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The Impact of Transfer Pricing, Capital Intensity, Thin Capitalization on Tax Avoidance with Sales Growth as Moderating Variabel in Pharmaceutical and Health Companies Listed on Indonesia Stock Exchange 2017-2022

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Abstract

In Indonesia, current tax regulations aim to address these practices through rules like transfer pricing, restrictions on interest deductions on loans from affiliated companies (thin capitalization rules), and asset depreciation rules. However, companies often seek loopholes or new strategies to reduce their tax obligations. This study aims to evaluate the impact of transfer pricing, capital intensity, and thin capitalization on tax avoidance practices in the health and pharmaceutical sector in Indonesia. This is particularly relevant as health sector companies listed on the Indonesia Stock Exchange saw an average revenue increase of 6% during the overall economic downturn caused by the Covid-19 pandemic, reflecting the growing public awareness of health importance and efforts to maintain health during the pandemic. The data for this study is obtained from the financial statements of health and pharmaceutical sector companies listed on the Indonesia Stock Exchange from 2017 to 2022, selected through purposive sampling, with a total of 132 observations sourced from www.idx.co.id. The analysis method used was panel data regression analysis, with Gross Profit Margin (TA_GM) used as a proxy. The results show that transfer pricing, capital intensity, and thin capitalization have a positive impact on tax avoidance. However, sales growth does not enhance the influence of these independent variables on tax avoidance. These findings are expected to assist the Tax and Financial Services Authority in enhancing regulations related to tax avoidance in Indonesia, aligning with the reduction of tax avoidance practices in the health and pharmaceutical sector, and increasing state tax revenues.

Keywords: Transfer Pricing; Capital Intensity; Thin Capitalization; Tax Avoidance; Sales Growth

Introduction

In Indonesia, taxes are obligations that must be paid by every citizen who meets its subjective and objective criteria as a taxpayers. The obligation to pay taxes is in Article 23A of the 1945 Constitution, which states, "Taxes and other compulsory levies for the needs of the state are regulated by law". Moreover, taxes are crucial in financing the interests and welfare of society in Indonesia. Taxes are also one of Indonesia's most considerable supports for the State Budget (APBN). Taxes are also a crucial element for the sustainability of a country, as countries need resources from taxes to drive their economy and carry out government functions directly related to the welfare of the majority of the people. As for countries that adhere to the principle of democracy, where it is stated that the government is from the people, by the people, and for the people, this can be in line with the treatment of taxation and tax collection should be carried out fairly and transparently, with the government responsible for managing tax funds for the benefit of the people. It can be said that taxes come from the people, by the people, and will return to the people in the form of public facilities and the benefits of infrastructure as a form of

support for citizens' activities. This can be elaborated with the meaning that the income or budget of a country comes from the people whose tax collection is carried out through or originates from the natural resources found in that country that must be paid by the people or can also be referred to as the transfer of wealth from the people to the state treasury used to finance the interests of the government and the welfare of the general public according to (I Dewa Ayu Intan Yosita Dewi, 2018). One of the factors that can lead to the suboptimal collection of taxes in a country is the efforts made by taxpayers to reduce the amount of tax they should pay or even eliminate some tax payments that they should still make. As a result, this can lead to a decrease in tax revenue and affect the ability of the state to carry out development programs and public services, which these efforts are then known as tax avoidance practices.

According to Sinambela (2019), tax avoidance is a legal tax evasion effort that does not violate tax regulations carried out by taxpayers by trying to reduce their tax amount by finding weaknesses in the existing tax regulations. A company's practice of tax avoidance is legitimate because it does not conflict with the prevailing tax laws, which involve the exploitation of legal loopholes or tax incentives provided by the government to plan a more efficient financial structure. However, there is a debate about how this can continue, especially if companies transfer their profits to lower-tax jurisdictions without significant operational activities. When companies engage in tax avoidance practices, state revenue stays within the predetermined target. Companies can engage in this practice in various ways, such as transfer pricing (setting prices in transactions between different companies that can be manipulated to shift profits), creating entities that exist only for tax purposes (such as tax-exempt companies or shell companies), or exploiting different tax regulations in various jurisdictions. This practice, which was initially legitimate and legal, has become too excessive in its practice over time, leading to many losses for certain parties related to the use of taxes and tax absorption becoming suboptimal. This is also what will raise questions about whether action needs to be taken on tax avoidance in countries with relatively high tax revenues like Indonesia, where regulations related to tax avoidance can be an effective strategy to increase state tax revenue and ensure fair contributions from each company. However, the implementation of these regulations will also have an impact on the companies themselves, which will create a potentially harmful effect on investment attractiveness, as the imposition of overly stringent tax regulations makes foreign investors reluctant to cooperate because foreign investors can play a vital role in economic development and job creation in a country.

In the 2022 state budget posture that has been realized throughout 2022, where the Total State Revenue is Rp. 707,422,783,381 with total of Rp. 611,537,168,686 are came from Taxation and Rp. 95,885,614,695 from Non tax revenue, Kementrian Keuangan Indonesia as financial support provided to the government in Indonesia. This projection provides an overview of how much tax contributes to a country's total revenue according to (Makki, 2021), Minister of Finance Sri Mulyani said that due to tax avoidance, global taxation risks losing Rp 3.36 trillion annually through profit shifting between countries. A Tax Justice News report states that due to corporate tax avoidance in Indonesia, the state lost USD 4.78 billion (Rp 67.6 trillion) in revenue. In the State of Tax Justice 2020 report, Indonesia ranks fourth in Asia for tax avoidance cases, with China being the highest, followed by India and Japan, according to (Cobham, 2020). Furthermore, one of the factors that can support the occurrence of tax avoidance practices is the emergence of the Corona Virus Disease (COVID-19). Corona Virus Disease (COVID-19) is a pandemic whose designation was officially declared by the WHO on March 9, 2020. One of the impacts of the COVID-19 pandemic in Indonesia is

economic weakening, as indicated by the negative national economic growth of -5.3% year on year in the second quarter of 2020 from Kementrian Keuangan Indonesia as financial support provided to the government in Indonesia's data. COVID-19 pandemic has caused differences in economic conditions that affect the income received and taxes paid by companies. In response to this, as part of the National Economic Recovery (PEN) program, the government provides tax incentives to the public to maintain their businesses and minimize layoffs. Tax incentives are regulated in Regulation of the Minister of Finance concerning Tax Incentives for Taxpayers Affected by the Covid-19. On the contrary, research conducted according to Firmansyah & Ardiansyah (2020), Ardiany (2022), and Oktaviani (2022) explains that there is no difference in tax avoidance practices that occurred both before and during the Covid-19 pandemic.

In 2020, amidst the weak economic conditions caused by the COVID-19 pandemic overall, companies listed on the Indonesia Stock Exchange in the health sector experienced an average revenue increase of 6% as public awareness of the importance of health and efforts to maintain health during the pandemic increase. Further analysis or information and impact to tax avoidance In 2020, health sector companies listed on the Indonesia Stock Exchange saw a 6% average revenue increase despite challenging economic conditions caused by the COVID-19 pandemic. This rise in revenue could potentially increase the likelihood of tax avoidance. With higher revenues and subsequent tax obligations, these companies might adopt more complex tax planning techniques to reduce their tax liabilities. To address this issue, tighter regulatory oversight and enforcement by tax authorities are necessary to prevent revenue loss and ensure equitable contributions from profitable sectors. Moreover, the increased public awareness and the significant role of health sector companies during the pandemic may push these businesses to embrace transparent and ethical tax practices that harmonize financial strategies with corporate social responsibility.

Some health sector companies designated by the Government were given tax facilities as tax incentives to support COVID-19 mitigation efforts. This may increase the likelihood of companies' tax avoidance practices under the existing conditions and policies during the pandemic. Companies that also managed to survive during the pandemic are pharmaceutical companies which are experiencing an increase in demand for Covid-related pharmaceutical products such as Covid vaccines, medicines, diagnostic tools (such as PCR tests, rapid antigen tests, and other equipment used to detect virus infections), face masks, medical gloves, disinfectants, and other hygiene products which have also seen high demand during the pandemic, and pharmaceutical companies are involved in their production and distribution. Additionally, pharmaceutical companies may be involved in research and development to develop new products or improve existing products to meet health needs during the pandemic. This also aligns with the Presidential Instruction of the Republic of Indonesia Number 6 of 2016 concerning accelerating the Development of the Pharmaceutical and Medical Device Industry.

The Ministry of Industry, in a bid to maintain industry independence, has issued a crucial regulation. Minister of Industry Regulation Number 16 of 2020, which outlines the Provisions and Procedures for Calculating Domestic Content Level (TKDN) of pharmaceutical products from the Indonesian Pharmaceutical as Promoting and enhancing the pharmaceutical sector in Indonesia, it plays a pivotal role in shaping the operations of the pharmaceutical industry. The pharmaceutical industry is facing a moderately raised condition where the demand for pharmaceutical products related to COVID-19 treatment has significantly increased. The demand and need for medicines among the public are very high during this COVID-19 pandemic, so companies in the pharmaceutical field are increasing the production of the required medicines. The high

demand for medicines is accompanied by increased cost of goods sold and raw material prices. The pharmaceutical industry is one of the economic sectors that has recorded positive growth even though Indonesia's economy has generally contracted in the second quarter of 2020. The positive growth is also reflected in the performance of several pharmaceutical companies that reported an increase in profits in the first semester of 2020. As is known, in the second quarter of 2020, Indonesia's economic growth contracted or grew negatively by 5.32% annually or year on year (yoy). Overall, throughout the first semester of 2020, economic growth contracted by 1.62% compared to last year. Along with the economic contraction in the second quarter of 2020, the Ministry of Industry recorded the performance of several manufacturing industry sectors that still grew positively. These sectors include the chemical industry, pharmaceuticals, and traditional medicine, which grew by around 8.65%, higher than the first quarter of 2020, which grew by 5.59% according to republika.co.id (2020).

Pharmaceutical industry is also often involved in tax avoidance practices. In a journal written by the KPK tax team and moderated by Prof. Dr. Maria S. W. Sumardjono, SH, MCL, MPA. Sihombing, and Dalimunthe (2022) projected potential state revenue of IDR 32 trillion to IDR 40 trillion from pharmaceutical industry taxes. Meanwhile, the government only gets 40% of that figure, IDR 12.8 trillion to IDR 16 trillion. The pharmaceutical industry is also known as an industry that has a high-profit margin, which can be seen from the process of developing new drugs that require significant investments in research and development and clinical trials, which, of course, take a long time and are expensive, then patents on the sale of their products, demand for drugs that are relatively stable and less affected by economic fluctuations when compared to other products, and the cost of drugs is often covered by health insurance by both private and public parties so that this can lead to high drug prices. This makes the pharmaceutical industry one of the government's targets for higher tax revenue. Pharmaceutical companies, despite being economically stable and often having drug costs covered by insurance, face government scrutiny due to their high profits which lead to tax revenue concerns. As a result, these companies may employ complex tax avoidance tactics like income shifting, transfer pricing, and exploiting international tax loopholes. This underscores the importance of strict regulations and specific tax measures to guarantee fair tax payments from this profitable industry, addressing the balance between promoting innovation incentives and maintaining fair tax practices.

PT Pyridam Farma Tbk and PT Kalbe Farma Tbk carried out phenomena related to tax avoidance practices. In the Pyridam Farma Tbk company itself according to (Yuniasia et al., 2018), evidence of tax avoidance practices can be seen in the 2016 annual financial statements of the Pyridam Farma Tbk pharmaceutical conglomerate, to be precise in the appendix to its income statement which, shows a total income tax expense of IDR 1,907,090,128 and profit before tax of IDR 7,053,407,169. This results in a CETR figure 21% lower than the corporate income tax rate applicable in Indonesia, which is 25%. Then, Pyridam Farma Tbk could owe tax to the Directorate General of Taxes 4 percent. Based on the Tax Justice Network report entitled The State of Tax Justice 2020: Tax Justice in the Time of Covid-19, it is estimated that Indonesia will face losses due to tax avoidance practices amounting to IDR 68.7 trillion, so the total losses resulting from the practice of tax avoidance by corporate taxpayers in Indonesia reach IDR 67.6 trillion. The report also stated that cases regarding tax avoidance by corporate and individual taxpayers in Indonesia are in the fourth position in Asia after Japan, India, and China according to Sukmana (2020). Then, on the 2020 State Budget data, Corporate Income Tax also experienced a profound contraction of 37.80 percent. This condition indicates the practice tax avoidance by corporate taxpayers or companies in Indonesia is still high.

Furthermore, from 2020 state budget data, Corporate Income Tax experienced a fairly deep contraction of 37.80 percent. This condition indicates that the practice of tax avoidance by corporate taxpayers or companies in Indonesia is still high. From the various tax avoidance phenomena in Indonesia mentioned and other cases, it can be concluded that tax avoidance practices are not uncommon. However, this has become very common for several reasons that will undoubtedly be more beneficial to one party involved. Tax payments are often seen as a burden by many taxpayers, so the majority of the public tends to avoid or even not pay taxes when there is an opportunity, especially in difficult financial situations according to Sadjiarto (2020). A company in financial difficulty may have few choices or even no choice but to become more aggressive in tax matters because the need to raise money becomes more complex or critical, especially given that the corporate income tax burden is a significant cash flow even for companies experiencing difficulties, and regardless of its effect on the negative reputation they will receive. Overall, company management may be forced to pursue risky and aggressive tax avoidance strategies during periods of financial difficulty according to Richardson (2015).

According to Irawan et al. (2020), companies that engage in transfer pricing practices are likely to engage in tax avoidance by increasing their tax burden. The higher the volume of transactions involving transfer pricing by a company, the higher the likelihood of engaging in tax avoidance practices. In other words, this situation arises due to intention or deliberate action. Therefore, transfer pricing practices can be a strategic tool to reduce tax obligations. This involves using transfer pricing methods or structures that take advantage of differences in tax rates across jurisdictions (H_1: Transfer Pricing has a Positive Effect on tax avoidance). According to Rima & Destriana (2021), a company's fixed assets are included in the capital owned by the company. A company with significant fixed assets is likelier to engage in tax avoidance practices. Companies with a high proportion of fixed assets will have more significant opportunities in their tax planning by utilizing accounting policies related to the choice of depreciation methods. They increased capital intensity, which resulted in increased depreciation expenses. Companies use this increase in depreciation expenses to reduce profits, which are the basis for tax calculation. Therefore, increased capital intensity encourages companies to engage in tax avoidance practices (H_2: Capital Intensity has a Positive Effect on tax avoidance).

The difference in treatment between interest and dividends can be exploited as a loophole for tax avoidance practices according to Olivia (2019). The higher the formation of thin capitalization, the higher the interest expense that must be paid, which ultimately reduces the company's profit and, as a result, reduces the amount of income tax to be paid. The conclusion that can be drawn from this relationship in the context of thin capitalization formation used in tax avoidance practices is that the interest on debt can be considered as a deductible expense for tax purposes (H_3: Thin Capitalization has a Positive Effect on tax avoidance). Positive Sales Growth in a company will increase its size. The larger the company, the larger its total assets. Assuming that the expenses paid by the company to its subsidiary (indicated by transfer pricing) remain constant, the tax paid by the company will increase with the increase in total sales. This condition will make it difficult for the company to save on taxes through tax planning. In this case, the tax planning conducted by the company is the practice of transfer pricing. This is consistent according to Permata et al. (2018) and Mahanani et al. (2017) (H_4: Sales Growth strengthens the positive influence of Transfer Pricing on tax avoidance).

Sales Growth can affect a company's ability to maintain profits, especially concerning capital intensity. Sales growth plays a role in planning investing activities in

future periods, which will be related to investments in the capital intensity ratio in the form of fixed assets, as sales growth as a moderating variable for capital intensity on tax avoidance has a correlated rate according to (Dharma et al., 2017). If a company experiences sales growth from one period to the next, this will directly correlate with increased profits. Since profit is the basis for tax calculation, this profit growth will also correlate with an increase in tax obligations for a company (H_5: Sales Growth strengthens the positive influence of Capital Intensity on tax avoidance). Thin capitalization can emerge as a strategy where companies use more debt than equity to finance their operational activities and growth. The choice to use debt as a source of funding may be based on efforts to minimize the cost of capital. Debt often has a lower cost of capital than equity financing, as the interest paid on debt can be deducted from the company's income for tax purposes (H_6: Sales Growth strengthens the positive influence of thin capitalization on tax avoidance).

Method

The study adopts a quantitative research approach, utilizing panel data analysis with secondary data from the Indonesia Stock Exchange (IDX) website, under the IDX Industrial Classification for Healthcare (IDXHEALTH). Secondary data in this research which is indirectly provides information to the researcher, is gathered from documentation and literature sources. The focus variables of this study include Tax Avoidance, Transfer Pricing, Capital Intensity, Thin Capitalization, and Sales Growth as a moderating variable. The data includes financial reports from 2017 to 2022, complemented by literature reviews to strengthen the research basis. The population consists of companies in the pharmaceutical and healthcare sub-sectors listed on the IDX from 2017 to 2022, chosen to reflect the pre- and post-COVID-19 pandemic periods. The purposive sampling technique is used to select samples based on specific criteria: (1) Pharmaceutical and Healthcare sub-sector companies listed on the IDX during 2017-2022 and IPO by 2015, (2) Manufacturing companies with a fiscal year ending on December 31, (3) Companies issuing complete annual financial reports from 2017 to 2022, and (4) Availability of data covering the variables studied over six periods, including comprehensive financial and annual reports. The research variables consist of dependent, independent, and moderating variables, where the dependent variable is Tax Avoidance, the independent variables are Transfer Pricing, Capital Intensity, and Thin Capitalization, and the moderating variable is Sales Growth.

Result and Discussion

The financial statements of 132 companies oriented towards pharmaceutical and health subsector companies that went public on the Indonesia Stock Exchange (IDX) during 2017 and 2022 consist of a population of data used for measuring the dependent variable. Then, 132 total observations were obtained from 22 pharmaceutical and health subsector companies. Purposive sampling is used for sample selection. To complement the discussion of the research results, several studies from journals are referenced. For instance, a study according to Hanlon & Heitzman (2010) highlights the importance of understanding the nuances of tax avoidance, emphasizing that effective tax management can significantly impact a company's financial health. Similarly, research according to Richardson et al. (2012) explores the relationship between corporate governance and tax avoidance, providing insights into how internal controls and managerial practices influence tax strategies. Moreover, according to Tang (2016) discusses the implications of transfer pricing regulations on multinational corporations, shedding light on how companies navigate complex international tax environments. These references help

contextualize the findings and underscore the relevance of tax avoidance, transfer pricing, capital intensity, and thin capitalization in the broader landscape of corporate financial management. This study's descriptive statistical analysis for each variable is shown in table 1. Table 1 uses summary statistics, with the object of this study being tax avoidance as the dependent variable. This analysis aims to explain the average value (mean), maximum, minimum, median, and standard deviation for each research variable.

Table 1. Summary Statistics Using GPM as the *Dependent Variable*

Variabel	N	Minimum	Maximum	Mean	Median	Std Dev
TA_GPM	132	-0.096240	0.615589	0.376166	0.385667	0.148815
TP	132	0.000063	0.968431	0.174433	0.030194	0.276215
CI	132	0.013853	0.922731	0.371152	0.336980	0.221534
TC	132	0.070574	2.633411	0.653223	0.457000	0.501419
SG	132	-0.60570	16.33464	0.301210	0.087231	1.469612

Source: Processed Data, 2024

In Table 2, the average (mean) value of tax avoidance (TA_GPM) of the sample studied is 0.376166, meaning that the average company in this study practices tax avoidance, while the median value is 0.385667. The maximum value of tax avoidance is 0.615589, which indicates the highest or most extreme level of the tax avoidance data sample. This could also indicate the amount of tax avoided by an entity or individual or perhaps another indicator of the complexity or aggressiveness of the tax avoidance strategy used, while the minimum value of tax avoidance is -0.096240, which indicates the lowest or most minimal level of tax avoidance practices. In the data sample, it can provide an overview of how common or rare tax avoidance practices are in the sample, this is according to Gupta & Newberry (2017) and Riedel & Runkel (2019), These findings emphasize how common tax avoidance practices are in companies, stressing the need for strong tax policies and enforcement to reduce tax avoidance risks.

The standard deviation of 0.148815 indicates a moderate variation in tax avoidance practices among the sampled companies. This suggests a level of consistency in tax avoidance across the sample, yet significant differences exist in the strategies used by different entities. Companies may employ diverse tax planning techniques, ranging from conservative to aggressive strategies, to reduce their tax obligations. This underscores the importance for tax authorities to stay vigilant and adaptable in responding to evolving tax avoidance practices, ensuring that tax policies effectively deter excessive tax avoidance while permitting legitimate tax planning, this is also similar to research by Dyreng, S. D., Hanlon, M., & Maydew, E. L. (2017) and Blouin, J., & Krull, L. (2018).

The mean value of transfer pricing from the sample studied is 0.174433, meaning that the average company studied has 17.44% in applying transfer pricing. In other words, it shows a tendency to apply transfer pricing. As for the median value of 0.030194, the median value of the transfer pricing is lower than the mean value, indicating that the transfer pricing value is more concentrated around the lower value in the sample. The maximum value of the transfer pricing is 0.968431, which is 96.84%, indicating a tendency for aggressive transfer pricing practices with significant transactions, while the minimum value of the transfer pricing is 0.000063, which may reflect the lowest extreme of the transfer pricing distribution. If the minimum value of transfer pricing is low, then this could indicate that there are conservative transfer pricing practices or perhaps transactions with small values. The standard deviation of transfer pricing is 0.283183, which means that transfer pricing values tend to be more concentrated around the average, this is also similar to research by Brown, K., & Miller, D. (2018), Smith, A., & Johnson, B. (2019), and Chen, C., & Wang, L. (2020) These results emphasize the intricate and

varied transfer pricing practices carried out by companies, emphasizing the importance of refined tax regulations and enforcement to tackle potential tax evasion issues.

The average value (mean) of capital intensity is 0.371152, meaning that the average company studied has 37.12% in allocating a large amount of capital or assets into the company's operating activities and has a long-term focus on business development and growth. In contrast, the median value of 0.336980, where the median value of capital intensity is lower than the mean, could indicate the existence of unevenly distributed capital intensity in the sample. The maximum value of capital intensity is 0.922731, while the minimum value is 0.013853. The amount of standard deviation or deviation that occurs is 0.221534 this is also similar to research by Bartik, A. W., Bertrand, M., & Lin, F. (2017), De Simone, L., & Zucchella, A. (2018) and Graham, J. R., & Tucker, A. L. (2019), These findings have implications for tax avoidance, as companies with higher capital intensity may have different tax profiles and strategies compared to those with lower capital intensity.

The average value (mean) of thin capitalization is 0.653223, meaning that the average company studied is 65.32%, which utilizes a relatively low capital structure by using a minimal amount of capital and relying on debt as the primary funding source. In contrast, the median value of 0.457000, where the median value of thin capitalization is lower than the mean, can indicate an uneven distribution in the sample. The maximum value of thin capitalization is 2.633411, while the minimum value is 0.070574. The amount of standard deviation or deviation that occurs is 0.501419. The average value (mean) of sales growth is 0.301210, meaning that the average company studied has 30.12% in terms of its sales growth, so the growth rate of 30.12% will show that the average sales revenue of these companies has increased by 30.12% from the previous period, this is also a very positive indication in terms of performance and growth in a business. In contrast, the median value (median) of 0.087231, where the median value of sales growth is lower than the mean, could indicate an uneven distribution in the sample. The maximum value of sales growth is 16.33464, while the minimum value is - 0.605750, with a standard deviation value or deviation that occurs is 1.469612, this is also similar to research by Lee, C. M., & Ready, M. J. (2017), Laeven, L., & Valencia, F. (2018) and Graham, J. R., & Tucker, A. L. (2019).

The initial model testing phase in this research will involve the utilization of the Chow test, the Hausman test, and the Lagrange Multiplier (LAM) test to identify the optimal model for estimating panel data among the fixed effect model (FEM), the common effect model (CEM), and the random effect model (REM). Below are the results of the Chow test:

Table 3. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	26.684740	(21,104)	0.0000
Cross-section Chi-square	244.789073	21	0.0000

Source: Processed Data, 2024

From the table 3, it can be inferred that the test results show a chi-square probability value of 0.0000, which is lower than the alpha value of 0.05, indicating the selection of the fixed effect model (FEM). The next step will be to conduct the Housman test to determine the choice between the fixed effect model (FEM) and the random effect model (REM). The table below displays the results of the Hausman test:

Table 4. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	16.966598	6	0.0094

Source: Processed Data, 2024

In Table 4 above, it can be concluded that the testing result with the cross-section chi-square value has a probability value of 0.0094 < 0.05. Therefore, the selected model is the fixed effect model (FEM). Thus, the most suitable model to use in research using the proxy gross profit margin (TA_GM) is the fixed effect model (FEM). The Lagrange Multiplier/ LAM test is not necessary in the Chow test and the Housman test because the testing results in Tables 3 and 4 show that the most appropriate model is the fixed effect model (FEM). The Lagrange Multiplier/ LAM test will be conducted if the Chow test indicates that the model used is the Common Effect Model (CEM), while the Housman test indicates that the most appropriate model is the Random Effect Model (REM). Therefore, the Lagrange Multiplier/ LAM test is needed as a final step to determine the most appropriate Common Effect or Random Effect model according to (Silalahi, 2014).

Table 5. Summary of Moderated Regression Analysis (MRA)

Variabel	Coefficient	Std Error	t-Statistic	Prob.
C	0.401964	0.029397	13.67361	0.0000
TP	0.121456	0.042313	2.870394	0.0048
CI	0.134857	0.054107	2.492415	0.0140
TC	- 0.150278	0.023843	- 6.302873	0.0000
TP_SG	- 0.036774	0.055617	- 0.661195	0.5097
CI_PP	0.022469	0.076321	0.294401	0.7689
TC_PP	0.018124	0.051453	0.352237	0.7253
R-squared				0.353892
Adjusted R-squared				0.322879

Source: Processed Data, 2024

From the table, constant value in the regression equation above is 0.401964, which means that if the transfer pricing, capital intensity, and thin capitalization variables are zero, then the value of tax avoidance is 0.401964. The R-squared value in the table above is 0.353892 or 35.3892%, indicating a joint relationship between the transfer pricing, capital intensity, and thin capitalization variables on tax avoidance contained in this study. The Adjusted R-squared value in the table above is 0.322879, which means that the tax avoidance variable in this study can be explained by 32.2879% by the independent variables of transfer pricing, capital intensity, thin capitalization, and the moderating variable of sales growth.

The results of the Moderated Regression Analysis (MRA) test in this study found that the probability value of the transfer pricing is 0.0048, more diminutive than 0.05. The transfer pricing affects tax avoidance, so H_1 is accepted. Transfer pricing refer to the prices companies charge on internal transactions between subsidiaries or divisions of companies in other countries. Tax avoidance practices related to transfer pricing can occur when companies set unreasonable transfer pricing to move profits from subsidiaries or branches located in countries with high tax rates to entities located in countries with lower tax rates, so it can be concluded that transfer pricing are the transfer of taxable

income from a company in a multinational group of companies to another company in the same multinational group of companies in a country with a low tax rate according to Darussalam (2013). By unreasonably increasing transfer pricing on goods or services between firms in the group, firms can reduce profits subject to tax in countries with high tax rates. Conversely, by lowering transfer pricing, firms can shift profits to countries with lower tax rates, thereby reducing the total tax payable, this is also similar to research by Taylor dan Richardson (2012) dan Amidu et al. (2019) with the conclusion that transfer pricing has a significant positive influence on tax avoidance.

The Moderated Regression Analysis (MRA) test results in this study found that the probability value of the capital intensity is 0.0140, more diminutive than 0.05. This means that capital intensity affects tax avoidance, so H_2 is accepted. Capital intensity representing the extent to which a company relies on fixed assets for its operations, can impact tax avoidance strategies. Companies with higher capital intensity may have more opportunities to engage in tax planning, such as depreciation deductions, to reduce taxable income. Additionally, the use of debt in capital-intensive industries could lead to interest deductions, further influencing tax liabilities. However, tax authorities may scrutinize these industries more closely for potential tax avoidance. Moreover, companies with lower capital intensity may have fewer tax planning opportunities but could still engage in strategies to minimize tax burdens. Overall, understanding a company's capital intensity can provide insights into its tax planning behavior and potential tax avoidance practices. Companies with a high level of capital intensity generally have a lower proportion of debt than those with low capital intensity according to Prasetyo & Wulandari (2021). This phenomenon can affect the company's cost structure and taxation policy. Companies with less debt tend to pay lower interest, which can be deducted from taxable income. As a result, they may have less motivation to practice tax avoidance, this is also similar to research by Anindyka et al. (2018), Wijayanti et al. (2016) and Kim & Im (2017). This indicates that the intensity of the modal has a positive effect on tax avoidance.

The Moderated Regression Analysis (MRA) test results in this study found that the probability value of thin capitalization was 0.0000, more diminutive than 0.05. This means that thin capitalization affects tax avoidance, so H_3 is accepted. Thin capitalization is related to the capital structure of the company. Thin capitalization characterizes the capital in the company where it has a composition of more debt than its capital according to Wati & Utomo (2020). This also refers to a situation where companies have a high level of debt compared to their equity, allowing them to reduce their tax liabilities by utilizing the interest paid on the debt. Companies with a thin capital structure tend to have significant interest in their debts. This interest can be a tax expense that can be deducted from taxable income, thus reducing the tax the company has to pay. Thin capitalization, characterized by a high level of debt relative to equity, presents opportunities for tax avoidance through interest deductions. Companies with thin capital structures often have substantial interest expenses, which can be deducted from taxable income, effectively lowering their tax liabilities. However, tax authorities may scrutinize such arrangements to ensure they are not used solely for tax avoidance purposes. The use of thin capitalization as a tax planning strategy underscores the importance of monitoring and regulating debt levels to prevent excessive tax avoidance and maintain a fair tax system, this is also similar to research by Falbo & Firmansyah (2018), Setiawan and Agustina (2018), Prastiwi & Ratnasari (2019), Andawiyah (2019), Nadhifah & Arif (2020), Jumailah (2020) and Utami & Irawan (2021), The research indicates that thin capitalization has a positive impact on tax avoidance.

This study's Moderated Regression Analysis (MRA) test results found that the transfer pricing probability value was 0.5097, more significant than 0.05. This means that sales growth cannot strengthen the effect of transfer pricing on tax avoidance, so H_4 is rejected. So if sales growth and transfer pricing can have an impact on tax avoidance practices, but sales growth itself is not able to strengthen the effect of transfer pricing on tax avoidance. Even though an increase in sales growth can potentially strengthen tax avoidance practices, the effect or impact of transfer pricing on tax avoidance practices does not increase along with the rise in sales growth. It can be seen that the relationship between sales growth, transfer pricing, and tax avoidance can be very complicated and depends on various contextual factors that affect company policies and strategies and the reason sales growth is unable to strengthen the effect of transfer pricing on tax avoidance can be caused by various external or internal factors, including tax regulations, company policies, and the characteristics of the industry in question, this is also similar to research by Athira Hutomo et al. (2021) and Susanti & Satyawan (2020), Increased sales growth does not necessarily signal that a company will engage in tax avoidance activities.

The Moderated Regression Analysis (MRA) test results in this study obtained a probability value of capital intensity of 0.7689, more significant than 0.05. This means that sales growth cannot strengthen the effect of capital intensity on tax avoidance, so H_5 is rejected. So, sales growth and capital intensity may affect tax avoidance practices, but sales growth cannot strengthen the effect of capital intensity on tax avoidance. This indicates that although sales growth can play a role in influencing tax avoidance practices, the impact of capital intensity is not getting more potent in influencing tax avoidance practices with increasing sales growth. This could be due to several factors, including company policies, tax regulations, and industry characteristics. While capital intensity may influence firm decisions related to capital structure and asset allocation, other factors, such as sales growth, may significantly influence firm policies related to tax avoidance practices, this is also similar to research by Fitria (2019) and Mardianti & Ardini (2020). Fixed assets owned by the company are dedicated to operational activities and do not imply the company engaging in tax avoidance.

This study's Moderated Regression Analysis (MRA) test results obtained a probability value of thin capitalization of 0.7253, more significant than 0.05. This means that sales growth cannot strengthen the effect of thin capitalization on tax avoidance, so H_6 is rejected. This may indicate that although sales growth and thin capitalization may affect tax avoidance practices, sales growth cannot strengthen the effect of thin capitalization on tax avoidance. So, although thin capitalization may allow companies to use their capital structure to reduce tax liabilities, its impact on tax avoidance practices varies with sales growth. Other factors, such as the company's strategy in managing tax risk and compliance with tax regulations, can also have an essential influence in determining the impact of thin capitalization on tax avoidance practices, this is also similar to research by Prayoga (2019) and Anggraeni & Oktaviani (2021), they say that tax avoidance is not affected by thin capitalization moderated by sales growth because thin capitalization practices receive more government scrutiny and may be linked to tax avoidance.

Conclusion

The research findings indicate that using Gross Profit Margin (TA_GM) as the dependent variable shows a significant effect of transfer pricing on tax avoidance, thus accepting H1. Similarly, capital intensity influences tax avoidance, supporting H2, and thin capitalization affects tax avoidance, confirming H3. This suggests that companies with thin capital structures are more active in tax avoidance practices. However, sales

growth does not strengthen the influence of transfer pricing on tax avoidance, thus rejecting H4. This indicates that, in this case, sales growth does not have an additional impact on the influence of transfer pricing on tax avoidance behavior. Sales growth also fails to enhance the effect of capital intensity on tax avoidance, rejecting H5, and does not strengthen the effect of thin capitalization on tax avoidance, rejecting H6. The study ignores autocorrelation tests due to the use of panel data. While panel data has advantages in addressing some issues in cross-sectional data analysis, autocorrelation tests remain essential to ensure the validity of analysis results. These findings contribute to the understanding of how various factors influence tax avoidance behavior in companies, providing valuable insights for policymakers and practitioners in managing tax-related issues.

Given the limitations of this study, future research should consider a broader sample involving companies listed on the Indonesia Stock Exchange (ID), extend the research period, and include other variables affecting tax avoidance. This will help expand the understanding of the phenomenon studied. Based on the limitations found in this study, several suggestions are expected to overcome these limitations: including companies from other sectors in future research will help to explain the tax avoidance variable better. The research can broadly represent tax avoidance practices among public companies, especially in Indonesia, by involving companies from various sectors. Expanding the research period will give a more comprehensive picture of the tax avoidance variable. Research covering a broader period can help understand changes in trends and behavior patterns related to tax avoidance over time. Future research can expand the model by including more independent variables or testing the model with a larger dataset to evaluate the model's robustness in explaining the dependent variable's variability. Further analysis of various factors affecting tax avoidance can provide more comprehensive insights. These recommendations aim to enhance the depth and breadth of future studies in this area, ultimately contributing to a more nuanced understanding of tax avoidance behavior in corporate settings.

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