

## Tax Avoidance in Indonesian Banking: The Role of Transfer Pricing and Corporate Ownership

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### ARTICLE INFO

*Keywords:* Transfer Pricing, Institutional Ownership, Foreign Ownership, Tax Avoidance

*Received :* 01 October

*Revised :* 02 November

*Accepted:* 03 December

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### ABSTRACT

This research was conducted to examine the factors affecting tax avoidance, including transfer pricing, institutional ownership, and foreign ownership. This research also examines the role of institutional ownership and foreign ownership as moderating variables. The samples of this study was conventional banks registered with the Financial Services Authority with a sample of 41 conventional banks during the 2017 - 2021 period. In testing the hypothesis of this study using panel data regression analysis. The analysis techniques used in this study were descriptive statistical tests, preliminary tests (Breusch-Pagan, likelihood tests, Hausman tests), diagnostic tests (heteroscedasticity tests and autocorrelation tests), and hypothesis testing. Based on the results of the three preliminary tests in determining the panel data regression model, this study will use the fixed effect model to examine the relationship between variables in regression models 1 and 2. This study reveals that transfer pricing has a negative effect on tax avoidance, the smaller the receivables owned by the company the smaller the company will do tax avoidance.

## **INTRODUCTION**

The definition of tax in general is the largest income for the state apart from the oil and gas and non-oil and gas sectors. Because it is one of the sources of state revenue, the placement of taxes is currently in the top position as the main source of income in increasing the state treasury. This is illustrated in the 2021 State Budget data, that the target tax revenue is Rp. 1,444.5 trillion of the total State Revenue Budget of Rp. 1,743.6 trillion ([kemenkeu.go.id](http://kemenkeu.go.id)). From this information, it can be seen that taxes have an important role for the state. Therefore, in Indonesia the government always increases the tax revenue target every year (Panjalusman et al., 2018). Optimizing the largest source of revenue for the state is important in supporting government costs and national development. Companies located in Indonesia are another main source of foreign exchange income for Indonesia as well as the backbone for national economic growth (Panjalusman et al., 2018) . To support government costs and national development, which aims to increase the level of public welfare by seeking funding from within the country, one of which is taxes. It is defined in Law Number 16 of 2009 concerning General Provisions and Tax Procedures in Article 1 paragraph 1 which reads that tax is a mandatory contribution to the state owed by an individual or entity that is coercive based on the Law with no direct compensation being obtained. used for the benefit of the state to the maximum extent possible for the prosperity of the people (Dewi & Suardika, 2021) .

However, the government's efforts to increase and maximize tax revenue are hampered by several problems, tax avoidance is one of them. Tax evasion by companies is carried out due to the desire to get a larger net profit. These activities can pose several risks that are not good for the company, one of which is fines and the company's bad reputation among the general public (Alianda et al., 2021) . However, usually this risk is considered unequal to what the company receives, namely the low total tax payable which has an influence on the size of the company's profits. That is what causes companies to carry out tax avoidance practices. Tax avoidance activities by companies are actually used not to evade taxes, but only as an act of reducing the tax burden paid (Panjalusman et al., 2018). Tax avoidance in Indonesia is triggered by various things, one of the factors that encourage tax avoidance is the presence of tax heaven countries such as Hong Kong and Singapore, where the tax rates applied by these countries are low. According to the national board of the Indonesian Institute of Accountants, pricing transfers are used to minimize the amount of tax paid through price engineering or the cost of transferring goods or services between divisions or other companies (Panjalusman et al., 2018) .

The banking sector in Indonesia has been growing until now which is one of the largest tax collectors. Within a year tax crimes by banks can cause state losses of 10-12 trillion rupiah (Lutfia & Pratomo, 2018) . Until now, companies are always required to continue to pay taxes according to company income. The practice of tax avoidance can have an impact on company development, such as reducing the company's tax burden. As a result, companies can take advantage of this because the tax burden they bear is very large to increase company profits (Dewi & Suardika, 2021) . This is shown by the Tax Law related to article 17

paragraph (1) part b of Law no. 7 of 2021 concerning Harmonization of Tax Regulations, the tax rate imposed on entities is 22%, this rate is effective from 1 January 2022. The amount of tax is a problem for a company (Pangaribuan, 2018). In terms of tax avoidance related to political cost theory, multinational companies can use the transfer pricing method, namely setting a special selling price for tax avoidance, especially for multinational companies that conduct transactions internationally (Sujannah, 2021). From the government's point of view, transfer pricing has the potential to reduce a country's tax revenue because the company shifts its tax obligations by reducing the selling price between companies in one group and then transferring the profits earned to companies located in countries that apply low tax rates (Putri & Mulyani, 2020).

When a division within a firm produces a product that is used in the production of another division, a transfer pricing problem arises. The transfer price is income for the selling division and costs for the buying division (Sujannah, 2021). Companies that have subsidiaries in countries with low tax rates can take advantage of this transfer pricing practice to reduce tax costs in countries with high tax rates so that they get more profit. From this concept, multinational companies have the opportunity to use transfer pricing to carry out tax avoidance actions (Mowen, 2018). Several studies by Marwa (2018), Rahayu (2020), Sahyani (2021) and Alfarizi (2021) found that transfer pricing has a positive effect on tax avoidance. This is because transfer pricing is considered to have an opportunity for tax avoidance, transfer pricing methods in companies are interrelated with this practice. So that the higher the receivables of a company due to large income, the more likely it is related to tax evasion by the company through transfer pricing. In contrast, the results of research conducted by Panjalusman (2018), Hidayah (2020), Alfi (2021), Dita (2021) found that transfer pricing does not affect tax avoidance. Meanwhile, research conducted by Irawan (2020) found that transfer pricing has a negative effect on tax evasion.

In order to control the behavior described earlier, it is necessary to have a party that supervises and has the authority to reduce the opportunities for transfer pricing actions regarding tax avoidance (Nurrahmi & Rahayu, 2020). One of several parties that can do this is institutional share ownership (Institutional Ownership) and foreign share ownership (Foreign Ownership). According to Ngadiman and Christiany (2014) stated that institutional ownership is the percentage of shares held by local parties, both institutions and individuals. Dewi and Ketut (2014), argue that institutional ownership is a party that monitors companies with large institutional ownership indicating the ability to control more for management in considering the use of company costs in paying taxes so that they can take tax avoidance actions or not to get more profit. Institutions can be foundations, banks, insurance companies, investment companies, pension funds, limited liability companies (PT), and other institutions (Kinanti, 2020). The existence of institutional ownership in a company will encourage an increase in more optimal supervision of management performance in overseeing company finances related to tax avoidance in its subsidiaries (Kmieciak, 2016).

Previous research by Endari (2016), Prasetyo (2021) , Ratnasari (2020) , Feranika (2016), Rejeki (2019) and Maharani (2019) shows that institutional ownership has an effect on tax avoidance . The role of institutional ownership can reduce agency conflict because the company 's activities will be supervised by the institution, so that it can control the company in managing tax avoidance. While research by Damayanti (2015), Olivia (2019), and Bramantiyo (2018) institutional ownership has no effect on tax evasion because institutions do not consider this practice because they still prioritize public views of companies. In Antonio's research (2020) one aspect of the company that causes a desire to do tax evasion is foreign ownership. The larger the proportion of shares held by foreigners in a company, the greater the rights of investors in determining company policy. Data invested by investors in the companies they choose expect to get the rate of return expected by investors (Alianda et al., 2021) . Therefore, if a company has a high level of foreign share ownership, determining company policy from foreigners which refers to reducing the tax burden is also higher which leads to transfer pricing to subsidiaries in other countries to avoid higher taxes (Sukarmanto et al., 2020) . The increase in foreign investors entering Indonesia every year, which is desirable from the government's point of view, is that foreign investors who enter Indonesia, in addition to investing their capital, are also required to pay taxes following applicable regulations (Alianda et al., 2021).

Research by Suranta (2019) , Putri (2020), Alianda (2021) , Ferdano (2021), and Wardani (2021) shows that foreign ownership has an effect on tax avoidance . This is because foreign parties influence the company because they can take advantage of the existence of related parties between companies so that it allows companies to do tax evasion. In contrast, research by Michael (2018) and Antonio (2019) shows that foreign ownership has no effect on tax evasion. These results are due to foreign parties who do not really care about the presence or absence of tax avoidance practices in companies. Shareholders and managers can be minimized regarding agency conflicts that occur, because shareholders have an important role in this matter including institutional ownership and foreign ownership (Jensen and Meckling, 1976). The reason is because institutional investors and foreign investors are involved in strategic decision making so it is not easy to believe in actions that manipulate earnings. The greater the ownership of local or foreign shares, the greater the power of voice and encouragement in optimizing the value of the company. That is, companies with high levels of institutional ownership and foreign ownership will try to increase corporate profits regarding tax avoidance. With institutional and foreign ownership as a form of ownership structure in a company, shareholders will have strong authority in controlling actions and increasing supervision of management performance so that demands by shareholders regarding tax avoidance that may be faced by the company will have the opportunity (Setiawan et al., 2018) .

This study examines the effect of transfer pricing on tax avoidance with institutional ownership and foreign ownership as moderating variables. This research builds on previous research conducted by Panjalusman, Nugraha and Setiawan (2018) which examined the Effect of Transfer Pricing on Tax Avoidance

in multinational manufacturing companies listed on the Indonesia Stock Exchange in the period 2014 – 2017. The development in this research is to add institutional ownership and foreign ownership as an independent variable. Then added an update by examining the role of Institutional Ownership and Foreign Ownership variables in moderating the relationship between Transfer Pricing and Tax Avoidance variables . The period in this study is from 2017 to 2021. The objects used in this study are conventional banks registered with the Financial Services Authority (OJK).

## **THEORETICAL REVIEW**

### *Agency Theory*

According to Jensen and Meckling (1976), agency theory assumes that there are differences in interests between principals and agents which can lead to conflict because of the tendency of company managers to fulfill their personal goals. Agency problems can grow so that it threatens the life of the company if it does not carry out periodic supervision by the principal regarding the performance of company management (Fitri & Sofianty, 2021) . So that company performance requires efficient and optimal supervision by principals of agents for future company performance (Rejeki et al., 2019) . The implications of agency theory in this study can be associated with tax avoidance actions taken by companies. Because the agent takes these actions to offset the principle 's desire by wanting the maximum possible profit, to achieve this target, the company must minimize the company's burden, one of which is the tax burden. This was done so that it could be seen that the performance of the company's management had increased so that it could achieve the target (Prambudi & Asalam, 2021) .

### *Political Cost Theory*

Political cost theory according to Watts and Zimmerman (1978) is a theory about policy. This theory explains that the greater the political costs incurred by a company, the more opportunities managers have to determine accounting policies or procedures that allow them to delay reporting earnings from the current period to future periods (Indriaswari et al, 2018). Based on political cost theory, the government requires companies to pay taxes according to the profits they earn. Naturally, companies feel pressured because they regularly have to pay taxes to the state, thus potentially wasting company profits (Prambudi & Asalam, 2021) .

### *Effect of Transfer Pricing on Tax Avoidance*

Based on political cost theory, the government requires companies to pay taxes according to the profits they earn. This of course puts companies under pressure because they have to pay taxes to the government regularly and doing this can reduce company profits (Alfi, 2021). Opinion of Gusnardi (2009) which states that the purpose of multinational companies doing transfer pricing is to minimize their company's global tax obligations. The greater the possibility of carrying out transfer pricing , the greater the tax avoidance action because when the tax rate is high, the tax burden will also increase (Maulana et al., 2018).

Companies do this by shifting high tax collections between corporations with special relationships to countries with lower tax rates. This special relationship is key to the unfair transfer pricing practices that differ from independent firms (Ghasani et al., 2021) . Research that supports this hypothesis is from Lutfia and Pratomo (2018), Marwa and Wahyudi (2018), and Ijlal and Hindria (2021) which states that transfer pricing can have a positive effect on tax avoidance practices because the value of company receivables is large enough so that it has the opportunity to such action. Based on the explanation above, the hypothesis that can be formulated is:

H1: Transfer Pricing has a positive effect on Tax Avoidance

#### *The Effect of Institutional Ownership on Tax Avoidance*

Institutional ownership is a very important thing because it can support regulations in making decisions. In agency theory, the increasing share ownership of investors can encourage managers to take actions following the goals of these investors (Krisna, 2019) . The definition (Krisna, 2019) states that all institutional investor activities contribute to having authority over tax evasion for the benefit of shareholders. Because institutional investors can intervene in company management, management is assumed to act opportunistically to minimize the level of corporate tax burden to increase corporate wealth. Previous research was conducted by Sanchez and Mulyani (2020), Sujannah (2021), and Prasetyo (2018) which showed that institutional ownership had a positive effect on tax evasion due to large institutional ownership by local parties. Based on the description above, the hypothesis is:

H2: Institutional Ownership has a positive effect on Tax Avoidance

#### *The Effect of Foreign Ownership on Tax Avoidance*

A foreign investor who invests in a certain company believes in the hope of getting a high return on his investment. Agency theory says the separation of owners and managers can lead to agency problems (Jensen & Meckling, 1976) . The emergence of agency problems between shareholders and management is caused by the high level of foreign ownership in the company, which can affect decision making aimed at increasing the wealth of foreign shareholders, so that it cannot be separated from tax evasion (Herlanda et al., 2021) . Research by Kusbandiyah & Norwani, (2018), Ferdano (2021) and Putri & Mulyani, (2020 ) research results show that foreign ownership has a positive effect on tax evasion. The higher the foreign ownership, the higher the company engages in active tax avoidance. The hypothesis that can be formulated is:

H3 : Foreign Ownership has a positive effect on Tax Avoidance

#### *Effect of Institutional Ownership in Strengthening the Effect of Transfer Pricing on Tax Avoidance*

According to Jensen and Meckling (1976) institutional ownership plays a very important role in reducing agency problems that arise between management and shareholders. Institutional investors are believed to be an effective oversight mechanism in all company decisions, including equity

ownership by institutional investors or local parties. Based on agency theory, the existence of institutional ownership in a company will increase supervision so that it is more optimal for the performance of company management, because share ownership represents a source of power that can be used to support or reverse actions to moderate tax avoidance through transfer pricing. (Olivia & Dwimulyani, 2019) . Olivia and Dwimulyani's research (2019 ) shows that institutional ownership can strengthen the transfer pricing relationship to tax avoidance. According to Khurana (2009) states that the size of the concentration of institutional ownership will affect the policy of actions to minimize the tax burden (tax avoidance) by companies through transfer pricing actions to subsidiaries in other countries. Based on this description, the hypothesis formulated is:

H4: Institutional Ownership Moderation strengthens the effect of Transfer Pricing on Tax Avoidance

#### *The Effect of Foreign Ownership in Strengthening the Effect of Transfer Pricing on Tax Avoidance*

With foreign share ownership, transfer pricing is expected to have a positive impact as material for consideration in every decision or policy. With the goal of corporate sustainability, one of which is tax avoidance ( Shi et al., 2020) . In the context of agency theory , previous work by Salihu, et al (2015) found that the higher the foreign ownership of a company, the higher the company's ability to avoid taxes. So that it is possible for foreign ownership to moderate transfer pricing on tax avoidance. Previous research by Fauziati (2021) stated that foreign ownership can strengthen the effect of transfer pricing on tax avoidance. Based on this description, the hypothesis formulated is:

H5 : Moderation of Foreign Ownership strengthens the effect of Transfer Pricing on Tax Avoidance.

## **METHODOLOGY**

### *Data and Samples*

The type of data in this study was carried out using quantitative data types. Before stepping into preparing data for analysis, to fulfill the basic concepts of quantitative research, all data collected is in the form of numerical data (Hasyim & Listiawan, 2014). This research uses quantitative research methods with descriptive and verification approaches. The research method uses statistical techniques to describe variables based on quantitative analysis of existing data and to test whether the hypothesis is rejected or accepted. The population used in this study are Public Banking Companies registered with the Financial Services Authority for the financial reporting period of 2017 to 2021. Data for the period 2017 to 2021 is used in this study because the number of Banking Companies registered with the Financial Services Authority is 41 companies so that to the period is extended to maximize results when processing data.

### *Tax Avoidance*

According to Rasyid (2021) tax avoidance is any form of activity that affects tax obligations, be it taxable activities or special tax relief activities. Tax avoidance practices generally take advantage of weaknesses in tax laws and do not violate tax laws. In this study it is measured using the Cash Effective Tax Rate (CETR). Measurements using Cash ETR can address problems and limitations on measuring tax avoidance based on the GAAP ETR model (Panjalusman et al., 2018). The smaller the Cash Effective Tax Rate (CETR) value, the greater the tax evasion, and vice versa (Panjalusman et al., 2018).

$$\text{CETR} = \frac{\text{Beban Pajak Penghasilan}}{\text{Laba Sebelum Pajak}} \times 100\% \dots \dots \dots (1)$$

Information :  
CETR : Cash Effective Tax Rate

### *Transfer Pricing*

Organization for Economic Cooperation and Development (OECD) transfer pricing is defined as a price determined in transactions between group members of a multinational company, and the transfer price determined can deviate from fair market value, as long as it is reasonable for the group. You are free to adopt the principles that are right for your company and may deviate from fair market values (Panjalusman et al., 2018) .

$$\text{Transfer Pricing} = \frac{\text{Piutang Usaha Kepada Pihak Yang Memilliki Hubungan Istimewa}}{\text{Total Piutang}} \times 100\% \dots (2)$$

### *Institutional Ownership*

Institutional ownership can be interpreted as the percentage of shares owned by institutions, for example investment companies, banks, insurance companies, and other companies. Institutional ownership is estimated by the number of shares claimed by the institution against the issuance of an extraordinary offering (Fuad, 2005). Then the formula used for institutional ownership is (Wafiyudin et al., 2020) :

$$\text{KEI} = \frac{\text{Total saham yang dimiliki institusi}}{\text{Total saham beredar}} \times 100\% \dots \dots \dots (3)$$

Information :  
KEI : Institutional Ownership

### *Foreign Ownership*

Foreign ownership is the number of shares in a company owned by foreign investors. Information about shares owned by foreign investors is also included in the annual report, namely a summary of shares and notes to financial statements, as well as other ownership posts (Ferdano et al., 2021) .

$$\text{KEA} = \frac{\text{Total saham yang dimiliki asing}}{\text{Saham yang Beredar}} \times 100\% \dots \dots \dots (4)$$

Information :  
 KEA : Foreign Ownership

*Analysis Technique*

In this study, the analysis panel data regression model was used. Panel data analysis was used to examine the relationship between transfer pricing and tax avoidance and institutional ownership as a moderator. Panel data analysis consists of regression model OLS ( Ordinary Least Square ), FE model ( Fixed Effect ) and RE model ( Random Effect ) (Baltagi, 2011; Gujarati & Porter, 2009; Longhi & Nandi, 2015). In this study, the Breusch and Pagan Lagrangian Multiplier test was used as a test for the ordinary least squares regression model versus the random effect regression model . While the Chow test is used to test the ordinary least square model versus the fixed effect model and the Hausman test is used to find the most suitable panel data regression model between the fixed effect model and the random effect model. The regression coefficient is calculated with two objectives at once, namely: first, to minimize deviations between the actual value and the estimated value of the dependent variable based on existing data (Ghozali, 2013). Thus the analysis model can be stated as follows:

$$TA = \alpha + \beta_1TP + \beta_2KEI + \beta_3KEA + \varepsilon \dots\dots\dots(5)$$

$$TA = \alpha + \beta_1TP + \beta_2KEI + \beta_3KEA + \beta_{TP * KEI} + \beta_{TP * KEA} + \varepsilon \dots\dots\dots(6)$$

Information :  
 TA : Tax Avoidance  
 α : Constant  
 B : Regression Coefficient  
 TP : Transfer Pricing  
 KEI : Institutional Ownership  
 KEA : Foreign Ownership  
 ε : Error

**RESULTS AND DISCUSSIONS**

*Descriptive Statistics*

Descriptive statistics are used to get a general idea of the distribution of the principal values of the mean. The standard deviation value can be considered as an indicator of data dispersion. A smaller standard deviation indicates that the data is closer to the mean value. The descriptive statistics of the variables used in this study are shown in the table. The variable TA ( Tax Avoidance ) has a mean value of 0.2915624, which means that the level of tax avoidance presented by 41 banks in Indonesia is quite low, namely 29.15 % or a total of 12 companies. While the TP ( Transfer Pricing ) variable has a mean value of 0.0865121 , which means that on average 8.65 % of the company's opportunity to carry out transfer pricing . On the other hand, the average value of KEI (Institutional Ownership) is 0.7538793, indicating that the majority 75.38 % of the sample companies have

institutional share ownership listed on the Indonesia Stock Exchange. Meanwhile, KEA (Foreign Ownership) has a mean value of 0.320454. This means that foreign ownership has an average value of 32.04 %, proving that the minority company shares are owned by foreigners. Overall descriptive statistics for each variable can be seen in the table below:

Table 1. Results of Descriptive Statistics

Variable	mean	Std. Dev	Min	Max
TA	0.2915624	0.4278417	0.0003976	4.738256
TP	0.0865121	0.0894172	0.0003356	0.4311234
KEI	0.7538793	0.2299554	0	0.99
KEA	0.320454	0.319816	1	0.9994

*Breusch and Pagan Lagrangian Multiplier Test, Chow Test and Hausman Test*

Table 2. Breusch and Pagan Lagrangian Multiplier Test Results

	Model 1	Model 2
Chibar2(01)	0.00	0.25
Prob > chibar2	1.0000	0.3081

The Breusch and Pagan Lagrangian test is used to determine the ordinary least square regression model versus the random effect regression model.

The hypothesis assumptions are as follows:

1. Null hypothesis : The ordinary least square model is more suitable ( $p > 0.05$  )
2. Alternative hypothesis: The random effect model is more suitable ( $p < 0.05$  )

As seen in table 2, the value of the Breusch and Pagan Lagrangian Multiplier test in model 1 is 0 with a probability value of 1.00 and in model 2 it is 0.25 with a probability value of 0.3081. The results of this study from the two models show ( $p > 0.05$  ). As a result, the alternative hypothesis is rejected at the 5% significance level. The results showed that the random effect model was not suitable for evaluating the effect of the main independent variables, namely transfer pricing, institutional ownership and foreign ownership and moderation of institutional ownership and foreign ownership on tax avoidance . This shows that the ordinary least square model is more appropriate.

Table 3. Chow Test Results

	Model 1		Model 2	
F	F(40, 161)	2.26	F(40, 159)	3.28
Prob > F	0.0002		0.0000	

The Chow test is used to test the fixed effect model versus the ordinary least squares model . The hypothesis assumptions are as follows:

1. Null hypothesis: the ordinary least square model is more suitable ( $p > 0.05$  )

2. Alternative hypothesis: the fixed effect model is more suitable ( $p < 0.05$ )

Chow test value in the chi-square statistic in model 1 is 2.26 with a probability value of 0.0002 and in model 2 is 3.28 with a probability value of 0.0000. These results show significance ( $p < 0.05$ ). So the null hypothesis is rejected at the 5% significance level. The results show that the ordinary least square model is not suitable to examine the effect of the main independent variables, namely transfer pricing, institutional ownership, foreign ownership and moderating variables of institutional ownership and foreign ownership on tax avoidance. The test results show that the fixed effect model is preferred, and can be used to measure the appropriate models 1 and 2.

Table 4. Hausman Test Results

	<b>Model 1</b>	<b>Model 2</b>
Chi2	59.73	100.06
Prob > chi2	0.0000	0.0000

The Hausman test is used to check the suitability of model selection to choose the best model between the fixed effect model and the random effect model. The hypothesis assumptions are as follows:

1. The null hypothesis: the random effect model is more suitable ( $p > 0.05$ )
2. Alternative hypothesis: the fixed effect model is more suitable ( $p < 0.05$ )

The results in table 4 show that the hausman value of model 1 is 59.73 with a probability value of 0.0000 while model 2 is 100.06 with a probability value of 0.0000. These results show a hausman significance ( $p < 0.05$ ). Therefore, the null hypothesis is rejected at the 5% significance level. The results of the Hausman test show that the fixed effects model is more suitable for use in this study. Based on the three tests above, this study will use the fixed effects model in model 1 to examine the relationship between transfer pricing variables, institutional ownership and foreign ownership on tax avoidance. Meanwhile, model 2 uses the fixed effects model to examine the relationship between transfer pricing variables, institutional ownership, and foreign ownership of tax avoidance with institutional ownership and foreign ownership as moderating variables.

*Heteroscedasticity Diagnostic Test and Serial Correlation*

The heteroscedasticity test in the fixed effect model can be carried out using the Modified Wald Test (Baum, 2001; Torres-Reyna, 2010). And in the random effect model using the Likelihood-ratio test (Sanchez, 2012). The model can be said to have heteroscedasticity problems if the p-value (Prob >  $X^2$ ) is below 0.05. While serial correlation testing can be done with the Wooldridge test (Drukker, 2003). The model can be said to be serial correlation if the p value (Prob > F) is below 0.05. The results of this study used the fixed effect model to test heteroscedasticity diagnostics and serial correlation. The results of the heteroscedasticity test in model 1 with a Prob > Chi2 value of 0.0000 means that

in model 1 there are symptoms of heteroscedasticity. The results of the heteroscedasticity test in model 2 with a Prob > Chi2 value of 0.0000 means that in model 1 there are symptoms of heteroscedasticity. The Serial Correlation test results in model 1 with a Prob > F value of 0.1978 means that in model 1 there are no serial correlation symptoms . Serial correlation test results in model 2 with a Prob > F value of 0.9141, it means that in model 2 there is a symptom of serial correlation . The results of this study used the fixed effect model to test the Heteroscedasticity and Serial Correlation Diagnostics. The probability of the heteroscedasticity test results in model 1 is 0.000 and in model 2 is 0.000 and the results of the serial correlation test in model 1 are 0.1978 and in model 2 are 0.9141 meaning that both models have symptoms of heteroscedasticity. This can be overcome by adjusting the command status treatment, so that if a problem occurs the standard error is not disturbed.

Table 5. Heteroscedasticity Test Results and Serial Correlation

	Model 1	Model 2
Full Sample		
Heteroscedasticity		
Chi2	6.6e+06	6.0e+06
Prob > Chi2	0.0000	0.0000
SerialCorrelationn		
F	1715	0.012
Prob > F	0.1978	0.9141

The findings of the heteroscedasticity test and serial correlation test are used to make decisions using the fixed effect model so that the regression model used is this model with a White standard error , therefore the standard error in the fixed effect model is not disturbed by heteroscedasticity problems.

*Hypothesis Test Results*

Table 6. Model 1 Test Results

Independent Variable	Dependent Variable			
	TA			
	coef.	Std. Err.	t	P>t
const	0.860109	0.201751	4.26	0.000
TP	-4.086354	1.844596	-2.22	0.032**
KEI	-0.2907726	0.1278084	-2.28	0.028**
KEA	0.130441	0.0625739	0.21	0.836
R-square within	0.2399			
F	2.89			
Prob>F	0.0471**			
No. observation	205			
***1% significance, **5% significance, *10% significance				

Table 7. Results of Hypothesis Testing Model 2

Independent Variable	Dependent Variable			
	TA			
	coef.	Std. Err.	t	P>t
const	0.8805192	0.2022022	4.35	0.000
TP	-2.744146	1.36022	-2.02	0.050**
KEI	-0.1601069	0.2485409	-0.64	0.523
KEA	-0.2951779	0.2147995	-1.37	0.177
TP_KEI	-5.910115	4.961789	-1.19	0.241
TP_KEA	8.165032	5.10346	1.60	0.117
R-square within	0.3542			
F	4.27			
Prob>F	0.0033**			
No. observation	205			
***1% significance, **5% significance, *10% significance				

*Results of Testing the Effect of Transfer Pricing on Tax Avoidance*

Testing hypothesis 1 to test whether transfer pricing has a positive impact on tax avoidance. Table 6 shows that the TP variable has a coefficient value of -4.086354 at a significance level of 5%. This shows that the transfer pricing variable has a negative effect on the tax avoidance variable. Therefore, hypothesis 1 which states that there is a positive effect of transfer pricing on tax avoidance is not supported. With a descriptive statistical value of 8.65 %, it means that the small level of special relationship between companies does not allow companies to avoid taxes through transfer pricing. This research is supported by Irawan (2020), which also has a negative effect on tax evasion. Explains the theory of political costs related to transfer pricing activities carried out by companies where the government requires a company to pay taxes in accordance with the profits that the company gets. This has been proven to reduce the possibility of companies doing tax evasion and increase the tax burden borne by companies so that companies always pay full taxes (Irawan, 2020).

*Test Results of the Effect of Institutional Ownership on Tax Avoidance*

Testing hypothesis 2 to test whether institutional ownership has a positive impact on tax avoidance. Table 6 shows that by having a coefficient value of -0.2907726 at a significance level of 5%, it can be interpreted that institutional ownership variables have a negative effect on the TA variable. Therefore, hypothesis 2 which states that there is a positive effect of institutional ownership on tax avoidance is not supported. With an average value in the descriptive statistics table of 75.38 %, these results indicate that a company with high institutional ownership, the more stringent supervision is carried out so that it is not possible to practice tax avoidance. This also has a good impact on company operations regarding agency theory due to the existence of institutional share ownership. Institutional ownership is considered to participate in supervising and controlling the company's operations regarding the possibility of tax avoidance by the company. As well as ensuring that the company's management

makes decisions that are not detrimental to the long-term viability of the company, so that the practice of tax avoidance by the company can be avoided. In addition, the smaller the value structure of institutional ownership in a company, the easier it will be to practice tax avoidance. The results of this study are in line with Ayu Feranika (2016), Adisti Maharani (2019), Sri Rejeki (2019) and Sahyani (2021) who state that institutional ownership has a negative effect on tax avoidance.

#### *Test Results of the Effect of Foreign Ownership on Tax Avoidance*

The results of testing hypothesis 3 to test whether foreign ownership has a positive impact on tax avoidance. In table 6 it is known that the foreign ownership variable has no effect on the tax avoidance variable. Therefore, hypothesis 3 which states that there is a positive effect of foreign ownership on tax avoidance is not supported. With an average descriptive statistic of 32.04%, this shows that the average shareholder of foreign-owned companies is quite low, so the voice of investors in determining company policies is getting lower for tax avoidance (Alianda et al., 2021). According to agency theory, information relations with foreign shareholders and managers, especially local parties, will increase. This spike can cause investors not to be aware of managers' tax saving practices and only see the cost savings that occur, seeing this as good financial management (Gramatika & Nugrahanto, 2022). The results of this study are in line with the results of previous studies by Gramatika (2022) which showed that foreign ownership had no effect on tax avoidance.

#### *Effect of Institutional Ownership in Strengthening the Effect of Transfer Pricing on Tax Avoidance*

Testing the fourth hypothesis shows the results in table 7 model 2 which means that institutional ownership cannot strengthen or weaken the effect of transfer pricing on tax avoidance. So that hypothesis 4 regarding the effect of transfer pricing on tax avoidance moderated by institutional ownership is not supported. The existence of institutional ownership of a company facilitates more optimal monitoring of management performance while maintaining the principle of prudence and compliance with regulations that aim to maintain the reputation and accountability of the company (Olivia, 2019). So that institutional ownership is able to weaken the relationship between transfer pricing and tax avoidance, which means it is able to suppress the tendency of companies to avoid tax (Fitri & Fauziati, 2019). This is in line with previous studies that were not influential according to research by Fitri (2019), Olivia (2019) and Bramantiyo (2020).

#### *Effect of Foreign Ownership in Strengthening the Effect of Transfer Pricing on Tax Avoidance*

The fifth hypothesis test shows the results in table 7 model 2 that it can be explained that foreign ownership cannot strengthen or weaken the effect of transfer pricing on tax avoidance. This means that the fifth hypothesis which states that foreign ownership can strengthen the effect of transfer pricing on tax avoidance is not supported. Descriptive statistics on foreign ownership in the

sample companies show that quite a few companies have a portion of foreign ownership in the company's ownership structure. The average foreign ownership in sample companies is 32%. This shows that the sample companies are generally influenced by foreign parties. Therefore, foreign companies tend to have stronger corporate culture and governance than Indonesian companies, and thus can be influenced by the work culture of foreign investors. Companies with large foreign ownership also have very good management oversight (Putri & Damayanti, 2021) . This result is in line with previous studies which had no effect according to research by Yulia (2019) and Egra (2022) .

## CONCLUSIONS AND RECOMMENDATIONS

The effect of transfer pricing on tax avoidance in conventional bank companies registered with OJK is discussed in this study. The results of the analysis show that transfer pricing has a negative effect on tax avoidance , where usually multinational companies often use transfer pricing to minimize the tax burden to be paid, but in this study 41 banking companies with the results obtained did not carry out tax avoidance related to transfer pricing which is usually done by selling a group of goods or services at below market prices and transferring the profits to a group of companies registered in a lower tax country. This study also examines the effect of institutional ownership on tax avoidance . The test results show that institutional ownership has a negative effect on tax avoidance . This shows that the higher institutional ownership will not affect the company to do tax avoidance . As well as large institutional ownership can improve oversight regarding the company's financial management so that the possibility of practicing tax evasion is very low.

The results of the foreign ownership test on tax avoidance have no effect. This certainly does not provide opportunities for companies to carry out tax avoidance because there is also supervision from foreign parties related to the company's reputation. The low relationship between foreign shareholders and companies can cause foreign investors not to know about the tax avoidance practices carried out by the company so that they only observe the reduced costs incurred and view it as good financial management. This study also has a test result that has no effect on institutional ownership and foreign ownership which moderates the effect of transfer pricing on tax avoidance disclosure . This can be interpreted that institutional ownership and foreign ownership cannot strengthen or weaken transfer pricing actions to carry out tax avoidance , this is due to efficient and optimal supervision by principals on agents for company performance with competent managers so that they can consider the good name of the company. It is hoped that the results of this research can contribute to the company in maintaining and maximizing its financial management, especially regarding taxes so that in making decisions, the impact received by the company is considered. For further researchers, it is recommended to replace the sector other than the conventional banking sector, such as multinational industrial companies or others that have transactions with companies abroad that allow transfer pricing actions . Then you can add or replace existing variables so that

the data obtained is not focused on the stock sector owned by local or foreign parties.

#### **FURTHER STUDY**

This study reveals that transfer pricing has a negative effect on tax avoidance, the smaller the receivables owned by the company the smaller the company will do tax avoidance. The institutional ownership variable has a negative effect on tax avoidance which shows that with a high level of institutional involvement, companies cannot carry out tax avoidance due to the tight supervision of financial management by institutions. Meanwhile, foreign ownership does not affect tax avoidance due to a low level of share ownership by foreign parties so that foreign parties do not really observe the actions taken by the company. Meanwhile, the results of testing the institutional ownership and foreign ownership variables as moderating variables in this study cannot strengthen or weaken the relationship between the transfer pricing variable and tax avoidance.

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