the regulatory threshold, indicating that debt financing was primarily used for operational and investment purposes rather than tax planning. These findings are consistent with Pramajaya et al. (2019) and Octaryno (2025), who also found that Leverage 169, as measured under PMK 169, does not significantly influence tax avoidance.

CONCLUSION

This study examines the effect of transfer pricing and tax leverage on tax avoidance, with profitability as a control variable, in energy sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. The results indicate that transfer pricing has a significant effect on tax avoidance, suggesting that related-party transactions remain part of corporate tax planning despite the implementation of Minister of Finance Regulation No. 172 of 2023. In contrast, Tax Leverage has no significant effect on tax avoidance, indicating that debt financing is primarily used for operational and investment purposes rather than tax planning. The debt-to-equity ratio limitation under Minister of Finance Regulation No. 169/PMK.010/2015 further reduces the incentive to use excessive debt as a tax avoidance strategy, reinforcing that Tax Leverage is not a major determinant of tax avoidance.

Suggestions

Based on the findings of this study, the government is encouraged to maintain and strengthen tax regulations, particularly those related to transfer pricing documentation and the debt-to-equity ratio limitation under PMK No. 169/PMK.010/2015. Companies are expected to continue complying with applicable tax regulations, including those governing related-party transactions and debt limitations, while optimizing legitimate tax management and aligning financing decisions with operational needs. Furthermore, future research is recommended to expand the scope of the study by including other industrial sectors and additional variables, such as tax policy changes, macroeconomic conditions, and corporate governance characteristics, to provide a broader understanding of the determinants of tax avoidance.

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