

## DOES INSTITUTIONAL OWNERSHIP MODERATING TAX AVOIDANCE? AN EMPIRICAL ANALYSIS IN INDONESIAN LIST COMPANY

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### Abstract

This study aims to determine the effect of Thin Capitalization (TC), Transfer Prices (TP), and Profitability on Tax Avoidance and the role of institutional ownership in moderating it. The population used in this study is LQ45 firms registered on the IDX, using a purposive sampling technique. The quantity of samples is 11 companies with financial statement data collection for the 2016-2020 period. This research takes a quantitative method, with SPSS version 23.0, to test the analysis. The finds indicate that TC has a beneficial and significant effect on Tax Avoidance, with the value of  $t \text{ count} > t \text{ table}$  ( $2.246 > 2.00665$ ). Transfer prices have a beneficial and significant effect on Tax Avoidance with a value of  $t \text{ count} > t \text{ table}$  ( $3.121 > 2.00665$ ). Profitability partially has a beneficial and significant effect on Tax Avoidance with a value of  $t \text{ count} > t \text{ table}$  ( $6.211 > 2.00665$ ). TC, TP, and Profitability simultaneously positively and significantly affect Tax Avoidance with the calculated  $F \text{ value} > F \text{ table}$  ( $74.719 > 2.55$ ). However, Institutional Ownership does not moderate the link between TC, TP, and Profitability on Tax Avoidance.

**Keywords:** Thin Capitalization, Transfer Prices, Profitability, Institutional Ownership, Tax Avoidance

### INTRODUCTION

The function of tax revenue in the sustainability of the wheels of government and state life is essential. Indonesia's annual tax revenue goal continues to rise but the proportion of tax revenue continues to drop. DGT's efforts to optimize tax revenue beyond intensification and extensification initiatives are continuously being carried out. However, these efforts are not without challenges, one of which is tax evasion. Corporations see taxes as a burden that threatens the survival of the company (Olivia & Dwimulyani, 2019). From a fiscal perspective, taxes are a critical source of revenue for the survival of a country. The tax authority, as the principal, wants the highest possible tax revenue from the taxpayer, but the company, as the agent, wants to pay the state the least amount of tax it deserves. This difference in priorities will lead to non-compliance on the part of taxpayers and will impact corporations' efforts to minimize their tax obligations (Olivia & Dwimulyani, 2019). As a result of their reliance on tax income, governments implement fiscal expediency to ensure that laws are complete and correct and to combat tax evasion. At the same time, firms around the world minimize their tax payments through clever tax planning (Martinez, 2017; Mocanu et al., 2021).

Tax avoidance has developed as a serious concern in contemporary society, particularly for authorities, regulators (managers), and tax officials (Cao et al., 2020; Chen et al., 2010). According to Wang & Mao (2021), companies' techniques to evade taxes make it difficult for governments to access their essential resources. Besides, tax avoidance offers significant advantages to internal and external business users, which can be very valuable. To start, it offers businesses a variety of advantages by reducing their pre-tax income. To be more specific, the

use of tax evasion tactics has become widespread in recent years to prevent a decline in the wealth that corporations can distribute (M. Khan et al., 2017; N. Khan et al., 2022). A second potential effect of tax evasion is saving money, allowing shareholders to generate cash flow. It, in turn, can lead to a series of investments, ultimately resulting in increased tax avoidance. Third, tax avoidance is sometimes to the benefit of managers because they are rewarded beyond bonuses associated with corporate tax management. It allows managers to be incentivized to find ways to reduce their tax liability (Alkurdi & Mardini, 2020). Finally, companies can use tax evasion to pay for projects without borrowing money from elsewhere. Therefore it can cause the average interest rate to fall (Molina, 2005).

There are quite a few taxpayers in Indonesia who engage in tax evasion, either through methods that do not violate statutory requirements, such as lowering production targets to affect company income, or through methods that are against tax laws and regulations, such as filing financial statements that do not accurately reflect the situation, exploiting the special relationship status to lower the tax burden, and diverting income to tax. Multinational corporations are suspected of engaging in tax evasion by increasing their international transactions. In such corporations, the motive to avoid taxes is more substantial, and may harness tax cleft by using differences in tax rates between nations (Sari et al., 2020). There are differences between the tax rates imposed on companies from one country to another, and some countries even have favorable tax expediency. As a result of the fact that MNCs routinely engage in interfirm transactions that occur across international borders, these firms have the incentive to misappropriate internal transfer prices to evade paying taxes. This practice is commonly referred to as "transfer pricing". Multinational corporations tend to shift benefits from countries with upper tax fares to jurisdictions with lower tax fares (Brugger & Engebretsen, 2022; Choi et al., 2020). In addition to transfer prices, tax avoidance uses a TC mechanism, which refers to investment decisions made by companies to prioritize debt financing over equity capital in their transfer prices when funding operations. It is because, unlike dividends, debt can increase tax avoidance through tax benefits in the form of interest expenses on loans (Ismi & Linda, 2016; Mashiri et al., 2021; Merle et al., 2019; Per Č Evi Č & Hladika, 2017).

TP has emerged as one of the most significant challenges faced by financial managers and accountants in today's increasingly globalized economy. TP has evolved into a topic of significant concern not only to the management of a company but also to the tax authorities of national governments. When two or more affiliated companies undertake transactions at specially established rates that enable the achievement of specified goals, the significance and role of TP are particularly highlighted on an international level. It occurs when TP is used. TP is utilized to value goods and services that are moved between departments and profit centers located within the same company, as well as for the valuation of goods and services that are moved between affiliated businesses situated in various countries (Per Č Evi Č & Hladika, 2017). There are many cases of tax avoidance committed by companies in Indonesia. In 2017, Indonesia was the 11th largest tax evasion country, with a value of 6.48 billion US dollars ([www.tribunnews.com](http://www.tribunnews.com)). According to the Financial Note and the 2018 RAPBN, Indonesia's tax ratio decreased from 2013 to 2017 to 11%. Indonesia is also classified as a lower middle-income nation with a lower tax burden than the average of nations, including Thailand, Cambodia, Malaysia, the Philippines, and Singapore (Marsahala, 2020).

This research is aim to investigate are several things: 1) The addition of an independent variable, namely the transfer price variable; 2) The research objects used are different. Previous studies used non-food and beverage manufacturing companies, while this study made LQ45 companies the population for the reason that their objects were more diverse; 3) Addition of samples that were initially from 2015-2017, this research uses data from 2016-2020. The results

of research that focus on the factors that influence tax avoidance still have different results, so there is a research gap between previous studies. Olivia & Dwimulyani (2019), Falbo & Firmansyah (2018) and Setiawan & Agustina (2018) shows that TC positively affects tax avoidance (ETR). It is different from the research results of Selistiaweni et al. (2020) that TC has no significant effect on tax avoidance. While research findings from Afifah & Prastiwi (2019) that based on the multinational and non-multinational companies that he researched, TC has a negative effect on tax avoidance. In their research, Falbo & Firmansyah (2018) conclude that transfer prices have no effect on tax avoidance. This result is different from the research by Taylor & Richardson (2012), which found that transfer prices positively affect tax avoidance. Olivia & Dwimulyani (2019) showed the results in their research showed that profitability proxied by ROA has a positive effect on tax avoidance (ETR). While the results differ from the research conducted by Setiawan & Agustina (2018) that profitability (ROA) negatively affects Tax Avoidance. Based on the above background, this study explores the effect of TC, transfer prices, and profitability on tax avoidance with institutional ownership as a moderating variable.

The shortest and most comprehensive definition of tax avoidance is selecting an option that results in a lesser tax obligation than might have been the case also had an alternative been selected. However, tax avoidance has become a complex word in recent years, with varying meanings for various parties (Oats & Tuck, 2019). According to Minh Ha et al. (2022) *Tax avoidance* is a legal practice that reduces the expense of taxes and transfers the savings to stakeholders to raise the value of a company. Additionally, tax evasion tries to lower the amount of tax owed and pass the savings to shareholders. Despite tax avoidance, however, tax evasion is a criminal offense. In addition to improving firm value, factual data indicates that tax avoidance may decrease a firm's value. Tax avoidance is advantageous in various ways; for instance, shareholders can acquire additional assets in dividends, increasing the enterprise's ability to pay off obligations, and management receives its advantages.

Prior research demonstrates that the scope of company tax avoidance is determined by several factors, including micro ones like board composition and organization (McGuire et al., 2014), the characteristic of management team (Armstrong et al., 2012), costumer and tax behaviour (Huang et al., 2016; Wang & Mao, 2021), the contract of compensations (Gaertner, 2014), costumer concentration and tax collection intensity (Cao et al., 2020; Cen et al., 2017), social trust environment (Xia et al., 2017), tax transparency (Stiglingh et al., 2022), TP motives and strategies (Sebele-Mpofu et al., 2021), institutional ownership (Badertscher et al., 2013; Jiang et al., 2021; Minh Ha et al., 2022), and financial distress (Altman et al., 2017; Dang & Tran, 2021; Richardson et al., 2015).

## LITERATURE REVIEW

### Agency Theory

This theory focuses on the relationship between shareholders (principal) and management (agent) within a company. Agency theory plays a crucial role in comprehending the intricacies of the relationship between Thin Capitalization, Transfer Pricing, Profitability, and Tax Avoidance within a company's context. As a pivotal component of this theory, institutional ownership can moderate this interplay. Institutional shareholders with long-term interests in the company are incentivized to oversee thin capitalization and transfer pricing practices, support sustainable profitability strategies, and foster transparency that might lead to reduced tax liabilities through fairer approaches. Hence, agency theory offers a vital framework for discussing how corporate policies related to these three factors can impact tax avoidance practices and how the influence of institutional shareholders can shape the company's decision-making path towards achieving optimal long-term objectives.

TC emphasizes financial leverage in its transfer price, which can result in tax benefits in the form of expense of interest that can be deducted from taxable revenue. While on investment capital, capital returns in the dividend form are subject to taxation. Tax avoidance schemes can use disparities in treatment across dividends and interest (tax avoidance). The more a firm's TC, the greater its interest expenditure, which erodes profits and ultimately reduces its income tax liability. This pronouncement is espoused by the discovery study by Olivia & Dwimulyani (2019), Falbo & Firmansyah (2018), and Setiawan & Agustina, (2018), showing that TC has a beneficial effect on tax avoidance (ETR). It is different from the research results of Selistiaweni et al. (2020) that TC has no significant effect on tax avoidance. Meanwhile, findings from Afifah & Prastiwi, (2019) show that TC has a negative effect on ETR based on the multinational and non-multinational companies that he studied. Therefore, we can develop the following hypotheses:

*H1: TC has a positive effect on tax avoidance.*

In the research, Sari et al. (2020) provides evidence of TP via several sorts of tax avoidance activities and the function of SAAR (The Specific Anti-Avoidance Rules) in dodging this practice. A complete result on TP that occurs in companies is obtained by TP in developing Asian countries because transactions of sales are investigated, and non-sales transactions are mainly utilized for tax avoidance objectives. Falbo & Firmansyah's research (2018) showed that transfer prices do not affect tax avoidance. This evidence is distinct from the study by Taylor & Richardson (2012), which found that TP positively affect ETR. This disparity may result from discrepancies in the calculation of variables, relevant accounting norms and procedures, and circumstances in Indonesia. Based on the description above, it can be developed hypotheses:

*H2: TP have a positive and significant effect on tax avoidance.*

Profitability is a gauge of a firm's ability to make profits; hence, the greater the firm's capacity to obtain benefits. Companies with high profitability can potentially engage in tax planning to lessen their total tax burden (Chen et al. 2010). The greater the ROA value, the higher the benefit reached by the organization. When the profit earned by the firm increases, the income tax payable also increases. According to the agency theory, the agent intends to minimize his tax liability to maintain the same level of performance remuneration due to reduced company profits because the tax encumbrance erodes it. Then, agents use the firm's resources to enhance agent outcome reward, specifically by minimizing the firm's tax cost to optimize the business's performance.

This evidence is distinct from the study conducted by Olivia & Dwimulyani (2019), which shows that profitability proxied by ROA positively ETR. While the results differ from the research conducted by Setiawan & Agustina (2018) that ROA negatively affects ETR. It can be developed hypotheses:

*H3: Profitability proxied by ROA has a positive effect on tax avoidance.*

Previous tax study has demonstrated that cross-border activities constitute a catalyst for organization tax evasion. Rego (2003) declares that the larger the greater the business's overseas operations, the greater the tax avoidance. It is reflected by the global decline in the business's ETR. Global tax avoidance is associated with global taxes since multinational corporations have subsidiaries in multiple countries, meaning domestic tax systems impact cross-border activities. The tax rate is a component of the system. Differences in tax rates among nations enable worldwide tax avoidance related to the parent companies. Furthermore, from the business's standpoint, taxes are a cost that can threaten the business's continued existence (Masri, I., &

Martani, 2012; Sadjiarto et al., 2019). Regarding tax administration, taxes are an income source that plays a significant role in the state's survival. These two factors result in divergent interests among the tax administration and the corporation, with the tax administration, as the main, seeking the most outstanding potential tax collection from the taxpayer, whereas the corporate, as an agent, requires the minimum tax payment to the state (Kholbadalov, 2012; Meiriasari, 2017). This difference in interests will lead to non-compliance by taxpayers and affect the company's tax avoidance efforts. It can be developed hypotheses:

*H4: TC, TP, and profitability simultaneously positively affect tax avoidance.*

According to research by Olivia & Dwimulyani (2019), the consolidation of institutional ownership will affect the firm's tax minimization strategy. As one of the aspects of corporate governance, establishing institutional ownership provides a mechanism to supervise the management of strategic actions that managers may take, such as engaging in tax avoidance efforts. Olivia & Dwimulyani's research (2019) showed that institutional ownership does not necessarily lead to excessive debt financing policies because it can affect stakeholders' assessment of the company's financial reports. It is distinct from the findings of Abdillah's study (2019) that institutional ownership is a moderating variable between TC and tax avoidance at the mature stage because institutional ownership, which mostly has a large concentration of share ownership, can increase supervision of the organization. Therefore, the hypothesis is as follows:

*H5: Institutional ownership can moderate the effect of TC on tax avoidance.*

Sari et al. (2020) research show that transfer prices to reduce taxes is carried out in purchase transactions, administration service charges and earnings from management services. It is due to the higher difficulty level of the three transactions in assessing and proving a fair price cd to sales transactions. The firms are encouraged to show a tendency to practice more TP in purchasing transactions and corporate services. This study's findings differed from prior studies conducted in industrialized countries, which discovered TP activities in sales transactions. The lack of such practices in sales vortex. In the research of Prasatya et al. (2020) and Aprianto & Dwimulyani (2019), institutional ownership can weaken the effect of transfer prices on ETR. The high-interest costs of debt due to high debt levels will reduce profits, impacting the distribution of dividends to shareholders. Shareholders, as institutional owners, want the maximum return on their investment. Therefore, the hypothesis is as follows:

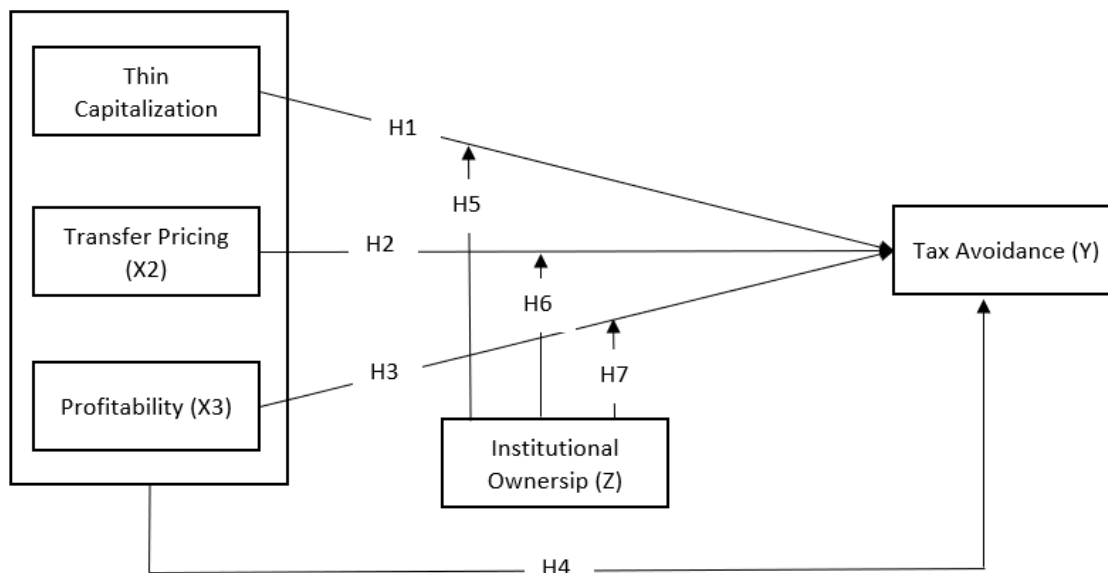
*H6: Institutional ownership can moderate the effect of TP on tax avoidance.*

The maximum the company's profit, the greater the tax burden the corporate should pay because the size of the tax is directly proportional to the income earned. Management teams, as opportunist actors, will seek to maintain firm profits by minimizing tax liability. Jensen & Meckling (1976) stated that institutional ownership is necessary to reduce agency conflicts among management and shareholders. Investment firms with significant existing shareholders and the right to vote can compel managers to emphasize the firm's productivity over their concerns. Following the research of (Oktaviani & Solikhah, 2019), it is stated that institutional shareholders generally avoid the risks properly of tax avoidance operations and prevent taking risks that can harm the business's reputation. In Olivia & Dwimulyani's research (2019), institutional ownership in a company will encourage a more optimal increase in the supervision of management performance while still prioritizing the principle of prudence and compliance with regulations to maintain the reputation and accountability of the business so that it can hinder the manager's opportunistic behavior. Institutional ownership may decrease as a component of corporate governance, the link between profitability and ETR, meaning that it

can suppress the tendency of companies to avoid tax (Olivia & Dwimulyani, 2019; Prasatya et al., 2020). Therefore, the hypothesis is as follows:

*H7: Institutional ownership can moderate the effect of profitability on tax avoidance.*

Based on the development of hypotheses, a framework of thought can be described (see Figure 1).



**Figure 1. Research framework**

### METHOD

The method used in this study is quantitative, with a population of all LQ45 companies registered on the IDX and as many as 45 corporations. While the sample used a purposive sampling approach of 11 companies. Operational definitions are needed to describe the variables that arise from a study into more detailed indicators and relate to the variables used in the study. The variables used are independent variables consisting of TC, transfer prices, and profitability. The dependent variable used is tax avoidance, while the moderating variable is institutional ownership (See Table 1).

**Table 1. Variable Operational Definition**

No	Variable	Operational definition	Indicator	Scale
1.	Thin capitalization (X1)	TC is a tax avoidance method that exploits weaknesses in current tax regulations by altering connected entities' capital involvement into lending either directly or through intermediaries (Afifah & Prastiwi, 2019).	TCAP = Debt/Capital (Olivia & Dwimulyani, 2019)	Ratio
2.	Transfer pricing (X2)	TP is to evaluate and measure the company's performance. However, multinational companies often use TP to minimize the amount of tax	TPsales = Total Sales to Overseas Related Parties/Total Equity (Sari et al., 2020)	Ratio

No	Variable	Operational definition	Indicator	Scale
3.	Profitability (X3)	paid through price engineering transferred between divisions (Saraswati <i>et.al</i> , 2014). The rate of return on assets (ROA) indicates the firm's capability to utilize all of its resources to increase after-tax revenue and the net income generated from all assets (Rahmantio <i>et al.</i> , 2018).	ROA = net profit after tax/ Total assets (Rahmantio, <i>et al.</i> , 2018)	Ratio
4.	Tax avoidance (Y)	Tax avoidance is a form of tax planning intended to reduce paying taxes (Utami & Syafiqurrahman, 2018)	ETR = Income Tax Expense/Profit Before Tax (Sari <i>et al.</i> , 2020)	Ratio
5.	Institutional ownership (Z)	Institutional ownership is: "One of the suitable corporate governance mechanisms that can reduce agency theory problems between companies and managers. So that it does not cause agency costs that can cause the company's financial difficulties (Susanti <i>et al.</i> , 2021)	KI = $\Sigma$ Institutional Shares/Outstanding Shares (Olivia & Dwimulyani, 2019)	Ratio

## RESEARCH RESULTS AND DISCUSSION

Descriptive Statistical Analysis provides an overview of data seen from the minimum, maximum, mean, standard deviation, and the number of samples of each variable in the study using SPSS 23 data processing.

**Table 2. Descriptive Statistical Analysis**

	N	Min	Max	Mean	Std. Deviation
TCAP_X1	55	.03	.51	.2345	.09185
TPSales_X2	55	.04	.52	.2332	.08958
ROA_X3	55	.04	.51	.2371	.08768
ETR_Y	55	.05	.53	.2511	.09001
KI_Z	55	.50	.50	.5000	.00000

This study's number of observations (N) was 11 companies in the last 5 (five) consecutive years, namely 55 samples (Table 2). The following is a descriptive analysis that has been processed as follows:

The lowest grade of the ETR (Y) is 0.005, and the highest grade is 0.53. These results suggest that the size of the ETR, or the research sample, is between 0.005 and 0.53, with the mean of 0.2511 and a std. deviation of 0.09. The lowest of the TCAP (X1) is 0.03, and the highest is 0.51. These results reveal that the amount of TCAP in the research sample ranges

from 0.03 to 0.51, with the mean of 0.2345 and a std. deviation of 0.09185. The lowest grade of the TPSales variable (X2) is 0.04, and the highest is 0.52. These results suggest that the size of the TPSales study sample is between 0.04 and 0.52, with a mean value of 0.2332 and a standard deviation of 0.08958. The lowest grade of the ROA is 0.04, and the highest grade is 0.5. These results reveal that the ROA of the sample research is between 0.04 and 0.51, with a mean of 0.2371 and a std. deviation of 0.08768. The lowest and highest values of the KI (Z) are both 0.5. According to these data, the amount of KI in the research sample is 0.5, with a mean of 0.5 and a std. deviation of 0.000. The data has no variation because the standard deviation value equals 0.

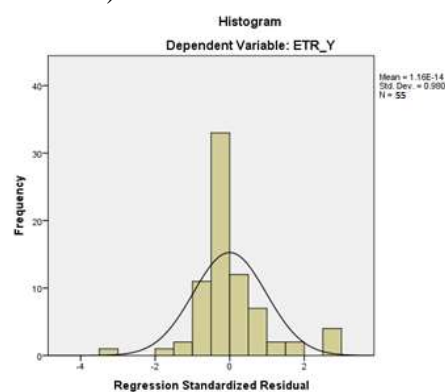
The normality test is performed by looking at the dots on the Normal Probability Plot to see if they spread along the diagonal line. The histogram figure demonstrates the collected data with a distribution that is close to being normal and may be visualized using Kolmogorov Smirnov.

**Table 3. Kolmogorov-Smirnov Test Result**

		Unstandardized Residual	Information
N		55	
Normal Parameters <sup>a,b</sup>	Mean	.0011855	Data is normally distributed
	Std. Deviation	.00899484	
	Most Extreme Absolute Differences	.081	
Positive	.081		
Negative	-.083		
Test Statistic		.081	
Asymp. Sig. (2-tailed)		.200 <sup>c,d</sup>	

Source: processed secondary data (2022)

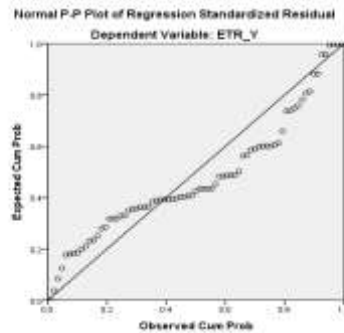
One-Sample Kolmogorov-Smirnov Test, the outcomes of data processing are derived from the Asymp value. Sig.2 (- Tailed) > 0.05. Thus, the data are normally distributed and acceptable for research (see Table 4).



**Figure 2. Histogram of Regression Standar Residual**

On the Histogram Display Normal Curve, the slope on the left and right sides of the almost perfect bell-shaped curve tends to be balanced (Figure 2). Then, the Normality Test with the P-Plot of Regression Standardized Residual reveals that the data have a normal distribution, and the regression model has satisfied the normality assumption (Figure 3).





**Figure 3. Normal P-Plot of Regression Standar Residual**

The existence or absence of multicollinearity symptoms is determined by evaluating the value of the correlation matrix obtained while processing data and the value of VIF and its tolerance.

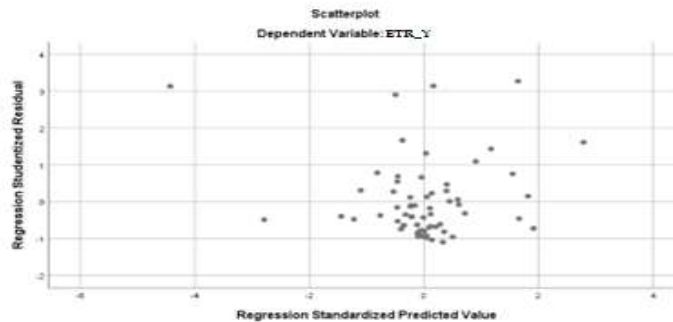
**Table 4. Multicollinearity, Autocorrelation, Heteroscedasticity Test Results**

Model	Model 1 Tolerance	Model 1 VIP	Model 2 DW	Model 3 t	Model 3 Sig.	Information
1						There is no multicollinearity event
	TCAP_X1	.117	5.790			
	TPSales_X2	.112	4.803			
	ROA_X3	.118	6.137			
2	Durbin-Watson		1.876			There is no autocorrelation
3	<b>Glejser Test</b>					There is no heteroscedasticity
	TCAP_X1			0.314	.621	
	TPSales_X2			0.345	.711	
	ROA_X3			0.344	.716	

No variable has a tolerance value of 0.01, indicating no connection between independent variables with a value greater than 95%. The results of calculating VIF indicate the same point: no independent variable has a VIF more significant than 10. This regression model contains no multicollinearity event between independent variables (see Table 5). The autocorrelation test determines if the misleading error in time  $t$  and the misleading error in time  $t-1$  are correlated in the linear regression model. A vital characteristic of a reliable regression model is the absence of autocorrelation. If this occurs, it is known as an autocorrelation issue. The magnitude of the Durbin-Watson table for  $dL = 1$ , and the magnitude of Durbin Watson for  $dU$  (inner limit) of 1.7240. The magnitude of the value of  $4-dU$  ( $4-1.7240 = 2.276$ ) and the value of  $4-dL$  ( $4-1.4136 = 2.4849$ ). Then  $1.7240 < 1.876 < 2.276$ . Therefore, there is no symptom of autocorrelation between variables.

Heteroscedasticity tests if the regression model's residuals are unequally distributed. Homoscedasticity is when the residual variance remains the same between observations, while heteroscedasticity is when it changes. Homoscedasticity or no heteroscedasticity are effective regression models. This exam uses a scatter plot. Check the regression scatter plot dots for heteroscedasticity. No heteroscedasticity if it spreads randomly above and below zero on the Y-axis. Regressing the independent variables to the absolute residual value strengthens the Glejser test (see Table 4). The significant value of all research variables is more than 0.05. The TCAP variable has a significant value of 0.621, TPSales has a significant value of 0.711, and

ROA has a significant value of 0.716. Therefore, the study's results do not exhibit heteroscedasticity.



**Figure 4. Heteroscedasticity Test Results**

Figure 4 illustrates that the heteroscedasticity test in the scatterplot shows that the dots are not random, form a clear or regular pattern, and are dispersed above and below Y-axis 0. Thus, this regression model lacks heteroscedasticity.

Multiple linear regression examines how multiple independent factors affect one dependent variable. Double because numerous variables affect the dependent variable. See the table 5 for information:

**Table 5. Multiple Linear Regression Analysis Results**

		B	Std. Error	Beta		
1	(Constant)	.013	.003		4.076	.000
	TCAP_X1	.212	.091	.226	2.246	.018
	TPSales_X2	.276	.083	.286	3.121	.001
	ROA_X3	.419	.076	.488	6.211	.000

a. Dependent Variable: ETR\_Y

Regression equation:  $ETR = 0.013 + 0.212 \text{ TCAP} + 0.277 \text{ TPSales} + 0.419 \text{ ROA} + 0.03$ . Explaining the regression equation: ETR (Y) equals 0.013 if TCAP (X1), TPSales (X2), and ROA (X3) are 0. The regression coefficient for TCAP (X1) is 0.212. Therefore, if the other independent variables are stable and TCAP increases by 1%, ETR (Y) will rise by 0.212. If the other independent variables are fixed, the regression coefficient for TPSales (X2) is 0.276. If TPSales rise 1%, ETR (Y) rises 0.276. The regression coefficient of ROA (X3) is 0.419. Therefore, if the other independent variables are stable and ROA grows by 1%, ETR (Y) will increase by 0.419.

The coefficient of determination shown by the Adjusted R Square value is 0.713 or 71.3% which indicates that ETR is influenced by the Thin Capitalization (TCAP), Transfer Pricing (TPSales), and Profitability (ROA) variables. The remaining 28.7% (100% minus 71.3%) is impacted by characteristics not examined of the current research (see Table 6).

**Table 6. The Result of the Derivation Coefficient Test (R<sup>2</sup>)**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.814 <sup>a</sup>	.744	.713	2.99812	1.876

a. Predictors: (Constant), ROA\_X3, TPSales\_X2, TCAP\_X1  
 b. Dependent Variable: ETR\_Y

FCount is 74,719, and the threshold of significance is 0.000. The value of the probability is 0.000 0.05. df 1 (number of variables - 1) or 5-1 = 4, and df 2 (n-k) or 55-4 = 51 of 2,55. Thus, since FCount > Ftable (74,719 > 2,55) and 0.000 0.05 is significant, Ho is rejected, and Ha is approved. It demonstrates that the independent variables, namely TC (X1), Transfer Prices (X2), and Profitability (X3), have a significant effect on the dependent variable, namely Tax Avoidance (Y), indicating that it is concurrently accepted that these variables influence the dependent variable (See Table 7).

**Table 7. Simultaneous Test**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.593	3	.198	74.719	.000 <sup>b</sup>
	Residual	.007	51	.000		
	Total	.600	54			

a. Dependent Variable: ETR\_Y  
 b. Predictors: (Constant), ROA\_X3, TPSales\_X2, TCAP\_X1

The partial test results indicate that the TCAP variable (X1) has a tcount of 2,246 and a sig. level of 0.017. Meanwhile, for the t distribution table with =5% and n-k or 55-3=52 df, the value for the ttable is 2.00665. Thus, since tcount > ttable (2.246 > 2.00665) with a significance value of 0.017 < 0.05. It indicating that TCAP has a positive and statistically significant influence on ETR, and the decision is upheld. The partial test results indicate that the TPSales (X2) variable has a tcount of 3,121 and a significance level of 0.001. In contrast, using the t-distribution table with =5% and the df n-k or 55-3=52, the t-table results are 2.00665. Thus, since tcount > ttable (3.121 > 2.00665) with a significance value of 0.001 < 0.05, Ho is rejected, and Ha is allowed, indicating that TPSales have a positive and statistically significant effect on ETR, and the decision is upheld. The partial test results indicate that the ROA (X3) variable has a tcount of 6,211 with a significance level of 0.000. In the meantime, the results for the t distribution table with =5% and degrees of freedom (df) n-k or 55-3=52 are 2.00665. Thus, tcount > ttable (6.211 > 2.00665) with a sig. value of 0.000 < 0.005, Ho is rejected, and Ha is approved, which indicates that ROA has a positive and statistically significant effect on ETR, and the decision is accepted (see Table 8).

**Table 8. Partial and Moderation Test**

Model		B	Std. Error	Beta	t	Sig.
1	TCAP_X1	.212	.091	.226	2.246	.018
	TPSales_X2	.276	.083	.286	3.121	.001
	ROA_X3	.419	.076	.488	6.211	.000
2	Moderation1_X1 Z	1.155	.918	.603	1.114	.207
	Moderation2_X2 Z	.428	1.033	.278	.424	.511
	Moderation3_X3 Z	-.311	1.020	-.171	-.311	.719

A moderation test is used to determine whether or not a variable (Z) weakens or strengthens between the independent variables and the dependent variable tested at a significant level of 0.05 or 95% confidence level (see Table 8).

Calculated results of the moderation test reveal that the first moderation ( $X1*Z$ ) yields a tcount of 1.114 with a significance level of 0.207. In contrast, using the t distribution table with  $\alpha=5\%$  and  $n-k$  degrees of freedom (df) or  $55-4=51$ , the ttable results are 2.00665. Thus,  $tcount < ttable$  ( $1.114 < 2.00665$ ) with a significance level  $> 0.05$ . It indicates that institutional ownership cannot diminish the association between TCAP and tax evasion (ETR). The moderation test revealed that the second moderation ( $X2*Z$ ) had a tcount of 0.424 and a significance level of 0.511. In contrast, using the t distribution table with  $\alpha=5\%$  and  $n-k$  degrees of freedom (df) or  $55-4=51$ , the ttable results are 2.00665. Therefore, in  $tcount > ttable$  ( $0.424 > 2.00665$ ) with a significance level of  $0.511 > 0.05$ ,  $H_0$  is accepted, and  $H_a$  is rejected, indicating that Institutional Ownership cannot decrease the link between Transfer Prices (TPSales) and Tax Avoidance (ETR). The calculation of the moderation test revealed that the third moderation ( $X3*Z$ ) had a tcount of -0.311 and a significance level of 0.719%. In contrast, using the t distribution table with  $\alpha=5\%$  and  $n-k$  degrees of freedom (df) or  $55-4=51$ , the ttable results are 2.00665. Thus,  $tcount > ttable$  ( $-0.311 > 2.00665$ ) with a significance level  $> 0.05$ , indicating that Institutional Ownership cannot diminish the link between Profitability (ROA) and Tax Avoidance (ETR).

The first hypothesis is accepted based on the t-statistic test in this study, which indicates that TCAP partially influences ETR. This study's findings concur with Olivia and Dwimulyani's (2019) findings that TCAP has a positive impact on tax avoidance (ETR). In the context of agency theory, the statement "Thin capitalization has a positive effect on tax avoidance" suggests a potential conflict of interest between shareholders (principal) and management (agent). Thin capitalization, which involves a high proportion of debt relative to equity, may benefit management by reducing tax burdens and increasing short-term profits. However, this practice can raise concerns for shareholders who seek long-term value creation. The agency theory lens highlights the importance of monitoring and aligning the interests of both parties. It implies that while tax avoidance through thin capitalization might serve management's interests, it should be balanced with the company's long-term objectives and financial health, ultimately benefiting both shareholders and the firm's overall sustainability (Zolotoy et al., 2021). The second hypothesis is adopted because the t-statistical test indicates that Transfer Price (TCAP) has a positive and statistically significant effect on ETR. This study's findings concur with Sari et al. (2020)'s assertion that Transfer Prices (TCAP) have a significant positive influence on ETR. TPSales has emerged as a topic of significant concern to national tax authorities because of its significant impact on taxation. Control of TPSales should be carried out by national tax authorities to prevent tax avoidance and potential instances of double taxation. Because they frequently lack complete and accurate information regarding the group of associated companies and the activities, they engage in with one another, national tax authorities face a challenging challenge when attempting to exercise control over TPSales. Even when such information is readily available, it can be exceedingly challenging to determine whether or not the transfer rates at which connected entities charge one another for mutual transactions are objective. TPSales is a global problem, and as a result, the requirement for a distinct approach to TPSales at the worldwide level has become an absolute must. The relationship between transfer pricing and agency theory lies in the potential for conflicting interests between shareholders (principal) and management (agent). The statement "Transfer pricing has a positive and significant effect on tax avoidance" suggests that management, motivated by short-term financial gains, may manipulate transfer pricing to lower tax liabilities, which could conflict with the long-term interests of shareholders seeking sustained value creation. In the context of agency theory, monitoring these practices to ensure they align with the company's overall objectives and shareholder interests is crucial. The agency theory perspective underscores the importance of transparency, fairness, and accountability in transfer pricing decisions, to avoid undermining

the company's financial health in the long run while still adhering to applicable tax regulations (Guilding et al., 2014).

Acceptance of the third hypothesis, it proves this study demonstrates that Profitability measures a firm's potential to profit. Hence the more remarkable the Profitability, the greater the tax evasion efforts of the organization. Consistent with Olivia & Dwimulyani's (2019) findings, this study demonstrates that Profitability, as measured by ROA, has a considerable beneficial impact on ETR. The connection between profitability, measured explicitly by Return on Assets (ROA), and agency theory revolves around the potential alignment of interests between shareholders (principal) and management (agent). The statement "Profitability proxied by ROA has a positive effect on tax avoidance" implies that when a company's profitability is higher, management might have less incentive to aggressively engage in tax avoidance practices that could jeopardize the long-term financial health and value creation for shareholders. This alignment of interests, where higher profitability contributes to stability and shareholder returns, fits with the core principles of agency theory. It highlights that both parties are interested in a sustainable and successful company (Al-Nasser Mohammed & Muhammed, 2017). However, it's essential to balance tax management and overall financial performance to ensure that tax avoidance strategies do not conflict with the firm's long-term objectives, reinforcing the importance of agency theory in guiding decision-making.

The fourth hypothesis is accepted. It shows that the independent variables, namely TCAP, Transfer Prices (TPSales), and Profitability (ROA), simultaneously have a significant effect on the dependent variable, namely ETR on LQ45 companies on the IDX. From an agency theory perspective, this situation underscores the need for robust corporate governance mechanisms to monitor and align the interests of both parties (Kovermann & Velte, 2019). Shareholders and management must balance maximising value creation while adhering to ethical and legal tax practices. Effective agency theory-based governance can help ensure that tax avoidance strategies do not undermine the company's long-term sustainability or conflict with shareholders' interests (Arifah & Ariefiara, 2021). It reinforces the importance of transparent communication, accountability, and alignment with the company's overall objectives, as guided by agency theory principles, to maintain a healthy and productive relationship between shareholders and management in the context of tax management practices (Furlotti & Mazza, 2020). The fifth hypothesis of this study's moderation test demonstrates that Institutional Ownership does not moderate the link between TCAP on ETR and the decision to avoid taxation. It indicates that increasing or decreasing the value of Institutional Ownership does not affect the link between TCAP and ETR. This study's findings do not support Olivia and Dwimulyani's (2019) assertion that the concentration of institutional ownership will influence the company's tax-reduction approach. Including an institutional ownership structure as a component of corporate governance allows for the oversight of managers' opportunistic acts, such as tax avoidance. It is a crucial corporate governance function, enabling more openness and accountability. It indicates a potential lack of effective governance mechanisms to ensure that tax management practices align with the company's long-term goals and the interests of all shareholders (Kovermann & Velte, 2019). It could signal a need for enhanced oversight and communication between shareholders and management. Additionally, it highlights the importance of corporate governance reforms and better engagement by institutional investors to ensure that decisions related to Thin Capitalization and tax avoidance align with ethical, legal, and sustainable business practices. In this context, the insights from agency theory provide valuable guidance for improving the accountability, transparency, and alignment of interests between all stakeholders involved (Parker et al., 2018).

The rejection of the sixth hypothesis, it indicates that increasing or decreasing the amount of Institutional Ownership does not affect the correlation between TPSales and ETR. This

conclusion contradicts the findings of Sari et al. (2020), which imply that transfer prices are utilized to decrease taxes on purchase transactions, management service fees, and management service income. It is due to the increasing complexity of determining and demonstrating a fair price for the three transactions compared to sales transactions. Companies should implement TPSales more frequently in their purchasing transactions and management services. Unlike prior research conducted in industrialized nations, which revealed no TPSales techniques in sales transactions, this study reaches different conclusions. TPSales strategies in sales transactions. According to a qualitative study, companies in developing nations with high tax rates will take advantage of TPSales by charging for management services. It also demonstrates that tax authorities in emerging nations ought to be able to enhance the quality and rigor of their tax audits of purchasing transactions and management services. The rejection of the seventh hypothesis, it indicates that increasing or decreasing the value of KI does not affect the correlation between ROA and ETR. According to Oktaviani and Solikhah's (2019) research, institutional shareholders tend to avoid the danger of identifying tax avoidance practices and are hesitant to take risks that could harm the business's reputation. This outcome contradicts their findings. Institutional stockholders tend to avoid tax evasion detection risk. Since the amount of tax is directly proportionate to the quantity of money earned, the company's tax burden will climb in tandem with its profits. It is because the tax burden is directly proportionate to earnings. As opportunistic players, managers will attempt to maintain the company's income, and as a result, they will typically try to reduce the firm's tax liability. From an agency theory perspective, institutional ownership needs to have a significant effect on these correlations to indicate a potential gap in these institutions' monitoring or governance mechanisms (Sakawa et al., 2021). Agency theory emphasizes the role of institutional investors as critical monitors of management actions, ensuring that decisions align with the best interests of shareholders (Bendickson et al., 2016). Suppose institutional ownership does not influence the correlations between TPSales and ETR or ROA and ETR. In that case, it raises questions about the effectiveness of governance structures in ensuring transparent transfer pricing and tax management practices and the alignment between profitability and tax strategies. It suggests improved oversight, engagement, and communication between institutional shareholders and company management to ensure that tax practices are ethical, sustainable, and aligned with the company's long-term goals. It underscores the relevance of agency theory in guiding better corporate governance practices, promoting transparency, and protecting the interests of all stakeholders.

## CONCLUSION

Related businesses in Indonesia will focus more on TPSales if the tax administration decides to raise the level of control exercised over TPSales. The development of additional detail in the relevant TPSales Ordinance is essential in achieving more effective control over TPSales in Indonesia. This development will result in a more accurate definition of all issues about TPSales, particularly the content of TPSales documentation. The tax authority will be able to control TPSales more effectively and straightforwardly if they have a detailed specification of the content of the TPSales documents. On the other hand, regarding the mechanism of influence used in tax avoidance decisions, institutional ownership, by participating in corporate governance, supervises the management and resolves agency conflicts between shareholders and management. Additionally, institutional ownership restricts majority shareholders and coordinates agency conflicts between majority and minority shareholders so that they can intervene in corporate tax avoidance decisions. Increase the number of available human resources with knowledge of TPSales. Therefore, training on TPSales should be expanded, and the number of personnel receiving training should also be

increased. It is essential for tax officers operating in KPPs, the country's territory where the international company is registered. This training is not only given to functional tax auditors but also Account Representatives, Section Heads, and even the Head of the Tax Service Office.

In actual business operations, corporations typically look for methods to reduce all corporate expenses, including the tax burden. For businesses, the amount of profits that should be paid to management and stockholders will decrease if there is a tax burden. Managers will thus take all necessary steps to reduce the tax burden, either by taking advantage of the flaws in the tax laws or other ways. Taxes are a source of funding for the state's operations. The operational functions of the state may be automatically halted if the funding sources are inadequate. Due to the conflicting interests of businesses and the government, the state must tighten its collection of monies from the populace to promote community welfare successfully. Everyone needs help paying taxes by turning over some of their property to the government. Thus, taxpayer entities often try to lessen the tax burden associated with them in ways that do not break the law—to repress illegal taxes. The growth in tax evasion in Indonesia is a sign that the country's tax system is dysfunctional. It is important to look at how the taxpayer can continue these tax avoidance actions with different schemes since the goal is getting a low tax burden or paying taxes at rates that are not appropriate from the rates set by the government. Avoidance practised, whether in the form of unacceptable avoidance, is a form of taxpayer ignorance and non-compliance with the provisions of tax rules and policies made by the government.

This study has several limitations, the most prominent of which is that it only uses a sample of state-owned companies listed on the IDX for the 2016-2020 period and only uses primary variables without integrating any control variables in the analysis. As a result, it is anticipated that future studies will use other firms, such as mining or manufacturing, and may employ control factors and other variables.

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