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THE INFLUENCE OF TRANSFER PRICING, LEVERAGE, PROFITABILITY, AND EARNINGS MANAGEMENT ON TAX AVOIDANCE MODERATED BY INSTITUTIONAL OWNERSHIP (AN EMPIRICAL STUDY OF MANUFACTURING COMPANIES)

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Abstract

This research delves into the multifaceted relationships between Transfer Pricing, Leverage, Profitability, Profit Management, and Tax Avoidance, with the moderating influence of Institutional Ownership in manufacturing companies listed on the Indonesia Stock Exchange (BEI). The study employs a descriptive research design with a quantitative approach, utilizing a multiple linear regression-based method through EViews. The research population comprises manufacturing companies listed on the Indonesia Stock Exchange (BEI) between 2020 and 2021. The purposive sampling method was employed, resulting in a sample of 81 manufacturing companies, totaling 162 observations. Secondary data were collected from the official IDX website www.idx.co.id and www.yahoofinance.com. The findings indicate that Transfer Pricing and Leverage exhibit a significant positive influence on Tax Avoidance in manufacturing companies, while Profitability demonstrates a significant negative effect on Tax Avoidance. Conversely, Profit Management does not exhibit a significant impact on Tax Avoidance. Moreover, Institutional Ownership is identified as a moderator, strengthening the influence of Transfer Pricing and Leverage on Tax Avoidance. However, Institutional Ownership does not reinforce the influence of Profitability and Profit Management on Tax Avoidance. This research contributes valuable insights for policymakers, tax authorities, and corporate practitioners, highlighting the nuanced dynamics of Transfer Pricing, Leverage, Profitability, and Profit Management in shaping tax avoidance strategies, particularly in the context of manufacturing companies in Indonesia.

Keywords: Transfer Pricing, Leverage, Profitability, Institutional Ownership, Tax Avoidance

INTRODUCTION

Tax avoidance practices pose significant risks to companies, including financial penalties and damage to their public reputation. In the realm of corporate activities, the adoption of tax avoidance strategies poses inherent risks, such as potential fines and a tarnished reputation in the eyes of the public. Nevertheless, companies frequently view tax avoidance as an economically advantageous approach, driven by the allure of significant financial benefits and cost-effective financing sources.[1] The balance between the perceived risks and economic gains is a delicate consideration for companies navigating the complex landscape of taxation. Armstrong on 2015 highlight the inclination of companies to view tax avoidance as a means to secure substantial economic advantages and affordable financing avenues. This dichotomy underscores the intricate relationship between tax management practices and their financial implications, necessitating a thorough examination of the factors influencing such strategies [2]. Notably, the issue of tax avoidance has gained prominence in Indonesia, with reports indicating substantial amounts of unpaid taxes by companies, ranking the country 11th globally in tax avoidance with an estimated value of $6.48 billion USD [3]. One notable case involves PT. Bentoel Internasional Investama, the second-largest tobacco company in Indonesia. Reports from the Tax Justice Network revealed that the company, affiliated with British American Tobacco (BAT), engaged in tax avoidance by accumulating debts from a Dutch affiliate, Rothmans Far East BV, between 2013 and 2015. This practice allowed PT. Bentoel Internasional Investama to reduce its taxable income in Indonesia, resulting in an annual loss of $14 million for the government. Similarly, PT. RNI, affiliated with a Singaporean company, faced accusations of tax evasion by utilizing debt-based financing from its foreign affiliate, illustrating the complexity of tax avoidance practices in the country [4].

Indonesia's tax revenue challenges persist, marked by lower-than-expected collections, especially during the COVID-19 pandemic, where economic contractions affected overall tax revenues. Despite government efforts to raise tax revenue targets, the actual collections fell short in 2020-2021, indicating a gap between tax policy goals and practical outcomes [5]. This research endeavors to delve into the intricate dynamics surrounding the impact of Transfer Pricing, Leverage, Profitability, and Profit Management on Tax Avoidance within the sphere of manufacturing companies listed on the Indonesia Stock Exchange (BEI) during the period spanning 2017 to 2021. By investigating these financial variables, the study aims to provide a comprehensive understanding of the strategies employed by companies to manage their tax obligations. Additionally, the research explores the moderating role of Institutional Ownership in shaping the interactions between these key variables. This inquiry assumes significance in the broader context of corporate governance and fiscal policy, offering valuable insights for policymakers, tax authorities, and corporate practitioners. The

[1] Indriani Rahayuning Tyas, 'Analisis Dampak Efektivitas Kebijakan Transfer Pricing Dalam Menangkal Penghindaran Pajak Pada KPP Madya Jakarta Pusat Tahun 2018-2019', *Jurnal Pajak Vokasi (JUPASI)*, 3.1 (2021), 31–38 <https://doi.org/10.31334/jupasi.v3i1.1927>.

[2] Christopher S. Armstrong and others, 'Corporate Governance, Incentives, and Tax Avoidance', *Journal of Accounting and Economics*, 60.1 (2015), 1–17 <https://doi.org/10.1016/j.jacceco.2015.02.003>.

[3] Ain Hajawiyah and others, 'Analysis of a Tax Amnesty's Effectiveness in Indonesia', *Journal of International Accounting, Auditing and Taxation*, 44 (2021), 1–11 <https://doi.org/10.1016/j.intaccaudtax.2021.100415>.

[4] Grant Richardson, Grantley Taylor, and Ivan Obaydin, 'Does the Use of Tax Haven Subsidiaries by U.S. Multinational Corporations Affect the Cost of Bank Loans?', *Journal of Corporate Finance*, 64 (2020) <https://doi.org/10.1016/j.jcorpfin.2020.101663>.

[5] Suparna Wijaya and Hanafi Hidayat, 'Pengaruh Manajemen Laba Dan Transfer Pricing Terhadap Penghindaran Pajak', *Bina Ekonomi*, 25.2 (2022), 155–73 <https://doi.org/10.26593/be.v25i2.5331.61-79>.

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present study aims to make a significant contribution to the existing body of knowledge by delving into the realm of tax management within the Indonesian manufacturing sector. As taxation plays a pivotal role in shaping economic policies and corporate strategies, a thorough understanding of its implications becomes imperative for fostering sustainable growth. By exploring the intricacies of tax management in this specific sector, the research endeavors to shed light on potential areas for improvement and innovation. The anticipated findings are expected to provide valuable insights that can inform the formulation of more effective strategies and policies, thereby enhancing the overall economic landscape of Indonesia. This research is guided by the recognition that a nuanced understanding of tax management is essential for creating an environment conducive to the growth and development of the manufacturing sector [6].

Transfer Pricing emerges as a pivotal factor, encapsulating the policy decisions guiding the determination of prices for intra-group transactions. The intricacies of Transfer Pricing practices are under intense scrutiny to discern their influence on a company's strategic maneuvering to minimize tax liabilities strategically [7]. Additionally, Leverage, representing the extent of a company's reliance on debt financing relative to equity, becomes another critical element in the framework. This dimension seeks to explore the impact of higher leverage on tax avoidance, considering the associated tax implications linked with interest payments on debt [8]. Furthermore, the inclusion of Profitability, defined by a company's capacity to generate profit relative to its revenue and capital, enriches the framework by delving into the intricate relationship between profits and tax obligations. The examination aims to determine whether higher profits correlate with increased tax liabilities or act as a deterrent to tax avoidance [9]. Complementing these elements is Profit Management, representing intentional actions taken by management to manipulate reported profits. This dimension aims to ascertain the extent to which profit management practices contribute to or mitigate tax avoidance strategies [10]. Lastly, the moderating influence of Institutional Ownership, denoting the ownership of a company's shares by institutional investors such as insurance companies and banks, is integrated into the framework. This dimension explores how institutional ownership may serve as a regulatory force, moderating the relationships between Transfer Pricing, Leverage, Profitability, Profit

[6] Hasan Effendi Jafri and Elia Mustikasari, 'Pengaruh Perencaan Pajak, Tunnneling Incentive Dan Aset Tidak Berwujud Terhadap Perilaku Transfer Pricing Pada Perusahaan Manufaktur Yang Memiliki Hubungan Istimewa Yang Terdaftar Di Bursa Efek Indonesia Periode 2014-2016', *Berkala Akuntansi Dan Keuangan Indonesia*, 3.2 (2018), 63 <https://doi.org/10.20473/baki.v3i2.9969>.

[7] Hajawiyah and others.

[8] Hisar Pangaribuan and others, 'The Financial Perspective Study on Tax Avoidance', *Budapest International Reseach and Critics Indtitute-Journal (BIRCI-Journal)*, 4.3 (2021), 4998–5009 <http://bircu-journal.com/index.php/birci/article/view/2287>.

[9] Naiping Zhu and others, 'Corporate Tax Avoidance and Firm Profitability', *European Scientific Journal ESJ*, 15.7 (2019), 61–70 <https://doi.org/10.19044/esj.2019.v15n7p61>.

[10] Jost Kovermann and Patrick Velte, 'The Impact of Corporate Governance on Corporate Tax Avoidance—A Literature Review', *Journal of International Accounting, Auditing and Taxation*, 36 (2019), 100270 <https://doi.org/10.1016/j.intaccaudtax.2019.100270>.

Management, and Tax Avoidance [11]. The amalgamation of these dimensions creates a comprehensive framework that seeks to unravel the intricate dynamics shaping tax avoidance strategies within the unique landscape of Indonesian manufacturing companies.

This research lies in its innovative exploration of the intricate interplay among Transfer Pricing, Leverage, Profitability, Profit Management, and Institutional Ownership within the unique context of Indonesian manufacturing companies. By delving into these multifaceted dimensions, this study aspires to unveil a comprehensive understanding of tax avoidance strategies employed by these companies. The anticipated insights are not only poised to contribute significantly to the academic discourse on corporate taxation but also hold practical implications for stakeholders in the business landscape. Moving forward, this research lays the groundwork for future studies to delve deeper into the evolving dynamics of tax avoidance, fostering a continuous dialogue on effective tax management strategies and corporate governance in the Indonesian manufacturing sector. The hope is that the knowledge generated from this study will serve as a catalyst for informed decision-making, aiding policymakers, researchers, and industry practitioners in navigating the nuanced terrain of corporate taxation in Indonesia.

RESEARCH METHODS

This research adopts a quantitative causality approach, employing a multiple linear regression method through EViews software. The primary aim is to elucidate the causal relationship between independent variables (transfer pricing, leverage, profitability, and earnings management) and the dependent variable (tax avoidance), with moderation by institutional ownership. The study's population comprises manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2017-2021 period. A purposive sampling method with specific criteria was utilized to select a sample of 66 manufacturing companies, resulting in a total of 330 observations for the study. The research variables encompass transfer pricing, leverage, profitability, earnings management, tax avoidance, and institutional ownership as a moderating variable. Secondary data from financial reports of manufacturing companies available on the IDX website (www.idx.co.id) constituted the research dataset, collected through documentation methods. Data analysis involved multiple linear regression with moderation using EViews software. Additionally, descriptive analysis was performed to portray the mean, minimum, maximum, and standard deviation values for each research variable. Classic assumption tests such as normality and multicollinearity tests were also conducted as integral components of the data analysis technique.

RESULT AND DISCUSSION

The influence of Transfer Pricing (TP) on Tax Avoidance (TA).

Transfer Pricing (TP) refers to the pricing of goods, services, and intellectual property

[11] Udisifan Michael Tanko, 'The Moderating Effect of Profitability on the Relationship between Ownership Structure and Corporate Tax Avoidance in Nigeria Listed Consumers Goods Firms', *International Journal of Business and Technopreneurship*, 10.2 (2020), 153–72.

transferred within a multinational corporation, particularly when entities within the corporation are located in different tax jurisdictions. The significance of Transfer Pricing lies in its potential impact on Tax Avoidance (TA), a strategic practice employed by companies to minimize their tax liabilities. The relationship between Transfer Pricing and Tax Avoidance has become a subject of extensive research and discussion in the field of international taxation. Furthermore, the examination of data is crucial in understanding the practical implications of Transfer Pricing on Tax Avoidance. Table 1, presented below, provides a visual representation of key data points, offering insights into the patterns and trends associated with Transfer Pricing practices and their correlation with tax avoidance strategies.

Table 1. Multiple Regression Analysis (MRA) Results of Transfer Pricing (TP) on Tax Avoidance (TA)

Variable	Regression Coefficient	Standard Error	t-Statistic	Sig.
Transfer Pricing (TP)	1,287884	0,081536	15,79520	0,0000

The multiple regression analysis (MRA) model results reveal a significant and positive influence of Transfer Pricing (TP) on Tax Avoidance (TA) (Table 1). This indicates that an increase in Transfer Pricing (TP) leads to a significant rise in Tax Avoidance (TA). These findings align with previous studies by Amidu *et al*., which also demonstrated a positive impact of Transfer Pricing on Tax Avoidance [12]. Krisdianto states thar, transfer pricing is a corporate policy determining the transfer prices for transactions involving goods, services, intangible assets, and financial dealings within a company [13]. It can be interpreted as the pricing amount charged by individual business units to the multi-business unit corporation for transactions between them. According to the political cost theory, governments obligate companies to pay taxes in accordance with their earnings, creating pressure on companies to consistently pay taxes to the state, potentially reducing corporate profits. The conflicting interests of the government, desiring substantial and continuous tax revenues, and companies, seeking to minimize tax payments, result in companies transferring their tax liabilities to entities in countries with lower tax rates through methods like reducing selling prices, known as transfer pricing [14]. Simplice et al. (2019) supports this perspective, stating that the aim of multinational corporations engaging in transfer pricing is to minimize their global tax obligations. As the likelihood of transfer pricing increases, so does the tendency for tax avoidance because higher

[12] Mohammed Amidu, William Coffie, and Philomina Acquah, 'Transfer Pricing, Earnings Management and Tax Avoidance of Firms in Ghana', *Journal of Financial Crime*, 26.1 (2019), 235–59 <https://doi.org/10.1108/JFC-10-2017-0091>.

[13] Ari Krisdianto, Isti Fadah, and Novi Puspitasari, 'Determinants of Transfer Pricing Decisions in Indonesian Multinational Companies', *International Journal of Innovative Science and Research Technology*, 4.12 (2019), 10.

[14] Svitlana Y. Korol and others, 'Transfer Pricing Documentation: Globalization and Regional Optimization', *Universal Journal of Accounting and Finance*, 10.1 (2022), 219–30 <https://doi.org/10.13189/ujaf.2022.100123>.

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tax rates lead to increased tax burdens. Companies achieve this by shifting the burden of high taxation to countries with lower tax rates among related companies. The political cost hypothesis explains why companies opt for accounting policies to minimize income tax burdens, treating income tax as a political cost and prompting opportunistic actions in selecting accounting policies to reduce taxable income. This special relationship is crucial in the occurrence of transfer pricing practices, utilizing unfair pricing, which differs from dealings with independent entities[15].

The Influence of Leverage (LV) on Tax Avoidance (TA)

The examination of the influence of Leverage (LV) on Tax Avoidance (TA) represents a crucial aspect in understanding the financial dynamics and strategic decision-making within corporate entities. Leveraging debt as a financing mechanism has been identified as a significant factor impacting tax avoidance strategies employed by companies. Our investigation builds upon the findings of Ha et al. (2021), supporting the notion that an increase in Leverage (LV) positively correlates with a substantial rise in Tax Avoidance (TA) [16]. As Michalkova et al. (2021) contend, a heightened reliance on debt financing, as opposed to equity, influences interest costs and subsequently leads to a reduction in corporate tax burdens. To provide empirical evidence, Table 2 presents relevant data illustrating the relationship between Leverage (LV) and Tax Avoidance (TA) [17].

Table 2. Multiple Regression Analysis (MRA) Results of Leverage (LV) on Tax Avoidance (TA)

Variable	Regression Coefficient	Standard Error	t-Statistic	Sig.
Leverage (LV)	0,086319	0,020200	4,273180	0,0000

The multiple regression analysis (MRA) model results reveal a significant and positive influence of Leverage (LV) on Tax Avoidance (TA) (Table 2). This implies that an increase in Leverage (LV) leads to a substantial rise in Tax Avoidance (TA). These findings align with the research outcomes of Ha et al. (2021), indicating a positive impact of Leverage on Tax Avoidance [18]. As suggested by Shad et al. (2020), a higher reliance on debt financing compared to equity financing for operations results in increased interest costs. The higher interest costs

[15] Simplice A Asongu, I. Uduji Joseph, and Elda N. Okolo-Obasi, 'Transfer Pricing and Corporate Social Responsibility: Arguments, Views and Agenda', *Mineral Economics*, 32 (2019), 353–63.

[16] Nguyen Minh Ha, Tran Thi Phuong Trang, and Pham Minh Vuong, 'The Impact on Corporate Financial Leverage of the Relationship between Tax Avoidance and Institutional Ownership: A Study of Listed Firms in Vietnam', *Montenegrin Journal of Economics*, 17.4 (2021), 65–73 <https://doi.org/10.14254/1800-5845/2021.17-4.6>.

[17] Lucia Michalkova and others, 'Corporate Management: Capital Structure and Tax Shields', *Marketing and Management of Innovations*, 3, 2021, 276–95 <https://doi.org/10.21272/mmi.2021.3-23.This>.

[18] Ha, Trang, and Vuong.

subsequently contribute to a reduced corporate tax burden [19]. According to the pecking order theory, a company's funding sources encompass both internal and external financing, with debt being one form of external financing. The interest expenses incurred from third-party debt or loans diminish the company's taxable income. As leverage increases, signifying higher levels of debt, the associated interest expenses decrease the tax burden. A higher debt level corresponds to a lower Effective Tax Rate (ETR), thereby increasing the likelihood of tax avoidance by the company. In line with the trade-off theory, companies strategically employ debt to alleviate tax burdens (leveraging debt for tax shield effects), thereby engaging in tax avoidance activities. Hence, leverage serves as a catalyst for tax avoidance actions.

The influence of Profitability (PR) on Tax Avoidance (TA)

The exploration of the relationship between Profitability (PR) and Tax Avoidance (TA) is a pertinent subject in contemporary financial research. Profitability, as a key financial metric, plays a pivotal role in shaping a company's tax planning and avoidance strategies. Understanding how Profitability influences Tax Avoidance is crucial for both academics and practitioners in navigating the complex dynamics of corporate financial management. Several studies have delved into this relationship, shedding light on the intricate interplay between a firm's profitability and its inclination towards tax avoidance practices. Notable research by Pangaribuan et al. (2021) has contributed valuable insights into the positive or negative impact of Profitability on Tax Avoidance [20]. sAdditionally, empirical evidence supporting this discussion can be found in Table 3, providing a visual representation of the data and further reinforcing the significance of Profitability in the context of Tax Avoidance.

Table 3. Multiple Regression Analysis (MRA) Results of Profitability (PR) on Tax Avoidance (TA)

Variable	Regression Coefficient	Standard Error	t-Statistic	Sig.
Profitability (PR)	-0,011799	0,005081	-2,322365	0,0208

The multiple regression analysis (MRA) results reveal a significant negative influence of Profitability (PR) on Tax Avoidance (TA) (Table 3). This implies that an increase in Profitability (PR) leads to a significant decrease in Tax Avoidance (TA). These findings align with Dakhli (2022), whose studies similarly demonstrate a negative impact of Profitability on Tax Avoidance [21]. According to Alarussi (2021), profitability is defined as a set of ratios that indicate a combination of liquidity, asset management, and debt effects on operational

[19] Muhammad Kashif Shad and others, 'The Efficacy of Sustainability Reporting towards Cost of Debt and Equity Reduction', *Environmental Science and Pollution Research*, 27.18 (2020), 22511–22 <https://doi.org/10.1007/s11356-020-08398-9>.

[20] Pangaribuan and others.

[21] Anissa Dakhli, 'The Impact of Ownership Structure on Corporate Tax Avoidance with Corporate Social Responsibility as Mediating Variable', *Journal of Financial Crime*, 29.3 (2022), 836–52 <https://doi.org/10.1108/JFC-07-2021-0152>.

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outcomes [22]. As earnings grow, the income tax amount also increases in proportion to the company's profit increase. The pecking order theory explains that funding from internal sources is a company's preferred financing method, leading managers to maximize the use of internal assets and incentives to reduce tax burdens [23]. Higher profitability values indicate a reduced tendency for companies to engage in tax avoidance. Conversely, lower profitability values increase the likelihood of companies resorting to tax avoidance measures [24]. According to the pecking order theory, companies prioritize the use of funds, favoring internal and external financing. A company with high profitability is considered financially sound and capable of relying on internal financing.

The influence of Earnings Management (EM) on Tax Avoidance (TA)

The examination of the impact of Earnings Management (EM) on Tax Avoidance (TA) has garnered considerable attention within the realm of financial research. Earnings Management refers to the strategic manipulation of financial statements by companies to achieve specific objectives, and its potential connection with Tax Avoidance unveils intricate dynamics within corporate financial practices. A relevant study by Putri et al., (2023) explores the association between Earnings Management and Tax Avoidance, shedding light on how financial maneuvering may influence a company's tax avoidance strategies [25]. Additionally, the findings of Amidu et al. (2019) substantiate the notion that Earnings Management practices can significantly impact the level of Tax Avoidance adopted by corporations [26]. To further elucidate this relationship, Table 4 presents pertinent data illustrating the observed patterns and correlations between Earnings Management and Tax Avoidance.

Table 4. Multiple Regression Analysis (MRA) Results of Earnings Management (EM) on Tax Avoidance (TA)

Variable	Regression Coefficient	Standard Error	t-Statistic	Sig.
Earnings Management (EM)	6827,368	3201,111	2,132812	0,0337

The multiple regression analysis (MRA) results indicate a significant and positive

[22] Ali Saleh Ahmed Alarussi, ‘Financial Ratios and Efficiency in Malaysian Listed Companies’, *Asian Journal of Economics and Banking*, 5.2 (2021), 116–35 <https://doi.org/10.1108/ajeb-06-2020-0014>.

[23] Michalkova and others.

[24] Fazle Rabbi and Saad Saud Almutairi, ‘Corporate Tax Avoidance Practices of Multinationals and Country Responses to Improve Quality of Compliance’, *International Journal for Quality Research*, 15.1 (2020), 21–44.

[25] Vidiyanna Rizal Putri, Balkish Zakaria Nor, and Said Jamaliah, ‘Transfer Pricing, Firm Financial Characteristics And Tax Avoidance Relationship’, *European Proceedings of Social and Behavioural Sciences*, 131 (2023), 272–94 <https://doi.org/10.15405/epsbs.2023.11.21>.

[26] Amidu, Coffie, and Acquah.

influence of Earnings Management (EM) on Tax Avoidance (TA). This implies that an increase in Profitability (PR) leads to a substantial increase in Tax Avoidance (TA). These findings align with previous research conducted by Amidu et al. (2019), Irawan et al. (2020), and Nadhifah & Abubakar Arif (2020), which also demonstrated a positive correlation between Earnings Management and Tax Avoidance [27]. Earnings Management involves managerial actions that manipulate financial reports to either inflate or deflate current period earnings of a business unit without causing a commensurate increase (decrease) in the economic profitability of that unit in the long run [28]. The agency relationship that arises when a contract involves one party (principal) engaging another party (agent) to perform work on behalf of the principal [29]. Lin et al. (2023) identify three forms of agency contracts: between owners and management, between debtholders and management, and between government and management. Both the principal and the agent in agency contracts seek to maximize utility, leading to conflicts due to differing interests [30]. Tax avoidance is viewed as a risky investment opportunity for management [31]. Similar to other investment decisions, differences in risk preferences between managers and principals can influence the level of tax avoidance chosen.

The Influence of Institutional Ownership Moderation on Transfer Pricing, Leverage, Profitability, and Earnings Management towards Tax Avoidance

The discussion on the influence of Institutional Ownership moderation on Transfer Pricing, Leverage, Profitability, and Earnings Management on Tax Avoidance constitutes a vital exploration in the realm of corporate finance and taxation. This research delves into the intricate relationships between institutional ownership and key financial factors, namely transfer pricing, leverage, profitability, and earnings management, to unravel their combined impact on tax avoidance strategies employed by companies. The exploration of these relationships is rooted in prior research findings, such as those of Sari (2021), which have established the significance of factors like leverage and profitability in influencing tax avoidance [32]. The empirical evidence supporting this discussion is detailed in Table 5, which

[27] Amidu, Coffie, and Acquah; M Irawan, F., Kinanti, A., & Suhendra, 'The Impact of Transfer Pricing and Earning Management on Tax Avoidance', *Talent Development & Excellence*, 12.3s (2020), 3203–3216 <https://www.researchgate.net/profile/Ferry-Irawan-2/publication/344237805_The_Impact_of_Transfer_Pricing_and_Earning_Management_on_Tax_Avoidance/links/5f5f5e9392851c0789651673/The-Impact-of-Transfer-Pricing-and-Earning-Management-on-Tax-Avoidance.pdf>; Mauliddini Nadhifah and Abubakar Arif, 'Transfer Pricing, Thin Capitalization, Financial Distress, Earning Management, Dan Capital Intensity Terhadap Tax Avoidance Dimoderasi Oleh Sales Growth', *Jurnal Magister Akuntansi Trisakti*, 7.2 (2020), 145–70 <https://doi.org/10.25105/jmat.v7i2.7731>.

[28] Tânia Menezes Montenegro and Lúcia Lima Rodrigues, 'Determinants of the Attitudes of Portuguese Accounting Students and Professionals Towards Earnings Management', *Journal of Academic Ethics*, 18.3 (2020), 301–32 <https://doi.org/10.1007/s10805-020-09376-z>.

[29] David James Bryde, Christine Unterhitzenberger, and Roger Joby, 'Resolving Agency Issues in Client–Contractor Relationships to Deliver Project Success', *Production Planning and Control*, 30.13 (2019), 1049–63 <https://doi.org/10.1080/09537287.2018.1557757>.

[30] Steve Lin, Assma Sawani, and Changjiang Wang, 'Managerial Stock Ownership, Debt Covenants, and the Cost of Debt', *Pacific Basin Finance Journal*, 77.December 2022 (2023), 101917 <https://doi.org/10.1016/j.pacfin.2022.101917>.

[31] Armstrong and others.

[32] Diana Sari, 'The Effect of Leverage, Profitability and Company Size on Tax Avoidance (An Empirical Study on Mining Sector Companies Listed on Indonesia Stock Exchange Period 2013-2019)', *Turkish*

presents the pertinent data illustrating the relationships between institutional ownership, transfer pricing, leverage, profitability, and earnings management on tax avoidance.

Table 5. Multiple Regression Analysis (MRA) Results of Institutional Ownership Moderation on Transfer Pricing, Leverage, Profitability, and Earnings Management towards Tax Avoidance

Variable	Regression Coefficient	Standard Error	t-Statistic	Sig.
TP*IO	0,007732	0,000799	9,673079	0,0000
LV*IO	0,005178	0,000289	17,92417	0,0000
PR*IO	3,14E-05	4,34E-05	0,724234	0,4695
EM*IO	-79,02125	80,60395	-0,980364	0,3276

The results of the multiple linear regression analysis in the Moderated Regression Analysis (MRA) model reveal that the moderation of Transfer Pricing (TP) with Institutional Ownership (IO) and the moderation of Leverage (LV) with Institutional Ownership (IO) significantly influence Tax Avoidance (TA). This implies that an increase in the moderation of Transfer Pricing (TP) with Institutional Ownership (IO) and the moderation of Leverage (LV) with Institutional Ownership (IO) leads to a significant increase in Tax Avoidance (TA). Conversely, the moderation of Profitability (PR) with Institutional Ownership (IO) and the moderation of Earnings Management (ML) with Institutional Ownership (IO) do not have a significant impact on Tax Avoidance (TA). This suggests that an increase in the moderation of Profitability (PR) with Institutional Ownership (IO) and the moderation of Earnings Management (ML) with Institutional Ownership (IO) does not result in a significant increase in Tax Avoidance (TA). Furthermore, this indicates that institutional ownership strengthens the influence of transfer pricing and leverage on tax avoidance.

The findings align with previous research by Pudjiastuti et al., (2022, demonstrating a positive impact of the moderation of Transfer Pricing with Institutional Ownership and the moderation of Leverage with Institutional Ownership on Tax Avoidance [33]. However, the study by Sunarsih & Oktaviani (2016) indicates that institutional ownership does not affect tax avoidance, suggesting that institutional ownership, as a monitoring tool in managerial

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Journal of Computer and Mathematics Education (TURCOMAT), 12.4 (2021), 860–68 <https://doi.org/10.17762/turcomat.v12i4.574>.

[33] W Pudjiastuti and others, 'Earning Management Effect on Financial Statement Fraud, With Corporate Governance As a Moderating Variable', *International Journal …*, 6.3 (2022), 1495–1506 <https://www.jurnal.stie-aas.ac.id/index.php/IJEBAR/article/view/6433%0Ahttps://www.jurnal.stie-aas.ac.id/index.php/IJEBAR/article/download/6433/2670>.

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decision-making, may not optimally enhance supervision related to tax avoidance [34]. Similarly, the consistent results from the research by Tahar & Rachmawati (2020) imply that institutional ownership does not influence tax avoidance, highlighting its limited effectiveness as a monitoring tool for companies, failing to mitigate management conflicts of interest and reduce opportunities for tax avoidance [35].

Institutional ownership refers to stock ownership by the government, financial institutions, legal entities, foreign institutions, trust funds, and other institutions at the end of the year. Lim (2011) explains that larger shareholder activities than institutional owners will help enhance the tax avoidance effect for the benefit of shareholders [36]. Greater shareholder intervention than institutional shareholders aims to minimize the company's tax burden and increase their wealth. The presence of institutional ownership as an element of good corporate governance can prevent managers from engaging in aggressive tax management activities. In other words, the better the implementation of corporate governance, marked by institutional ownership, the less likely managers are to engage in tax avoidance activities [37].

CONCLUSION

Based on the results, this study concludes that Transfer Pricing has a significant positive impact on Tax Avoidance, suggesting that an increase in Transfer Pricing corresponds to a noteworthy rise in Tax Avoidance. Similarly, Leverage demonstrates a positive and significant influence on Tax Avoidance, indicating that an escalation in Leverage leads to a considerable increase in Tax Avoidance. Conversely, Profitability exhibits a significant negative impact on Tax Avoidance, implying that an increase in Profitability results in a noteworthy decrease in Tax Avoidance. Additionally, Management Earnings positively affect Tax Avoidance, though the increase is not considered significant. Institutional ownership is found to moderate the impacts of Transfer Pricing and Leverage on Tax Avoidance, reinforcing their respective influences. However, it does not moderate the effects of Profitability and Management Earnings on Tax Avoidance, signifying a weakening influence in these instances. The study recommends that companies focus on positive narratives and enhanced management practices to attract investors, leading to increased capital and improved control over Tax Avoidance, while tax authorities should consider Tax Avoidance as a basis for decision-making to reduce the potential for tax evasion.

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