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The Effect of Transfer Pricing and Tax Avoidance on Tax Aggressiveness

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Abstract
This study aims to empirically examine the effect of transfer pricing and tax avoidance on tax aggressiveness (Empirical Study of Manufacturing Companies Listed on the Indonesian Stock Exchange in 2011 – 2015). The object of this study were manufacturing companies listed on the Indonesia Stock Exchange in 2011 – 2015. The sample was selected using a purposive sampling method and a data sample of 80 companies' financial statements was obtained with a total of 16 companies and a 5 year observation. This study uses ETR (Effective Tax Rate) as a proxy for Tax Aggressiveness. The classical assumption test uses normality, multicollinearity, autocorrelation and heteroscedasticity tests. The hypothesis testing model used is multiple linear regression analysis. The results of this study indicate that Transfer Pricing has no significant effect on Tax Aggressivity, while Tax Avoidance has a significant effect on Tax Aggressiveness.
Keywords: Transfer Pricing, Tax Avoidance, Tax Aggressiveness

INTRODUCTION

The development of economic activity in the era of globalization can be called an opportunity as well as a challenge. On the one hand, globalization fosters international investment that can drive economic growth. But on the other hand, globalization creates global competition. Success in global competition is highly dependent on existing human resources. In terms of taxation, globalization creates its own problems. Among them are cross-border transactions that raise tax consequences that are not simple. This is because every country basically has sovereignty in taxing economic traffic, both for residents and non-residents in their country. As a result, cross-border transactions create conflicts of jurisdiction and taxation rights.

The phenomenon of globalization in the business world indirectly encourages the spread of conglomeration and division or departmentation of multinational companies. Globalization has had the impact of increasing transnational transactions or cross-border transactions. The flow of goods, services, capital and labor is also getting easier and smoother between countries. Not to mention the presence of the world trade organization which facilitates transnational trade. In the environment of multinational companies and conglomerates as well as divisionalization, various transactions occur between members (divisions) which include sales of goods and services, licenses of rights and other intangible assets, provision of loans and so on (Mangoting, 2000).

With this conglomerate business, we are familiar with various names of well-known corporate groups that have penetrated the business world nationally, regionally and internationally or commonly known as (multinational corporations).

Subsequently these companies formed a holding company to coordinate their business. In these companies, usually most of the business activity occurs among themselves. In determining the price, compensation, and so on between them, it is usually determined based on the transfer pricing policy determined by the holding company which may or may not be the same as the market price (Gunadi, 2009) in Lingga (2012).

Previously, this transfer pricing practice was only carried out by companies solely to assess the performance of members or divisions of the company, but along with the times, transfer pricing practices were also used to minimize the amount of tax that had to be paid (Mangoting, 2000). This transfer pricing has caused a lot of problems in various countries because in practice they use things that are very contrary to existing regulations.

Transfer pricing is a classic issue in the field of taxation, especially regarding international transactions carried out by multinational corporations. From the government side, transfer pricing is believed to result in a reduction or loss of a country's tax revenue potential because multinational companies tend to shift their tax obligations from countries that have high tax rates to countries that apply low tax rates countries. On the other hand, from the business side, companies tend to try to minimize costs, including minimizing corporate income tax payments. For multinational corporations, multinational corporations, transfer pricing is believed to be an effective strategy to win the competition in fighting over limited resources. In the midst of these two opposing views, this paper tries to elaborate further on the solution that the applicable Income Tax Law (UU No. 17/2000) is trying to offer on the issue of unfair transaction prices which have a significant effect on tax calculations, especially corporate income tax, namely: Advance Pricing Agreement. Advance Pricing Agreement is used as one of the efforts to handle transfer pricing engineering with the intention of aligning the Indonesian tax system with international taxation developments, as well as overcoming deadlocks due to the lack of access to external data and the ineffective exchange of information between countries, especially in carrying out tax audits in connection with transactions carried out by parties who have special relations with parties outside the country. The Advance Pricing Agreement mechanism authorizes the Directorate General of Taxes (DGT) to conclude a transfer price agreement Advance Pricing Agreement with the taxpayer concerned (unilateral) or with the related country (bilateral) (Santoso, 2004).

The booming growth and development of multinational corporations as a result of the internationalization of the economy, business and investment not only provides positive benefits for anticipating differences in resources and capabilities between countries in the world, but also creates new problems for fiscal authorities in their efforts securing state revenue from the tax sector. New problems in the field of taxation are in line with the process of globalization and the rapid development of multinational corporations, one of which is regarding the determination of the fairness level of transaction prices between domestic and foreign parties that have special relationships (related parties). The term transfer pricing has become very popular but its handling has not shown significant results in the structure of state revenues (Suharto, 2000: 34) in Santoso (2004).

In Article 18 paragraph (4) of the Income Tax Law it is stated that the special relationship referred to in paragraph (3) to paragraph (3d), Article 9 paragraph (1) letter f, and Article 10 paragraph (1) is deemed to exist if:

1. Taxpayers have direct or indirect capital participation of at least 25% (twenty five percent) in other Taxpayers; relationship between Taxpayers with participation of at least 25% (twenty five percent) in two or more Taxpayers; or the relationship between two Taxpayers or more last mentioned;
2. Taxpayers control other Taxpayers or two or more Taxpayers are under the same control either directly or indirectly; or
3. There is a family relationship either blood or marriage in a straight line and/or one degree sideways.

In the elucidation of Article 18 paragraph (4) of the Income Tax Law it is stated that a special relationship between Taxpayers can occur due to dependence or attachment to one another due to:

1. Ownership or equity participation; or
2. Existence of mastery through management or use of technology.

Apart from these things, special relationships between individual taxpayers can also occur because of blood relations or marriage. The use of the word "special relationship" in accounting is no longer used but uses the term "related" to refer to the English term that uses the word "related party". Related parties are broadly defined in PSAK 7. A company is said to have a special relationship with the reporting company if (paragraph 9):

1. The company, through one or more intermediaries, controls, or is controlled by, or is under a joint venture, with the reporting company (including holding companies, subsidiaries, sub-subdiaries, and fellow subsidiaries).
2. The company is an associated company (as defined in PSAK 15 Investments in Associated Companies);
3. The company is a joint venture company in which the reporting company becomes a venture (as defined in PSAK 12 Participation in Joint Ventures);
4. The company is an individual (and close family members of the individual) of a member of the key management of the reporting company or its parent company;
5. The company is a company that controls, joint ventures, or is significantly influenced by individuals (and close family members of such individuals) of key management members of the reporting company or its parent company; And
6. The company is a post-employment benefit plan for employee benefits from a reporting company or any company related to the reporting company. A special relationship with a party can have an impact on the financial position and results of operations of the reporting company.

Related parties may enter into transactions that would not be carried out by parties who are not related. Transactions between related parties may also be made at different prices from similar transactions between parties who are not related. For example, a subsidiary that normally sells its products to independent parties at normal selling prices, might be asked to sell its products to the parent company at cost prices only. However, it is possible for two related companies to have transactions that are not special. An example is a subsidiary that sells at normal selling prices to its parent. Given the impact of a special relationship with a party, PSAK 7 requires the disclosure of certain information from related parties (Juan and Wahyuni, 2012: 535) in Lingga (2012).

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Legitimacy Theory

Legitimacy theory explains the social contract of the organization with the community, the survival of the company will be threatened if the community feels that the organization has violated its social contract. Legitimacy is a psychological state of alignment with people and groups of people who are very sensitive to the symptoms of the surrounding environment, both physical and non-physical.

According to O'Donovan (Hadi, 2011: 87) in Kuriah and Asyik (2016) argues that organizational legitimacy can be seen as something that society gives to companies and something that companies want or seek from society. Meanwhile, according to Hidayati and Murni (2009) in Kuriah and Fun (2016) stated that in order to maintain its survival, companies strive for a kind of legitimacy or recognition from both investors, creditors, consumers, the government and the surrounding community. Legitimacy theory states that companies will have greater responsibility than small companies Cheers (Yoehana, 2013) in Kuriah and Asyik (2016).

Stakeholder Theory

Stakeholder theory states that companies have a social responsibility that requires them to consider the interests of all parties affected by their actions. This theory emphasizes considering the interests, needs and influence of parties related to company policies and operations, especially in making company decisions. Companies need to maintain the legitimacy of

stakeholders and position them in the policy and decision-making framework, so that they can support the achievement of company goals, namely Adam's going concern business and guarantee (Hadi, 2011: 95) in Kuriah and Asyik (2016). The government as a regulator, is one of the company's stakeholders. Therefore companies must pay attention to the interests of the government. One of them is by following all the regulations made by the government, obedience in paying taxes, and not doing tax evasion. According to Landolf (Oktaviana, 2014) in Kuriah and Fun (2016) tax avoidance is socially irresponsible. This is not in accordance with the stakeholder theory which states that companies always seek support from their stakeholders.

Hypothesis Development

According to Sugiyono (2011: 64) the hypothesis is a temporary answer to the research problem formulation, where the research problem formulation has been stated in the form of a question sentence.

The initial hypothesis is that there is an effect of transfer pricing and tax avoidance on tax aggressiveness. The hypothesis made is a temporary answer to the problem under study, the truth of which still has to be tested to see how much the level of influence before and after the practice of transfer pricing and tax avoidance has on tax aggressiveness.

Transfer pricing practices are often used by companies to minimize the amount of tax that must be paid (Mangoting, 2000: 80). In transfer pricing, multinational companies tend to shift their tax obligations from countries that have high tax rates (high tax countries) to countries that apply low tax rates (low tax countries) by reducing the selling price between companies within one group. However, due to the unavailability of tools, experts and standard regulations, transfer pricing audits are often remitted by taxpayers in tax courts so that of course multinational companies will use them to reduce the tax burden (Julaikah, 2014). Research conducted by Yuniasih, Rasmini and Wirakusuma (2011) shows that taxes have a positive effect on transfer pricing decisions. **H1: there is an effect of transfer pricing on tax aggressiveness**

In making legal tax savings can be done through tax management. Minimizing tax obligations can be done in various ways, both those that still comply with tax regulations and those that violate tax regulations. The terms often used are tax evasion and tax avoidance. Research conducted by Ngadiman and Puspitasari (2014) from the results of testing for institutional ownership variables, it can be concluded that institutional ownership has a positive and significant influence on tax avoidance. The results of this study support the results of research conducted by Pranata, Puspa, and Herawati (2013) in Ngadiman and Puspitasari (2014) which state that institutional ownership variables have a significant effect on tax avoidance. The higher the institutional ownership, the higher the amount of tax burden that must be paid by the company. This is due to the smaller the possibility of tax avoidance practices carried out by companies. **H2: There is an effect of tax avoidance on tax aggressiveness**

The payment of corporate taxes should have implications for society and society because it performs an important function in helping to fund the provision of public goods in society, including such things as education, national defense, public health, public transportation, and law enforcement (Friese, et al, 2008 in Lanis and Richardson, 2012). Hlaing (2012) describes tax aggressiveness as the tax planning activity of all companies involved in efforts to reduce effective tax rates. There is no universally accepted definition or measure of tax aggressiveness (Balakrishnan, et. Al., 2011) and (Hanlon and Heizman, 2010) in Ying (2011). However, according to Slemrod (2004) in Balakrishnan, et. al. (2011) argue that tax aggressiveness is a more specific activity, which includes transactions whose main purpose is to reduce corporate tax obligations. Balakrishnan, et. al. (2011) stated that companies that are aggressive towards taxes are characterized by lower transparency. Empirically, the results of this study illustrate that ownership structure, especially concentrated ownership in families, has a positive effect on aggressive tax avoidance in Indonesia, which means that family ownership encourages companies in Indonesia to carry out aggressive tax avoidance. **H3: There is an effect of transfer pricing and tax avoidance on tax aggressiveness.**

METHODS

In this study the authors determine the technique of data collection. The data collection technique used in this study was a literature study conducted to obtain a strong foundation and concept in order to solve the problem. The author conducted a literature study by collecting the necessary data from literature, print media, and others related to the thesis topic.

According to Sugiyono (2011) library research is a data source that directly provides data to data collectors by studying and quoting in scientific writings to complement the existing theoretical basis. This method is intended to obtain secondary data through text books, scientific journals, articles, and other data sources related to the issues discussed in order to obtain a theoretical basis that can be used as a basic guideline for use in analysis.

According to Sugiyono (2011: 80) population is a generalization area consisting of: objects/subjects that have certain qualities and characteristics determined by researchers to be studied and then drawn conclusions. As for the population in this study are all financial statements of manufacturing companies listed on the IDX as many as 143 companies.

According to Sugiyono (2011: 81) the sample is part of the number and characteristics possessed by the population. The purpose of determining the sample is to obtain information about the object of research by processing data from a portion of the population. The sample used is the annual report of a manufacturing company listed on the Indonesia Stock Exchange. Determination of the sample in this study using the purposive sampling method. The sample used in this study was 80 samples of annual report data, with 16 samples of companies according to the sample criteria for a 5 year period, namely 2011 – 2015.

RESULT AND DISCUSSION

Table 1. Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Transfer Pricing	80	,03	,40	,2000	,07259
Tax Avoidance	80	-,27	,10	,0185	,05578
Tax Aggressiveness	80	,06	,45	,2235	,06556
Valid N (listwise)	80				

Source: Processed secondary data

Normality test

The normal P-P plot, it can be concluded that on the normal plot graph, the dots spread around the diagonal line, and the distribution follows the diagonal line. This graph shows that the regression model does not violate the assumption of normality.

Multicollinearity Test

The multicollinearity test is used to determine whether the regression model has a correlation between the independent variables. To detect whether there is multicollinearity in the regression, it can be seen from the tolerance value and the Variance Inflation Factor (VIF) value. Values that indicate the presence of multicollinearity are tolerance values <0.10 or VIF> 10 (Ghozali, 2012: 103).

Table 2. Multicollinearity Test Results

Model		Collinearity Statistics Tolerance	VIF
1	(Constant)		
	Transfer Pricing	,970	1,031
	Tax Avoidance	,970	1,031

Source: Data processed using SPSS version 22

Simple Linear Regression Test

To find out the relationship between variables, two independent variables and one dependent variable, in this study the authors used transfer pricing variables (X1), tax avoidance (X2) on tax aggressiveness (Y).

Tabel 3. Simple Linear Regression Test Results

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1 (Constant)	,126	,018		6,879	,000
Transfer Pricing	,489	,086	,541	5,680	,000

Source: Data processed using SPSS version 22

Tabel 4. Simple Linear Regression Test Results

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1 (Constant)	,219	,008		28,773	,000
Tax Avoidance	,238	,130	,203	1,827	,072

Source: Data processed using SPSS version 22

Correlation Coefficient (R)

The correlation coefficient is a value to measure the strength of the relationship between variables. To determine Transfer Pricing and Tax Avoidance on Tax Aggressiveness, multiple correlation coefficients can be used. Multiple correlation coefficients are represented by the symbol "r" and the magnitude of r can be expressed in the interval $-1<r<1$. Based on the results of data processing using SPSS 22.0 for Windows. The following calculation results are obtained:

Table 5. Correlation Coefficient

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,552[a]	,305	,287	,05537

Coefficient of Determination (Adj R2)

The coefficient of determination is used to see how much influence the independent variable has on the dependent variable partially.

Based on table 8 above, it shows that the R square value is 0.305 and the Adjusted R Square value is 0.287. The R Square value is 0.305 which means that the model's ability to explain variations in the dependent variable is 30.5%. While the remaining 69.5% is explained by other variables not included in the model.

Adjusted R Square value of 0.287 indicates that the effect of transfer pricing and tax avoidance on tax aggressiveness is 28.7% while 71.3% is explained by other variables.

Simultaneous Test (Test F)

This test is used to determine the effect of all the independent variables contained in the model together on the dependent variable.

Table 6. Simultaneous Test Results (Test F)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	,103	2	,052	16,878	,000[b]
	Residual	,236	77	,003		
	Total	,340	79			

a. Dependent Variable: Tax Aggressiveness
b. Predictors: (Constant), Tax Avoidance, Transfer Pricing

Source: data processed using SPSS version 22

Partial Test (T Test)

The t test is used to test the hypothesis partially in order to show the effect of each independent variable individually on the dependent variable. The t test is a test of the regression coefficient of each independent variable on the dependent variable to find out how much influence the independent variables have on the dependent variable. The following is the result of a partial test with a significance level of 0.05

Table 7. Partial Test Results (t test)

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1 (Constant)	,126	,018		6,879	,000
Transfer Pricing	,489	,086	,541	5,680	,000
Tax Avoidance	,238	,130	,203	1,827	,072

CONCLUSIONS

Effect of Transfer Pricing on Tax Aggressiveness

Based on the results of the t test in table 10, transfer pricing has a significance value of 0.000 <0.05 and a t value of 5.680 so it can be concluded that transfer pricing has a significant positive effect on tax aggressiveness, which means that H1 is accepted, so it can be concluded that transfer pricing has a significant positive effect against tax aggressiveness.

The results of the research are in accordance with research conducted by Nancy Kiswanto and Anna Purwaningsih, 2014. This study shows that taxes and foreign ownership have a positive effect on transfer pricing and company size has a negative effect on transfer pricing. This means that the existence of a transfer pricing practice can affect tax aggressiveness.

Effect of Tax Avoidance on Tax Aggressiveness

Based on the results of the t test in table 11, tax avoidance has a significance value of 0.072 > 0.05 and a t value of 1.827 so it can be concluded that tax avoidance has no significant effect on tax aggressiveness, which means that H2 is rejected, so it can be concluded that tax avoidance has no significant effect against tax aggressiveness.

The results of this study are not in accordance with the research conducted by Ngadiman and Christiany Puspitasari, 2014. This study shows that the variables of institutional ownership and company size have a significant effect on tax avoidance. This means that the existence of a tax avoidance practice cannot affect tax aggressiveness.

Effect of Transfer Pricing and Tax Avoidance on Tax Aggressiveness

Based on the results of the F test in table 9, tax aggressiveness has a significance value of 0.000 <0.05 so it can be concluded that tax aggressiveness has a significant effect on transfer pricing and tax avoidance, which means that H3 is accepted, namely that tax aggressiveness has a significant effect on transfer pricing and tax avoidance.

The results of the study are in accordance with the research conducted by Rusydi and Martani, 2014. This study illustrates that ownership structure, especially family-concentrated ownership has a positive effect on aggressive tax avoidance in Indonesia, which means that family ownership encourages companies in Indonesia not to carry out aggressive tax avoidance.

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