



DETERMINANTS OF PROFIT SHIFTING DECISIONS: ANALYSIS OF MULTINATIONAL COMPANIES IN INDONESIA

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Abstract

Taxpayers typically seek to decrease their tax burden through tax avoidance or planning. Multinational corporations have the opportunity to dodge taxes due to their international operations. The most popular form of tax avoidance for multinational corporations is to move income to subsidiaries in low-tax nations. This study investigates the factors that influence profit-shifting decisions by multinational corporations operating in Indonesia, such as tax rate differential, multinationality, firm size, and use of tax havens. This study employs secondary data from financial statements of firms listed on The Multinational Enterprise Information Platform database, which is the outcome of OECD and UNSD collaboration for 2022 as of January 2024 at <https://www.oecd.org/sdd/its/mne-platform>. The purposive sampling yielded 148 observations. Multiple linear regression analysis was used to process cross-sectional research data. According to this study, disparities in tax rates and firm size have a favorable effect on profit-shifting decisions. However, multinationality and presence in a tax haven country do not impact profit-shifting decisions. The results of this research can be used by tax authorities in Indonesia to consider when establishing rules that can prevent shifts in the earnings of multinational corporations with the goal of tax avoidance.

Keywords: Firm size, Multinational corporations, Profit shifting, Profitability, Tax rate

INTRODUCTION

Empirical evidence suggests that people and enterprises tend to decrease their tax expenses, as demonstrated by studies conducted by Di Nola et al. (2021) and Janský & Prats (2015). The reduction is achieved through various activities such as tax avoidance or strategic planning. Tax avoidance refers to the deliberate activities taken by taxpayers to minimize their tax obligations by engaging in practices that contravene existing laws and regulations (Di Nola et al., 2021; Janský & Prats, 2015). It refers to implementing legal strategies to minimize the amount of taxes owed (Cooper & Nguyen, 2020).

This study focuses on profit-shifting decisions made by multinational corporations operating in Indonesia. Differences in tax rates, multinationality, firm size, and presence in a tax haven country are all factors that influence profit-shifting decisions. Multinational firms can engage in tax avoidance because their operations cover many countries. (Widodo et al., 2020). Consequently, they tend to transfer their profits from countries with high tax rates to countries with low tax rates (Grubert & Mutti, 1991; Johansson et al., 2016). Multinational corporations (MNCs) transfer approximately 40% of their foreign profit (Clausing, 2009; Cobham & Janský, 2018; Janský & Palanský, 2019; Tørsløv et al., 2018). Regrettably, multinational businesses in developing countries play a substantial role in determining the share of average income tax in those nations (Cobham et al., 2020). The profit shifting has a significant impact, particularly on developing countries compared to industrialized ones (Crivelli et al., 2015). Profit shifting can erode tax revenues and cause countries to lose out on valuable financial resources. In Indonesia, Profit shifting activities are predicted to cost the country USD 4.7 million annually (Cobham et al., 2020). Given these negative consequences, research identifying the factors contributing to this practice is crucial.



Tax rate differences are one of the factors that affect profit-shifting decisions. The corporate income tax rate in Indonesia is 22%. Despite being lower than the average tax rate of OECD members (22.81%), Indonesia's corporate income tax rate is greater than that of Europe (18.98%). It provides multinational companies an incentive to allocate their profits out of Indonesia. Tax rate differentials encourage multinational corporations to distribute their accounting earnings across borders to lower their worldwide corporate tax obligations (Lampenius et al., 2021). A favorable tax rate differential suggests a favorable prospect for businesses to transfer their profits overseas and vice versa (Johannesen et al., 2020). Companies will gain more from variations in tax rates among nations (Casson, 2015).

Additionally, multinationality has an impact on profit-shifting decisions. 173 of the world's top 500 multinational corporations operated in Indonesia. Profit shifting occurs when multinational corporations use intra-group transactions to transfer corporate earnings from one jurisdiction to another. According to earlier studies, multinational corporations that have established subsidiaries abroad as part of their international expansion are more likely to engage in profit shifting to evade taxes (Park et al., 2016).

Firm size also tends to affect profit-shifting decisions. Larger businesses have easier access to knowledge, technology, and financial resources. Additionally, the organizational structure of large organizations is more intricate. Companies may find it more straightforward to manipulate profits without being noticed due to this improved accessibility and complexity. By employing their resources to lower their tax liabilities purposefully, large corporations can use tax planning methods to gain a competitive edge over small companies (Rego, 2003)

Another variable that affects profit-shifting decisions is the utilization of tax-haven countries. The involvement of Indonesian people in business in the Panama Paper and Pandora Paper proves the utilization of tax havens in Indonesia. According to the Tax Justice Network, Indonesia loses \$2,806,311,920 worth of taxes annually to the tax haven countries. Based on previous research by Janský (2020) and Omar & Zolkafli (2015), MNCs with subsidiaries in tax haven countries have lower pre-tax income compared to MNCs that do not have subsidiaries in tax haven countries.

Overall, worldwide tax planning reduces major multinational corporations' effective tax rates by an average of 4-8.5 percentage points compared to analogous non-multinational firms. Smaller enterprises have an effective tax rate of 1.5-3.5 percentage points lower. Profit shifting distributes corporations' tax base across various countries. It causes an overall tax revenue loss since profits are taxed at a lesser rate (or not taxed at all) in the destination country. Estimated net tax revenue losses for OECD and G20 member countries range from 4% to 10% of Corporate Income Tax (CIT) revenues. Globally, these losses were equivalent to USD 100 - 240 billion in 2014, or approximately USD 0.9-2.1 trillion accumulated over the past ten years (Johansson et al., 2016). Developed countries have recently begun to pay attention to international tax planning (Cooper & Nguyen, 2020). However, there is limited empirical confirmation of the extent of profit shifting by multinational corporations in developing countries (Lohse & Riedel, 2013; Janský & Prats, 2015).

Studies on the relationship between profit shifting and the use of tax haven countries yield inconclusive conclusions about the relationship's direction and the structure of various profit shifting components. Profit shifting by multinational firms in industrialized countries has been extensively documented over time (Cooper & Nguyen, 2020). Several international studies discuss base erosion and profit shifting by companies for tax avoidance, including Crivelli et al. (2015), Garcia-Bernardo et al. (2022), and Gill et al. (2022).



In Indonesia as a developing country, previous research on tax avoidance through profit shifting has been tested using various variables, including multinationality (Falbo & Firmansyah, 2021; Zia & Kurnia, 2018; Lambok & Jasman, 2018), earnings management (Falbo & Firmansyah, 2021), institutional ownership (Zia & Kurnia, 2018) as well as thin capitalization (Fasita et al., 2022; Lambok & Jasman, 2018), intangible assets (Depari et al., 2020; Firmansyah & Yunidar, 2020; Lambok & Jasman, 2018), and firm size (Lambok & Jasman, 2018). The lack of maximum tax supervision allows multinational companies in Indonesia to shift profits to tax-haven countries. Tax haven countries provide tax facilities to taxpayers efficiently and opportunities to transfer their income to pay lower taxes or not be taxed. (Nurhidayati & Fuadillah, 2018).

The proxy for the difference tax rate in this research is derived from the previous research conducted by Gill et al. (2022), which employed the tax rate differential. It is calculated through the difference in statutory tax rates between Indonesia and the average statutory tax rate of a multinational group of companies. The utilization of this proxy has rarely been found in prior research in Indonesia. This research offers a fresh perspective on profit shifting within the Indonesian context. The influence of significant international presence (multinationality), utilization of tax haven countries, and firm size are other variables examined in this study. The measurement of the important international presence variable (multinationality) uses a measurement method different from most studies in Indonesia. In line with previous research (Tong & Reuer, 2007; C. Zhou, 2023; Q. Zhou et al., 2019), multinationality is measured through the number of foreign countries in which the company has subsidiaries. Multinationality can be considered an adequate measurement proxy for the hypothesis that companies in different countries with heterogeneous environments can provide profit-shifting options to reduce the negative impact of environmental uncertainty (Kulatilaka & Kogut, 1996).

This study presents empirical evidence associated with profit-shifting decisions rarely examined in Indonesia. Also, this study is expected to encourage the Directorate General of Taxes to formulate tax regulations that can effectively prevent profit shifting for multinational companies in Indonesia. It can potentially be applied in future studies that analyze tax avoidance and other profit shifting, especially after implementing the two-pillar solution by the Organization for Economic Co-operation and Development (OECD).

LITERATURE REVIEW

The observation demonstrates that agency theory substantially impacts managers' tax planning decisions. Managers are motivated to increase after-tax income to satisfy the expectations of company owners, particularly shareholders, and occasionally for their benefit (Duhoon & Singh, 2023). As a result, managers employ tax avoidance strategies to alleviate the pressure they experience from these stakeholders. Although aggressive tax planning can increase shareholders' wealth, managers must assume substantial risks (Campbell et al., 2016). It is crucial to acknowledge that aggressive tax planning activities, which yield anticipated tax savings, have the potential to augment a company's cash flow (Goh et al., 2016). According to agency theory, managers (agents) ought to be incentivized by shareholders (principals) to undertake the inherent hazards associated with tax planning activities (Crocker & Slemrod, 2005). While agency theory substantially impacts managers' tax planning decisions, its inability to elucidate multinational tax planning stems from its emphasis on the shareholder-manager relationship (Gill et al., 2022).

Agency theory aligns with stakeholder theory, which argues that managers must meet stakeholders' demands to maximize profits (Gill et al., 2022). Stakeholder theory is an approach that emphasizes the relationship between an organization and the various parties that have an



interest in the organization (Freeman & McVea, 2001). There is an emphasis on the company's responsibility to balance rights, not only to *shareholders* but also to various parties who have an interest (*stakeholders*) in the success and continuity of the organization's operations (Roberts, 1992). The stakeholder approach emphasizes the importance of understanding the needs and expectations of the various parties involved (Hasnas, 1998). Freeman highlighted the need for organizations to consider the interests of all stakeholders and reach an agreement or balance between them to achieve sustainable goals (Gill et al., 2022). Corporate stakeholders such as investors, trade unions, government authorities, customers, employees, and the general public have been recognized as having intrinsic rights that should not be infringed upon by companies (Chen et al., 2018). Corporate decisions, such as minimizing tax costs through profit shifting, are interpreted as efforts to fulfill social responsibility and gain legitimacy (Gill et al., 2022). Thus, it is natural for firms to maximize their profits by minimizing tax costs through profit shifting (Chen et al., 2018).

Gill et al. (2022) found a negative relationship between multinational enterprises' pre-tax profitability and disparities in tax rates across countries. Clausing (2009) discovered that a one percentage point decrease in the tax rate of the country where the subsidiary is located relative to the United States results in a 0.50 percentage point rise in the profits of subsidiaries established in that country. According to Heckemeyer & Overesch (2017), a one-percentage-point decrease in the income tax rate of the subsidiary's site country results in a 0.80 percent increase in the subsidiary's pre-tax profits. Several other research found consistent results (Hines & Rice, 1994; Huizinga & Laeven, 2008; Weichenrieder, 2009; Dischinger, 2007; Lohse & Riedel, 2013).

Multinational companies shift profits to take advantage of different tax rates between countries. Positive tax rate differentials indicate an excellent opportunity for companies to shift profits abroad and vice versa (Johannesen et al., 2020). The difference in tax rates between countries will bring more benefits to the company (Casson, 2015). It is relevant that corporations tend to minimize their tax costs through profit shifting to fulfill their responsibility to their stakeholders (Gill et al., 2022).

H₁: Tax rate differences have a positive effect on profit-shifting decisions

Prior research found that tax avoidance through profit shifting is more likely to occur in multinational companies that have expanded internationally by establishing overseas subsidiaries (Park et al., 2016). Rego (2003) demonstrated that U.S. MNCs are more adept at utilizing tax avoidance mechanisms compared to domestic-only firms. Furthermore, Hanlon et al. (2005) reported that levels of tax non-compliance are more than twice as high for U.S. foreign-controlled subsidiaries compared to domestically controlled firms. This evidence, coupled with the assumption that MNCs implement effective tax planning across their global operations, suggests a correlation between the presence of overseas subsidiaries and the likelihood of engaging in profit-shifting practices.

H₂: Multinationality has a positive effect on profit-shifting decisions

Large corporations can gain a competitive advantage over small firms by voluntarily deducting their tax payments (Rego, 2003). Furthermore, Pittman & Fortin (2004) stated that with their capabilities, larger organizations can successfully achieve economies of scale to generate earnings and expand or borrow capital at a lower cost than small firms. Large companies have greater access to cash, technology, and information resources. Large companies also have more complex organizational structures. This increased accessibility and complexity can simplify businesses' move to profit without recognition.

H₃: Firm size has a positive effect on profit-shifting decisions



Multinational corporations move profits to tax-haven countries. Janský (2020) and Omar & Zolkafli (2015) found that multinational corporations with subsidiaries in tax haven nations have lower pre-tax income than those without. Of the 60 non-financial sector multinational corporations registered on the Malaysian stock exchange, 56 have subsidiaries in tax haven countries. According to their findings, companies with subsidiaries in tax-haven nations report lower profits and pay less tax than multinational corporations without such links (Omar & Zolkafli, 2015).

H4: Utilization of tax haven countries has a positive effect on profit-shifting decisions

METHODS

This study employs a quantitative approach and relies on secondary data. The sample is drawn from financial statements of companies listed on The Multinational Enterprise Information Platform database, which is the outcome of OECD and UNSD collaboration for 2022 as of January 2024 at <https://www.oecd.org/sdd/its/mne-platform>. This trial ran from December 2023 to January 2024. This analysis uses financial statement data for the year 2022 because it was the most recent. The selected sample consists of international corporations operating in Indonesia. The initial population comprised 173 multinational corporations.

Furthermore, the purposive sampling approach was used to produce a representative sample based on the criteria established in this study. This study's prerequisites include international corporations in the service and manufacturing industries. Hence, 25 banks and insurance companies were eliminated. This analysis excludes enterprises in the finance industry and public utilities since they are highly regulated and have various tax avoidance motivations and possibilities. 148 firms were chosen from a population of 173 international corporations.

Table 1. Sampling Procedure

Criteria	Total
Multinational Companies Operating in Indonesia	173
Multinational Companies in the Banking and Insurance Sector	(25)
Services and Manufacturing Multinationals	148
Number of years of research	1
Total sample	148

Source: data processed

The research year used is 2022. The data for this study were collected from various sources. Data concerning profitability and firm size were obtained and processed from the financial statements of multinational companies, while data on tax rates of countries where companies operate were taken from the OECD database. The list of countries where multinational companies operate is adjusted to the database of The Multinational Enterprise Information Platform OECD - UNSD.

The dependent variable used in this study is profit shifting. The variable that measured the existence of profit shifting is profitability (Gill et al., 2022). Profitability is assumed to be inversely proportional to profit shifting, where when the profitability of multinational companies is more remarkable, fewer profit-shifting activities are carried out by the company and vice versa. The proxy for corporate profitability in this study uses the return on assets (ROA) ratio by comparing net income to the total assets of multinational companies.

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$$

To measure the amount of profit shifts, this study employs a negative proxy for the return on asset ratio measured by Gill et al. (2022). The independent variables employed in this study are



tax rate differences, multinationality, firm size, and utilization of tax haven countries. In this study, the difference in tax rates (TAX_DIFF) represents the disparity between Indonesia's unweighted average tax rates and other countries comprising multinational company groups. To compute this tax difference, the multinational corporation must initially compile an inventory of the nations in which it conducts business. Furthermore, the weighted average tax rate is computed by aggregating statutory tax rate data from the OECD database with the mean tax rate of the nations where the multinational corporation conducts business (Gill et al., 2022). Finally, the unweighted average tax rate is subtracted from the Indonesian statutory tax rate. Multinationality (MNC) is calculated by summing up all subsidiaries of multinational companies across various countries as C. Zhou (2023).

MNC = number of countries where multinationals operate

The firm size (FIRM_SIZE) variable uses the proxy of the natural logarithm of the firm's total assets (Bae et al., 2008; Gill et al., 2022; Zia & Kurnia, 2018).

Firm size = $\ln(\text{Total Assets})$

Utilization of tax haven countries proxy employs the presence of multinational corporations in tax haven nations (NOTAX_DUM), a dummy variable whose value is determined by the presence or absence of a multinational corporation in a tax haven country. If a multinational corporation is present in a tax haven country, the value of the dummy variable is 1; otherwise, it is 0. This measurement has been done by Taylor & Richardson (2012).

The hypotheses in this study were tested using multiple linear analyses for *cross-section* data. The main research model can be formulated as follows:

$$\text{PROF_SHIFT}_i = \beta_0 + \beta_1 \text{TAX_DIFF}_i + \beta_2 \text{MNC}_i + \beta_3 \text{FIRM_SIZE}_i + \beta_4 \text{NOTAX_DUM}_i + \varepsilon_i$$

Where:

- PROF_SHIFT : Profit Shifting
- TAX_DIFF : Tax rate difference
- MNC : Multinationality
- FIRM_SIZE : Firm size
- NOTAX_DUM : Number of multinational subsidiaries in *tax haven country*

RESULTS AND DISCUSSION

Descriptive Statistics

An overview of descriptive statistics for all variables consisting of tax rate differences, the presence of multinational companies abroad, company size, and utilization in *tax haven* countries is contained in the following table:

Table 2. Descriptive Statistics Results

	PROF_SHIFT	TAX_DIFF	MNC	FIRM_SIZE	NOTAX_DUM
Mean	- 0.0787	-0.7947	3.8902	24.8194	0.9865
Med.	-0.0753	-0.7919	3.9703	24.8364	1.0000
Max.	0.2640	8.6986	5.0434	28.9300	1.0000
Minimum	-0.3129	-4.5270	1.3863	18.8332	0.0000
Std. Dev.	0.0692	1.4575	0.6223	1.39909	0.1158

Source: data processed

This study's proxy for profit shifting is the negative variable return on asset (ROA), which demonstrates an inverse relationship between corporate profitability and profit-shifting actions. The descriptive statistical test results reflect the findings from the 2022 research period on multinational firm earnings. According to the descriptive statistical study results, the average



profitability value (ROA) is -0.0787, with a maximum of 0.2640 and a minimum of -0.312. The standard deviation value of 0.0692, more significant than the average value (mean), suggests that the data used in this study is diverse or diversified. The descriptive statistical test findings for the tax rate difference variable (TAX_DIFF) in the 2022 research period reveal an average value of -0.795, a maximum of 8.699, and a minimum of -4.527. The negative average tax difference number indicates that multinational groups' average legal tax rate exceeds Indonesia's legal tax rate. The standard deviation number of 1.458, which is greater than the average value (mean), suggests that the data utilized in this study is diverse or diversified. According to the results of descriptive statistical tests, the average presence of multinational subsidiaries (MNC) outside Indonesia is 3.809, with a maximum of 5.043 and a minimum of 1.386. The standard deviation value of 0.622 is less than the average value (mean), indicating that the data utilized in this study are primarily uniform or do not change. According to the descriptive statistical test results, the firm size variable (FIRM_SIZE) has an average value of 24.819, a maximum of 28.930, and a minimum of 18.833. The standard deviation value of 1.399 is less than the average value (mean), indicating that the data utilized in this study are primarily uniform or do not change. According to the findings of descriptive statistical tests, the variable number of multinational subsidiaries in tax haven nations (NOTAX_DUM) has an average value of 0.9865, a maximum of 1.0000, and a minimum of 0.0000. The standard deviation value is 0.1159, less than the average value (mean), indicating that the data utilized in this study are very consistent or do not vary.

This study used multiple linear regression analysis to evaluate hypotheses using cross-sectional data. The following summarizes the hypothesis test results supported by the previously performed classical assumption test.:

Table 3. Regression Test Results

Variable	Coeff.	t-Stat.	Prob	
C	-0.1751	1.482	0.0702	*
TAX_DIFF	0.0106	-2.616	0.0050	***
MULTINATIONALITY	-0.0073	0.7723	0.2206	
FIRM_SIZE	0.0068	-1.617	0.0540	*
NOTAX_DUM	-0.0362	0.7054	0.2409	
R ²	0.0862			
Adj. R ²	0.0606			
F-stat.	3.3732			
Prob(F-stat.)	0.0113			

Source: data processed

The results of hypothesis testing indicate that the tax rate difference and firm size variable positively impact profit shifting, but the presence of multinationality and utilization of tax haven nations do not influence profit shifting decisions. According to the data in Table 4, the calculated F value is 3.373, with a significance level of 0.011 < 0.1. It suggests that the estimated regression model is valid for explaining the impact of various factors such as different tax rates, multinational presence, company size, and utilization of tax haven countries on profit-shifting decisions. The corrected R-Square value in Table 4 indicates a value of 0.060 or 6.0%, suggesting that only 6.0% of the influence on profit-shifting decisions can be attributed to the variables examined in this study. The remaining influence is likely due to other variables not included in the regression model.



The effect of different tax rates on profit-shifting decisions

Hypothesis testing in this study shows that different tax rates positively affect profit-shifting decisions, so the first hypothesis is accepted. This study indicates that the difference in tax rates in the multinational group countries with tax rates in Indonesia can be utilized by multinational companies to conduct transfer pricing by shifting their profits to countries with lower tax rates. This result aligns with research conducted by Akhadya & Arieftiara (2018). Companies tend to choose to use transfer pricing to reduce their tax burden through this profit-shifting mechanism. When the company's profitability decreases, there are indications that the company is shifting profit actions (Gill et al., 2022).

The greater the positive tax rate differential indicates an excellent opportunity for companies to shift profits abroad and vice versa (Johannesen et al., 2020). It is also in line with Azzura & Pratama (2019), which found that an increase in the tax rate difference of 1% will reduce the company's ROA by 6% in the country observed. The decrease in ROA indicates a shift in profits made by multinational companies. This result aligns with stakeholder theory, which states that a company maximizes profits to meet stakeholder demands. Thus, it is natural for companies to maximize profits by minimizing tax costs through profit shifting (Chen et al., 2018). The demands of shareholders trigger managers to adopt tax avoidance strategies to increase after-tax income to meet shareholders' expectations.

The effect of multinationality on profit-shifting decisions

Hypothesis testing of the multinationality variable shows no effect on profit-shifting decisions, so the second hypothesis is rejected. It aligns with the findings of Zia & Kurnia (2018) and Dewi & Jati (2014). The result of this study differs from those of Gill et al. (2022), who stated that there is a significant negative relationship between the presence of multinational companies and the motivation to shift profits by considering differences in tax rates. The number of subsidiaries in various countries does not affect the company's tendency to practice tax avoidance. Multinational companies have more opportunities to engage in tax avoidance practices than purely domestic companies. It is due to subsidiaries in countries with different tax rates from their home country. Companies with a broader market network will generate greater profits for the company. However, based on the results of this study, the existence of multinationality does not affect the company's decision to shift its profits to minimize tax expenses.

By adopting stakeholder theory, multinational companies can develop tax strategies that optimize financial outcomes and align with their broader social and ethical responsibilities. Furthermore, complying with tax regulations in every country of operation is crucial for maintaining brand image and social license. Multinational companies, on average, have prestige and brand image in their countries of operation (Falbo & Firmansyah, 2021). Profit-shifting decisions not based on rational and appropriate international tax planning will impact the company's image, which tends to be negative. This is in line with stakeholder theory, which states that a company needs to consider the interests of all stakeholders, including the government, especially those related to the tax compliance aspects of the multinational company concerned to achieve sustainable corporate goals. In addition, several tax incentives that the Government has designed, namely tax allowances stipulated in Ministry of Finance Decree Number 96/PMK.010/2020 and tax holidays in Ministry of Finance Decree Number 130/PMK.010/2020, can be utilized by multinational companies to maximize corporate profits in Indonesia in particular.



The effect of firm size on profit-shifting decisions

Hypothesis testing of the effect of firm size shows a positive effect on profit-shifting decisions, so the third hypothesis is accepted. This result aligns with Puspita & Febrianti (2018). It differs from Aghnitama et al. (2021), Rinaldi & Cheisviyanny (2015) and Zia & Kurnia (2018). The proxy for firm size of multinational companies shows a company's capability. The larger the size of a company, the greater the assets it has to generate profits. Larger firms generally have greater resources, including financial capital, human capital, expertise, complex business structures, and more substantial political influence, contributing to their higher propensity for tax avoidance. This advantage stems from the company's large size, allowing it to leverage complex structures and potentially influence policy, leading it to transfer pricing strategies to standard profit-shifting methods. Along with stakeholder theory, companies aim to maximize profits to satisfy stakeholder demands. For large firms with vast resources, minimizing tax costs through profit shifting becomes a more realistic strategy to meet these demands, particularly shareholder expectations for financial returns.

The effect of utilization of tax haven countries on profit-shifting decisions

Hypothesis testing in this study shows no impact of utilization in tax-haven countries on profit-shifting decisions. This study's results align with those of Wijaya & Rahayu (2021) but are not in line with those of Gill et al. (2022) and Lambok & Jasman, (2018). The direction of profit shifting tends to be carried out in countries with lower tax rates (Johansson et al., 2016). It can be motivated by several factors, namely, first, countries with lower tax rates tend to have looser tax rules to attract investment and business. The looser rules allow multinational companies to have legal loopholes to shift profits legally. Secondly, countries with lower tax rates have a more stable business environment and better infrastructure than tax haven countries, providing more significant tax savings for multinationals. Managers prioritize market expansion and future corporate survival over potential tax savings through profit transfers to affiliate companies in low-tax rate countries. This decision shows managers' focus on the long-term growth and stability of the company rather than solely on the short-term gains obtained from aggressive taxation strategies (Pramudya et al., 2021).

Base erosion and Profit Shifting (BEPS) has emerged as a global tax concern, as it involves a decline in tax revenues that can threaten tax authorities and tax fairness in different countries due to strategic profit shifting. BEPS issues point to shortcomings in interstate tax laws that rely heavily on Double Taxation Avoidance Agreements (DTAs), commonly known as tax treaties, that govern taxation rights between countries. Therefore, to address the problems arising from the erosion of profit trimming and shifting, many countries refer to the model tax treaty issued by the OECD as a guideline for addressing this issue (Kumalasari & Fadila, 2018).

CONCLUSIONS

This research concludes that the difference in tax rates and firm size significantly affect profit-shifting decisions. Large tax rate differences will encourage multinational companies to shift their profits to countries with lower tax rates. This study also proves that multinationality and presence in a tax haven country do not affect profit-shifting decisions. Almost all sample companies in this study operate in 15 or more countries. Only 2% of the sample companies operate in less than 15 countries.

The shortcoming of this study is that the database only includes the 500 most renowned global corporations. The database is available on the multinational enterprise information platform, a collaboration between the OECD and UNSD. From the database, enterprises operating in



Indonesia were selected, yielding 173 populations. This study's criteria include multinational corporations operating in the service and manufacturing sectors. Hence, 25 organizations in the banking and insurance industries were excluded from the research sample. The authors exclude enterprises in the finance industry and public utilities since they are heavily regulated and have different tax avoidance motivations and possibilities. A sample of 148 multinational enterprises was selected from a population of 173.

Furthermore, the scope of this study is confined to the year 2022. The study's limitations provide the opportunity for further comprehensive research. Future studies are intended to broaden the research sample to include more enterprises from diverse sectors over an extended period, providing a complete picture of profit-shifting methods in Indonesia. Exploring additional research variables and employing alternative approaches can aid in understanding the elements that influence profit-shifting decisions and the impact of profit-shifting on diverse parties. Future research should include extended financial statement periods to obtain more representative results.

The study's findings can help policymakers address profit shifting, notably when differing tax rates are in effect. The government must enhance international tax standards known as the Double Taxation Avoidance Agreement (DTAA), a tax treaty regulating taxation rights between countries to combat profit shifting. The government can also enhance tax rules by using the OECD's two-pillar solution model as a framework for tackling this issue. The Directorate General of Taxes (DGT) should strengthen its monitoring and auditing of international corporations. It entails performing more rigorous audits of corporations with subsidiaries in low-tax jurisdictions. It is also critical for the DGT to enhance corporate understanding of the value of ethical tax compliance. It can be done through education and advocacy programs for business stakeholders and the general public. Companies may be increasingly driven to better comply with tax legislation as their grasp of the social and economic ramifications of unethical tax tactics grows.

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