



The implementation of transfer pricing practices and foreign ownership in tax avoidance strategies

Angela Dirman, Siska Widia Utami, Putri Dwi Wahyuni, Yovita Isnasari, Andi Budiansyah
Universitas Mercu Buana, Indonesia

Authors' email:

angela.dirman@mercubuana.ac.id*

*)Corresponding Author

Abstract

The low tax ratio remains a problem facing Indonesia. The implementation of the self-assessment system creates opportunities for taxpayers and companies to engage in tax avoidance. One frequently debated mechanism is transfer pricing, which allows companies to allocate profits between affiliated entities located in countries with different tax rates without violating tax regulations. This study aims to analyze the influence of transfer pricing and foreign ownership on tax avoidance practices in energy sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. This study used a quantitative approach with a purposive sampling technique, selecting energy sector companies that did not conduct an initial public offering, reported positive profits, and disclosed related party receivables during the observation period. The results show that transfer pricing and foreign ownership have a positive and significant effect on tax avoidance. This finding indicates that intercompany transactions are used to reduce tax burdens. Furthermore, there is a greater tendency for profit shifting to occur through affiliated companies. These findings enrich the literature on corporate tax behavior and offer implications for policymakers seeking to strengthen tax oversight.

Article Info:

Article history:

Received: 2025-10-25

Accepted: 2025-12-21

Published: 2025-12-29

Keywords: Foreign Ownership, Tax Avoidance, Transfer Pricing

Abstrak

Rendahnya tax rasio masih menjadi permasalahan yang dihadapi Indonesia. Penerapan sistem self-assessment memberikan peluang bagi wajib pajak dan perusahaan untuk melakukan strategi penghindaran pajak. Salah satu mekanisme yang sering diperdebatkan adalah transfer pricing, yang memungkinkan perusahaan mengalokasikan laba antar entitas afiliasi yang berada di negara dengan tarif pajak berbeda tanpa melanggar ketentuan perpajakan. Penelitian ini bertujuan untuk menganalisis pengaruh transfer pricing dan kepemilikan asing terhadap praktik penghindaran pajak pada perusahaan sektor energi yang terdaftar di Bursa Efek Indonesia selama periode 2020–2024. Penelitian ini menggunakan pendekatan kuantitatif dengan teknik purposive sampling, dengan sampel berupa perusahaan sektor energi yang tidak melakukan penawaran umum perdana, memperoleh laba positif, serta mengungkapkan piutang pihak berelasi selama periode pengamatan. Hasil penelitian menunjukkan bahwa transfer pricing dan kepemilikan asing berpengaruh positif dan signifikan terhadap penghindaran pajak. Temuan ini mengindikasikan bahwa transaksi antar perusahaan dimanfaatkan untuk menekan beban pajak. Selain itu, terdapat kecenderungan lebih besar bahwa praktik pengalihan laba dilakukan melalui perusahaan afiliasi. Temuan ini memperkaya literatur mengenai perilaku perpajakan perusahaan serta memberikan implikasi bagi pembuat kebijakan dalam memperkuat pengawasan perpajakan.

How to cite item (APA Style) :

Dirman, A., Utamni, S, W, Wahyuni, P, D., Isnasari, Y., & Budiansyah, A. (2025). The implementation of transfer pricing practices and foreign ownership in tax avoidance strategies. *Keberlanjutan: Jurnal Manajemen dan Jurnal Akuntansi*, 10 (2), 14-23. doi: <http://dx.doi.org/10.32493/keberlanjutan.v10i1.y2025.p14-23>

Introduction

National development in Indonesia remains highly dependent on the availability of adequate funding sources. In this context, tax revenue plays a strategic role as the backbone of state financing, particularly in supporting the sustainability of development programs in various sectors that directly impact national economic growth. The substantial contribution of taxes to the State Budget demonstrates that a country's development success is primarily determined by the government's ability to optimize tax revenue (Kalbuana et al., 2021). Taxes collected from the public are then allocated to finance public needs, such as education, health, and various other development programs. Therefore, taxes serve not only as a source of state revenue but also as an instrument for equity and economic stabilization.

As a manifestation of public participation in supporting development, the Indonesian government has implemented a self-assessment tax collection system. This system empowers taxpayers to calculate, pay, and report their own tax obligations in accordance with applicable regulations (Luthfi, 2019). This system is designed to increase taxpayer awareness and compliance. However, in practice, implementing the self-assessment system also presents its own challenges. The trust placed in taxpayers is often exploited to implement tax avoidance strategies, leading to the failure to meet government-set tax revenue targets (Suhaidar et al., 2022).

Tax avoidance is essentially an attempt by taxpayers to minimize their tax burden by exploiting loopholes in existing tax regulations without explicitly violating legal provisions (Nadhifah & Arif, 2020). This practice involves structuring business activities and corporate transactions to lower tax liabilities. Despite its legality, tax avoidance remains a serious concern because it can reduce state revenue and undermine fiscal fairness. In the context of an increasingly integrated global economy, tax avoidance practices are becoming more complex as the number and activity of multinational corporations grow.

One mechanism frequently associated with tax avoidance is transfer pricing. Pricing in transactions between entities within a single business group allows companies to allocate profits to countries with lower tax rates. This situation erodes the tax base, particularly in developing countries like Indonesia (OECD, 2022). Companies often use transfer pricing to increase after-tax profits by placing subsidiaries in low-tax jurisdictions (Nugraha & Kristanto, 2019). Several studies have shown that transfer pricing practices positively affect tax avoidance (Putri & Mulyani, 2020; Muhajirin et al., 2021; Sadeva et al., 2020). However, other research findings show different results, either showing a negative or insignificant effect on tax avoidance (Susanto & Veronica, 2022; Hasyim et al., 2022; Wardana & Asalam, 2022; Napitupulu et al., 2020).

In addition to transfer pricing, economic globalization has driven an increase in foreign direct investment. For developing countries, the presence of foreign investors offers various benefits, such as technology transfer, improved human resource quality, and enhanced corporate managerial capabilities. However, the concentrated ownership structure of companies in Asia often gives controlling shareholders, including foreign shareholders, a powerful position. High foreign ownership creates opportunities for profit shifting through affiliated transactions, which can ultimately encourage tax avoidance. Previous research has shown mixed results regarding the effect of foreign ownership on tax avoidance, with findings ranging from positive (Muhajirin et al., 2021) to negative (Akbar et al., 2021; Maisaroh & Setiawan, 2021) to no effect (Hidayat & Mulda, 2019).

The differences in previous research findings indicate a research gap that requires further exploration. Therefore, this study seeks to integrate transfer pricing and foreign ownership as factors influencing tax avoidance. With this approach, it is hoped that this research will provide a

more comprehensive understanding of the determinants of tax avoidance and serve as a reference for the government in formulating more effective tax policies.

Literature Review

Transfer pricing is a strategy used by companies, particularly multinational corporations, to maximize profits by setting prices for transactions between related parties (Nugraha & Kristanto, 2019). Companies with subsidiaries in high-tax countries tend to bear a higher tax burden, resulting in lower net profits. Conversely, if subsidiaries are located in countries with lower tax rates, the tax burden is also lower. This situation encourages multinational corporations to use transfer pricing practices to minimize their tax liabilities.

The higher the applicable tax rate in a country, the greater the incentive for companies to engage in tax avoidance. This occurs because taxes are viewed as a burden that directly reduces a company's net profit. From an agency theory perspective, there is a divergence of interests between management and the government: management seeks to maximize company profits, while the government aims to optimize tax revenue (Pratomo & Triswidyaria, 2021). Transfer pricing, as a pricing policy in affiliated transactions, is often exploited to shift profits to entities located in jurisdictions with lower tax rates, thereby reducing tax liabilities in high-tax countries (OECD, 2022).

This practice occurs through intercompany transactions that do not always reflect fair value, potentially resulting in losses for the state (Alfarizi et al., 2021). Empirical findings indicate that transfer pricing has a positive effect on tax avoidance (Putri & Mulyani, 2020; Muhajirin et al., 2021; Sadeva et al., 2020). Based on this description, the hypothesis proposed in this study is:

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

Law Number 25 of 2007 defines foreign capital as capital owned by foreign parties, including individuals, foreign business entities, or Indonesian legal entities whose capital is partially or wholly owned by foreign parties. Foreign ownership at a certain threshold exerts significant influence over company control, enabling foreign shareholders to play a strategic role in managerial decision-making. In this ownership structure, foreign controlling shareholders can influence company policies to align with their interests.

Foreign investors investing in Indonesia generally also own ownership in other companies abroad. This situation opens up opportunities for transactions between affiliated companies, including through transfer pricing mechanisms. Management can exploit this opportunity to engage in tax avoidance practices by shifting profits to entities located in countries with lower tax rates. Therefore, the greater the proportion of foreign ownership, the greater the company's potential for tax avoidance.

Previous research has shown that foreign ownership is positively associated with tax avoidance, suggesting that companies with foreign shareholders tend to have greater flexibility in managing their tax strategies (Muhajirin et al., 2021; Maisaroh & Setiawan, 2021). Based on the theoretical arguments and empirical findings, the hypothesis formulated in this study is:

H2: Foreign ownership has a positive effect on tax avoidance.

Method

This study uses a quantitative, explanatory research design. This approach was chosen because the study aims to explain the causal relationships between variables by testing previously

formulated hypotheses. Research data were collected from the population, then processed and analyzed statistically to determine the extent of the independent variables' influence on the dependent variable.

The dependent variable in this study is tax avoidance. Tax avoidance is measured using the Effective Tax Rate (ETR), which reflects the proportion of a company's tax burden borne relative to its pre-tax profit. A high ETR indicates that the company is relatively less aggressive in exploiting tax loopholes or incentives, leading to higher tax payments. Conversely, a low ETR value indicates more intensive tax planning and may reflect higher tax avoidance. The ETR measurement in this study refers to Alianda et al. (2021), with the following formula:

$$ETR = \frac{\text{Tax Expenses}}{\text{Profit before tax}}$$

Furthermore, the independent variables in this study consist of transfer pricing and foreign ownership. Transfer pricing is the pricing mechanism for transactions between related parties that may not reflect fair market prices. In practice, multinational companies can exploit loopholes in tax regulations to shift profits to other entities within the same business group located in countries with lower tax rates, thereby reducing the company's total tax burden. The transfer pricing measurement in this study refers to Hasyim et al. (2022), using the ratio of related party receivables to total receivables, which is formulated as follows:

$$\text{Transfer Pricing (TP)} = \frac{\text{Related Party Receivable}}{\text{Total Receivable}}$$

Meanwhile, foreign ownership is defined as the proportion of a company's shares held by foreign parties, including individuals, foreign business entities, or Indonesian legal entities whose capital is partially or entirely sourced from abroad. High foreign ownership significantly affects corporate control and may influence strategic policies, including taxation policy. Foreign ownership is measured using the following formula:

$$\text{Foreign Ownership} = \frac{\text{Foreign ownership shares}}{\text{Total shares}}$$

The population in this study was all energy sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period, totaling 86 companies. The sampling technique used was purposive sampling, which selects participants based on specific criteria to ensure the sample aligns with the research objectives and provides representative results. The sample selection criteria in this study included: energy sector companies listed on the Indonesia Stock Exchange during the observation period; companies that did not conduct an initial public offering (IPO) during the study period; companies that earned a profit; and companies that disclosed related party receivables in their financial statements.

Table 1. Sampling Criteria

No	Criteria	Total
1	Energy sector companies listed on the IDX for the 2020–2024 period	86
2	Energy sector companies are conducting an IPO	-22
3	Energy sector companies are experiencing losses	-39
4	Energy sector companies that do not list related party receivables	-5
Total Samples		20
Time Period		5 year

Based on these criteria, 20 companies were selected as research samples, yielding a total of 100 observations during the 2020–2024 period.

Table 2. Sample Companies

No	Code	Name
1	ADRO	Adaro Energy Indonesia Tbk.
2	AKRA	AKR Corporindo Tbk.
3	BIPI	Astrindo Nusantara Infrastruktur Tbk.
4	BSSR	Baramulti Suksessarana Tbk.
5	BYAN	Bayan Resources Tbk.
6	ELSA	Elnusa Tbk.
7	ENRG	Energi Mega Persada Tbk.
8	GEMS	Golden Energy Mines Tbk.
9	HRUM	Harum Energy Tbk.
10	ITMG	Indo Tambangraya Megah Tbk.
11	MBAP	Mitrabara Adiperdana Tbk.
12	MYOH	Samindo Resources Tbk.
13	PTBA	Bukit Asam Tbk.
14	PTRO	Petrosea Tbk.
15	RAJA	Rukun Raharja Tbk.
16	SHIP	Sillo Maritime Perdana Tbk.
17	SOCI	Soechi Lines Tbk.
18	TCPI	Transcoal Pacific Tbk.
19	TOBA	TBS Energi Utama Tbk.
20	TPMA	Trans Power Marine Tbk.

This study uses the panel data regression method to test the following equation:

$$ETR_{it} = \alpha + \beta_1 TP_{it} + \beta_2 FOREIGN_{it} + e_{it}$$

where ETR is a proxy for tax avoidance, TP stands for transfer pricing, and FOREIGN is foreign ownership. In panel data regression, we will choose one of three estimators: ordinary least squares (OLS), fixed effects (FE), and random effects (RE). We use the Chow, Hausman, and Breusch-Pagan tests to decide the best estimator.

Results

The results of the descriptive statistical analysis for all our research variables are:

Table 3. Descriptive Statistics

Variable	Obs	Mean	Std. dev.	Min	Max
etr	100	0.230	0.128	0.003	0.750
tp	100	0.207	0.424	0.000	2.550
foreign	100	0.260	0.279	0.000	0.989

Table 3 shows that the transfer pricing variable has an average of 0.207 and a higher standard deviation, indicating relatively large data variation and differences in the intensity of related-party transactions across energy sector companies. The

foreign ownership variable has an average value of 0.260 with a lower standard deviation, indicating that the proportion of foreign ownership tends to be homogeneous. Meanwhile, the tax avoidance variable, proxied by the Effective Tax Rate (ETR), has an average of 0.230 and a relatively homogeneous distribution, indicating tax payments that remain within a reasonable range during the 2020–2024 period.

Table 4. Estimation Results

	OLS	FE	RE
Constant	0.182*** (0.019)	0.199*** (0.027)	0.189*** (0.027)
TP	0.124*** (0.029)	0.102** (0.046)	0.113*** (0.033)
Foreign	0.087** (0.044)	0.041 (0.092)	0.071* (0.042)
R ²	0.171	-	-
Adj R ²	0.154	-	-
Root MSE	0.118	-	-
Within R ²	-	0.063	0.063
Between R ²	-	0.249	0.263
Overall R ²	-	0.164	0.171
F (Prob)	10.01 (0.001)	2.64 (0.078)	-
Wald Chi ² (Prob)	-	-	11.22 (0.003)
sigma_u	-	0.085	0.078
sigma_e	-	0.094	0.094
rho	-	0.452	0.408
Chow (Prob)	4.01 (0.000)	-	-
Hausman (Prob)	-	0.361 (0.836)	-
Breusch Pagan (Prob)	-	-	26.41 (0.000)
JT u (Prob)	19.33 (0.001)	-	18.84 (0.001)
JT e (Prob)	5.35 (0.069)	-	3.42 (0.181)
BP/CW (Prob)	0.021 (0.895)	-	3.19 (0.063)
M Wald (Prob)	-	46,634 (0.000)	-
Wooldridge (Prob)	10.383 (0.004)	10.383 (0.004)	10.383 (0.004)
Obs	100	100	100

Notes: *significant at $\alpha=0.10$, **at $\alpha=0.05$, and *** at $\alpha=0.01$. Robust standard errors are in parentheses

Based on the results of the Chow, Hausman, and Breusch-Pagan tests, the best estimator for this research data is the random-effects estimator. Several statistical assumptions in the RE were met, including heteroscedasticity with the BP/CW test (Breusch-Pagan/Cook-Weisberg) and normality with the skewness and kurtosis joint tests (JT u and JT e). However, the Wooldridge test indicated serial correlation, so we addressed it by using robust standard errors. Table 4 shows that transfer pricing and foreign ownership have a positive effect on ET. Nevertheless, the impact of foreign ownership is relatively low.

The impact of transfer pricing on ETR suggests that the higher a company's transfer pricing transactions, the lower its tax avoidance tends to be. It is because the higher the ETR, the more compliant the company tends to be in disclosing and paying taxes. Transfer pricing in this study focuses on receivables transactions with related parties conducted at prices below fair market value for the delivery of goods or services. By offering the lowest possible price, profits are generated, resulting in a lower tax burden than at the regular price. It supports agency theory, as Jensen and

Meckling (1976) argue that company managers will strive to maximize profits to receive compensation and incentives for their performance in running the company, without considering the risks involved. The results of this study align with those of Putri & Mulyani (2020), Muhajirin et al. (2021), and Sadeva et al. (2020), which state that transfer pricing has a positive effect on tax avoidance.

The results of the hypothesis test indicate that Foreign Ownership has a positive effect on Tax Avoidance. This suggests that the greater the portion of foreign ownership, the more likely a company is to engage in tax avoidance. Dominant foreign shareholders in a company will influence management in determining policies that benefit them, such as tax policies, which require the company to pay taxes in accordance with applicable regulations. This research aligns with agency theory, which suggests an agency problem, namely the difference in desires between the principal and the agent, when one party (the principal) employs another party (the agent) to perform a task by granting that other party authority.

The larger the stake held by foreign parties in a company, the greater the investor's voice in determining company policy. Investors invest their funds in the selected company, hoping it will deliver a rate of return that meets their expectations. Therefore, if a company has a high level of foreign shareholding, foreign parties will be more likely to determine company policies aimed at minimizing tax liabilities. This research aligns with that of Muhajirin et al. (2021) and Maisaroh and Setiawan (2021), which show that foreign ownership has a positive effect on tax avoidance.

Conculsion

This study aims to analyze the influence of transfer pricing and foreign ownership on tax avoidance in energy sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. Based on empirical testing using multiple linear regression, both independent variables have a positive and significant influence on tax avoidance. These findings indicate that the higher the intensity of related party transactions, which reflect transfer pricing practices, the greater the tendency for companies to engage in tax avoidance through more aggressive tax expense management.

Furthermore, foreign ownership has been shown to encourage tax avoidance practices. A high proportion of shares owned by foreign parties significantly influences a company's strategic decision-making, including tax policy. Foreign investors with cross-border affiliate networks open up opportunities for profit shifting to jurisdictions with lower tax rates. These research findings reinforce agency theory, which explains the divergence of interests between management and the government in the context of profit optimization and tax revenue maximization. In practice, these findings have important implications for tax authorities, who should strengthen oversight of affiliated transactions and corporate ownership structures, particularly in the energy sector, which is characterized by high transaction complexity. Thus, this research is expected to be a reference for formulating more effective and equitable tax policies.

References

- Akbar, M., Chandra, T., & Priyati, R. Y. (2021). Pengaruh kepemilikan saham asing, kualitas informasi internal, publisitas CEO, ROA, leverage, dan ukuran perusahaan terhadap penghindaran pajak. *Jurnal Manajemen dan Keuangan*, 10(2), 156–170.
- Alfarizi, R. I., Sari, R. H., & Ajengtyas, A. (2021). Pengaruh profitabilitas, transfer pricing, dan manajemen laba terhadap tax avoidance. *Korelasi: Konferensi Riset Nasional Ekonomi dan Akuntansi*, 2(1), 898–917.

- Alianda, I., Andreas, A., Nasrizal, N., & Al, L. A. (2021). Pengaruh kepemilikan asing, foreign operation, dan manajemen laba riil terhadap penghindaran pajak. *Journal of Taxation Tax Center UIN Sultan Syarif Kasim Riau*, 2(1), 94–115.
- Cahyo, M. K., & Napisah, N. (2023). Pengaruh intensitas modal, pertumbuhan penjualan, ukuran perusahaan, dan corporate governance terhadap penghindaran pajak. *Jurnal Akuntansi*, 4, 1–15.
- Ghozali, I. (2018). *Aplikasi analisis multivariate dengan program IBM SPSS 25*. Badan Penerbit Universitas Diponegoro.
- Hasyim, A. A. Al, Inayati, N. I., Kusbandiyah, A., & Pandansari, T. (2022). Pengaruh transfer pricing, kepemilikan asing, serta intensitas modal pada penghindaran pajak. *Jurnal Akuntansi dan Pajak*, 23(2), 1–12.
- Hidayat, M., & Mulda, R. (2019). Pengaruh book tax gap dan kepemilikan asing terhadap penghindaran pajak dan analisis kebijakan pemerintah terkait penghindaran pajak. *Jurnal Dimensi*, 8(3), 404–418.
- Kalbuana, N., et al. (2021). Pengaruh ukuran perusahaan, leverage dan nilai perusahaan terhadap tax avoidance kasus perusahaan yang terdaftar di Jakarta Islamic Index (JII). *Jurnal Ilmu Manajemen dan Akuntansi Terapan*, 12(2), 190–202.
- Luthfi, C. (2019). *Eksistensi konsultan pajak dalam pelaksanaan self assessment system*.
- Maisaroh, S., & Setiawan, D. (2021). Kepemilikan saham asing, dewan komisaris asing dan direksi asing terhadap penghindaran pajak di Indonesia. *Jurnal Akuntansi dan Bisnis*, 21(1), 29–40.
- Muhajirin, M. Y., Junaid, A., Arif, M., & Pramukti, A. (2021). Pengaruh transfer pricing dan kepemilikan asing terhadap tax avoidance pada perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia. *Center of Economic Students Journal*, 4(2), 1–19.
- Nadhifah, M., & Arif, A. (2020). Transfer pricing, thin capitalization, financial distress, earning management, dan capital intensity terhadap tax avoidance dimoderasi oleh sales growth. *E-Journal Magister Akuntansi Trisakti*, 7(2), 1–15.
- Napitupulu, I. H., Situngkir, A., & Arfanni, C. (2020). Pengaruh transfer pricing dan profitabilitas terhadap tax avoidance. *Kajian Akuntansi*, 21(2), 126–141.
- Nugraha, R., & Kristanto, A. B. (2019). Faktor-faktor yang mempengaruhi pemanfaatan tax haven. *Jurnal Ilmiah Akuntansi dan Humanika*, 9(2), 160–171.
- OECD. (2022). *OECD transfer pricing guidelines for multinational enterprises and tax administrations*. OECD Publishing.
- Pratomo, D., & Triswidyaria, H. (2021). Pengaruh transfer pricing dan karakter eksekutif terhadap tax avoidance. *Jurnal Akuntansi Aktual*, 8(1), 39–50.
- Putri, K. D., & Nurhayati, N. (2022). Pengaruh transfer pricing dan tingkat leverage terhadap tax avoidance. *Bandung Conference Series: Accountancy*, 2(1), 1–10.
- Putri, N., & Mulyani, S. D. (2020). Pengaruh transfer pricing dan kepemilikan asing terhadap praktik penghindaran pajak (tax avoidance) dengan pengungkapan corporate social responsibility (CSR) sebagai variabel moderasi. *Prosiding Seminar Nasional PAKAR*, 2, 1–10.

- Sadeva, B. S., Suharno, S., & Sunarti, S. (2020). Pengaruh kepemilikan institusional, ukuran perusahaan, leverage dan transfer pricing terhadap tax avoidance. *Akuntansi dan Sistem Teknologi Informasi*, 16(1), 1–12.
- Sugiyono. (2019). *Metode penelitian kuantitatif, kualitatif, dan R&D*. Alfabeta.
- Suhaidar, S., Erwandy, E., Ridwan, M. Q., & Sitorus, B. (2022). Pengaruh financial distress, likuiditas, dan sales growth terhadap penghindaran pajak pada perusahaan property dan real estate. *Call for Paper Conference on Economics and Business Innovation*, (35).
- Susanto, A., & Veronica, V. (2022). Pengaruh corporate social responsibility dan karakteristik perusahaan terhadap praktik penghindaran pajak perusahaan yang terdaftar di Bursa Efek Indonesia. *Owner: Riset dan Jurnal Akuntansi*, 6(1), 541–553.
- Wardana, P. G., & Asalam, A. G. (2022). Pengaruh transfer pricing, kepemilikan institusional dan kompensasi rugi fiskal terhadap tax avoidance. *EKOMBIS Review: Jurnal Ilmiah Ekonomi dan Bisnis*, 10(1), 56–66