



## The Influence of Profitability, Transfer Pricing, Capital Intensity, Independent Commissioners, and Audit Committee on Tax Avoidance (Empirical Study of Manufacturing Companies Listed on the Indonesia Stock Exchange in 2019 – 2024)

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### Abstract

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This study aims to examine and analyze the effect of profitability, transfer pricing, capital intensity, independent commissioners, and the audit committee on tax avoidance on manufacturing companies listed on the Indonesia Stock Exchange from 2019 to 2024. This is a quantitative research study. The population for this research consists of manufacturing companies listed on the Indonesia Stock Exchange from 2019 to 2024. The sample was determined using a purposive sampling method, resulting in 34 companies that met the specified criteria. The study utilized secondary data sourced from the Indonesia Stock Exchange website. Data processing and analysis were conducted using Eviews 13, with a panel data regression model as the analytical method. The results show that profitability has no effect on tax avoidance, transfer pricing has no effect on tax avoidance, capital intensity has an effect on tax avoidance, independent commissioners have no effect on tax avoidance, and the audit committee has no effect on tax avoidance.

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## INTRODUCTION

Tax is a source of state revenue derived from mandatory contributions from citizens, both individuals and corporations, used to finance government expenditures. The government's primary objective of increasing tax revenue is inversely related to the goals of a company. A company's primary goal is to maximize profit. To achieve this,

management must minimize expenses, including taxes. As Sutarmin & Andesto (2022) note, adjusting tax expenses is one way to increase profitability. The common method used by companies to adjust their tax burden is through a tax avoidance scheme.

Tax Justice Network (2019) published a report regarding PT Bentoel International Investama, which engaged in tax avoidance practices with its parent company, British American Tobacco. This was done by transferring revenue from PT Bentoel International Investama to British American Tobacco through a loan payment scheme between 2013 and 2015, along with other payments such as royalties, fees, and other services. The Tax Justice Network has stated that tax avoidance practices are costing Indonesia \$14 million in lost tax revenue each year. Another report by the Tax Justice Network in 2023 indicated that Indonesia experienced an annual tax revenue loss of USD 2,736.5 million due to corporate tax abuse.

Indonesia's manufacturing sector is one of its largest types of companies. According to the Badan Pusat Statistik (2024), the Directory of Manufacturing Industries report shows that the number of manufacturing companies in Indonesia is 31,795. The manufacturing sector is a major source of tax revenue, but it's also a significant participant in tax avoidance. A study of company on the manufacturing sector listed on the Indonesia Stock Exchange revealed that the average level of tax avoidance was 0.23 (or 23%), which is a considered the level of tax avoidance is quite high.

According to Brigham & Ehrhardt (2017), a company's profitability is a direct result of its policies and decisions. In Indonesia, the taxable object used as the basis for tax calculation is income. The business profit earned by a company is one of the taxable objects that becomes the basis for calculating tax payable (Nurdina & Sidharta, 2024). The greater a company's profit, the more tax it will have to pay. Research conducted by Novriyanti et al., (2020), Pandapotan & Nurlis (2023) and Tarmidi et al. (2020) shows that profitability influences tax avoidance. Different results were found in research by Ekawati & Utami (2024) and Fitriyani & Oktris (2023), which indicate that profitability does not affect tax avoidance.

Transfer pricing is the cost a company's selling division charges another one of its divisions for a product or service (Mowen & Hansen, 2017). Multinational companies can use transfer pricing as strategy to shift profits to countries with lower tax rates and expenses to countries with higher tax rates. According to Mappadang (2021), transfer pricing is a strategy used by corporate groups to minimize their tax burden by artificially adjusting the prices of transactions between related entities. Research conducted by Astrina et al., (2022), Ramadhanti & Marlinah (2023) and Theodora Gunawan & Asih Surjandari (2022) shows that transfer pricing influences tax avoidance. Contrasting findings were presented by Ardiles et al., (2024) dan Ghasani et al., (2021), who state that transfer pricing has no influences tax avoidance.

Capital intensity is defined as a company's investment in fixed assets to produce products that will then be sold to generate a profit (Ariefiara, 2022). Delgado (2014) states that capital intensity indicates the composition of assets that will affect the effective tax rate, particularly fixed assets that will have an impact on tax reductions from the resulting depreciation costs. Research conducted by Herlina & Budyastuti (2023), Amni et al., (2023) and Urrahmah & Mukti (2021) shows that capital intensity influences tax avoidance. Research by Manihuruk et al., (2021) and Oktaviani (2023) indicates that capital intensity does not affect tax avoidance.

An Independent Commissioner is one of the mechanisms of good corporate governance. According to Effendi (2020), an independent commissioner serves as a

balancing force in the position of a supervisory body and advisor to the board of directors, with the aim of overseeing management's policies in running the company. Research conducted by Mappadang (2021), Sutarmin & Andesto (2022) and Skundarian & Hamidi (2021), who conclude that independent commissioners influence tax avoidance. However, research by Nurjanah & Aligarh (2022) and Novita & Herliansyah (2019), who conclude independent commissioners do not influence tax avoidance.

The Audit Committee can be a key internal part of good corporate governance. According to Effendi (2020), the Audit Committee is an essential internal mechanism for ensuring good corporate governance, as its role is to supervise the company's operations. Research conducted by Ayu Wardan & Nissa Nurharjanti (2019), Idzniah & Bernawati (2020) and Novita & Herliansyah (2019) shows that the audit committee influences tax avoidance. Conversely, research by Agustina & Mappadang (2022) and Skundarian & Hamidi (2021) indicates that the audit committee does not influence tax avoidance.

The described phenomena indicate that tax avoidance practices continue to persist, particularly within the manufacturing sector. Inconsistent findings in prior studies have led to a research gap that warrants further investigation. Accordingly, the following research problem formulation is derived from the previously discussed phenomena and identified research gaps are as follows:

1. Does profitability affect tax avoidance?
2. Does transfer pricing affect tax avoidance?
3. Does capital intensity affect tax avoidance?
4. Does independent commissioners affect tax avoidance?
5. Does audit committee affect tax avoidance?

## LITERATURE REVIEW

### Agency Theory

The concept of agency theory was pioneered by Jensen and Meckling in 1976. This theory is concerned with the contractual relationships among the members of a firm or organization (Ghozali, 2020). Jensen and Meckling, as cited in Purba (2023) state that an agency relationship arises when the principal (shareholders or investors) hires an agent (management) to manage the company. Scott, as cited in Purba (2023) defines agency theory is presented as a contract between a principal (the investor or owner) and an agent (the manager) where the agent is appointed to operate the company on the principal's behalf.

### Political Cost Theory

Political Cost Theory is a component of Positive Accounting Theory, introduced by Watts and Zimmerman in 1978, which explains how firms make accounting choices. According to this theory, companies make accounting decisions influenced by political and economic pressures from outside the organization, such as the public, government, and other interest groups. Large companies often face high political costs, with taxes being a prominent example.

### Tax Avoidance

According to Mappadang (2021), companies use tax avoidance to legally minimize the amount of tax they pay by taking advantage of weaknesses in tax regulations. The loopholes are exploited by taking advantage of the absence of clear regulations or

provisions for a particular transaction (grey area). According to Mappadang (2021), The level of tax avoidance is determined by the Effective Tax Rate (ETR), which compares tax expense to pre-tax profit. Based on research by Nisasilmi Nasuha et al. (2024), a higher ETR indicates a lower likelihood of a company engaging in tax avoidance practices. Conversely, a lower ETR suggests a higher probability that a company is practicing tax avoidance.

### **Profitability**

According to Brigham & Ehrhardt (2017), profitability ratios reflect the collective impact of a company's liquidity, asset management, and debt levels on its overall operating results. These ratios are used to measure a firm's ability to generate profit from its normal business activities (Thian, 2021). Nurdina & Sidharta (2024) explain that business profit is one type of income subject to corporate income tax. . Brigham & Ehrhardt (2017) measure profitability using Return on Assets (ROA), which compares net income after tax to the company's total assets. Research by Novriyanti et al., (2020), Pandapotan & Nurlis (2023) and Tarmidi et al. (2020) indicates that profitability has an effect on tax avoidance.

### **Transfer Pricing**

Mowen & Hansen (2017) define transfer pricing as the cost that one part of a company charges another part for a product. Mappadang (2021) states that transfer pricing is a strategy used by corporate groups to minimize their tax burden by artificially adjusting the prices of transactions between related entities. Tampubolon & Farizi (2018) measure transfer pricing by comparing accounts receivable from related parties to the company's total accounts receivable. Based on the findings of Astrina et al., (2022), Ramadhanti & Marlinah (2023) and Theodora Gunawan & Asih Surjandari (2022) indicates that transfer pricing has an effect on tax avoidance.

### **Capital Intensity**

Capital intensity indicates the amount of a company's capital that is used for fixed asset investments. (Arieftiara, 2022). Capital intensity reflects the asset composition that will influence the effective tax rate, particularly fixed assets that affect tax reductions through depreciation expenses (Delgado, 2014). To measure the capital intensity ratio, one can compare a company's net fixed assets to its total assets (Arieftiara, 2022). Based on studies by Herlina & Budyastuti (2023), Amni et al., (2023) and Urrahmah & Mukti (2021) indicates that capital intensity has an effect on tax avoidance.

### **Independent Commissioner**

The board of commissioners is crucial for successfully implementing good corporate governance. According to Effendi (2020). independent commissioners are particularly important because they serve as a check on the board's decision-making power. According to agency theory, independent commissioners serve to oversee policies made by management, including a company's tax policies. Tandean (2016) calculates the number of independent commissioners by comparing it to the total number of people on the board. Studies by Mappadang (2021), Sutarmin & Andesto (2022) and Skundarian & Hamidi (2021) indicate that independent commissioners have an effect on tax avoidance.

## Audit Committee

According to Bagiana (2022), the board of commissioners creates an audit committee to help with its oversight duties. Green (2005) adds that this committee's specific purpose is to assist the board in overseeing the integrity of financial statements and ensuring the company follows all relevant laws. In agency theory, the audit committee serves as a supervisor to reduce the conflict of interest between a company's owners and its management. This role is seen as a key part of implementing good corporate governance. This includes overseeing management's tax avoidance practices. Tandean (2016) measures the size of a company's audit committee by counting its members. Research by Ayu Wardan & Nissa Nurharjanti (2019), Idzniah & Bernawati (2020) and Novita & Herliansyah (2019) shows that the audit committee has an effect on tax avoidance

## METHODS

This study used a quantitative research method with a causal approach to examine its variables. The population consisted of 170 manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2024. The sample was chosen using purposive sampling, which means specific criteria were used to select the companies for the study.

Tabel 1. Sampling Results

<b>Informasi</b>	<b>Total</b>
Manufacturing companies listed on the IDX peiod 2019–2024	170
Manufacturing companies that did not report their financial statements on the IDX period 2019-2024	(14)
Manufacturing companies on the IDX that did not generate a profit period 2019-2024	(80)
Manufacturing companies on the IDX that did not have any affiliated transactions period 2019-2024	(23)
Manufacturing companies on the IDX period 2019–2024 that use foreign currencies.	(7)
Manufacturing companies on the IDX period 2019–2024 that lack complete data for the required variables.	(12)
<b>Number of companies meeting the criteria</b>	34
<b>Number of observation periods</b>	6
<b>Number of research data</b>	204

## RESULT AND DISCUSSION

### Result

#### Descriptive Statistics

Descriptive statistical analysis is used to analyze the data distribution of the collected research samples.

Tabel 2. Statistic Descriptive Result

	TA	Profitability	TP	CI	KI	KA
Minimum	0.032015	0.001914	0.000342	0.049565	0.285714	2.000000
Maximum	0.698865	0.744461	0.972527	0.814416	0.833333	5.000000
Mean	0.236846	0.103612	0.246496	0.402051	0.438232	3.063725
Standard Dev.	0.061989	0.089107	0.308964	0.194750	0.110059	0.282246

Source: Data processed with Eviews 13

- 1) The tax avoidance (TA) values in the study ranged from a minimum of 0.032015 (PT Budi Starch & Sweetener Tbk in 2020) to a maximum of 0.698865 (PT Semen Baturaja (Persero) Tbk in 2020). The average TA value was 0.236846 (23%), which indicates that the companies in the sample generally tend to engage in tax avoidance. The standard deviation of 0.061989 is smaller than the mean, suggesting that the data points are relatively close to the average, making the results more consistent or homogeneous.
- 2) The profitability values ranged from a low of 0.001914 for PT Semen Baturaja (Persero) Tbk in 2020 to a high of 0.744461 for PT Sariguna Primatirta Tbk in 2019. The average profitability was 0.103612, meaning companies typically generated a 10% net profit from their total assets. The standard deviation of 0.089107 is less than the mean, which suggests a relatively low variation or high homogeneity in the data.
- 3) The transfer pricing (TP) values for the sample companies varied significantly, with a low of 0.000342 (PT Impack Pratama Industri Tbk, 2024) and a high of 0.972527 (PT Sariguna Primatirta Tbk, 2021). The mean value of 0.246496 shows that approximately 24.6% of the companies' trade receivables resulted from affiliated transactions. The standard deviation of 0.308964 is greater than the mean, which highlights the high degree of heterogeneity within the data set.
- 4) Capital intensity (CI) values ranged from a minimum of 0.049565 (PT Tembaga Mulia Semanan Tbk, 2024) to a maximum of 0.814416 (PT Semen Baturaja (Persero) Tbk, 2023). The mean value is 0.402051 (40%), indicating that the sample companies typically made significant investments in fixed assets. With a standard deviation of 0.194750 that is smaller than the mean, the data is relatively consistent and shows little variation (homogeneous).
- 5) The independent commissioner (KI) values for the sample companies ranged from a minimum of 0.285714 (PT Semen Indonesia (Persero) Tbk, 2019-2023) to a maximum of 0.833333 (PT Unilever Indonesia Tbk, 2020-2024). With a mean value of 0.438232 (43.82%), the data indicates that the sample companies, on average, have an independent commissioner composition that is above the 30% threshold. The standard deviation of 0.110059 is smaller than the mean, suggesting that the data is consistent and not highly varied (homogeneous).
- 6) The number of members on the audit committees in the study's sample ranged from a minimum of 2 (PT Multi Bintang Indonesia Tbk, 2023) to a maximum of 5 (PT Semen Indonesia (Persero) Tbk, 2024). The mean value of 3.063725, which indicates that the companies generally have about three people on their audit committees. The standard deviation of 0.282246 is smaller than the mean, suggesting that the data is quite consistent across the sample (homogeneous).

## Model Feasibility

### Coefficient of Determination Test (R<sup>2</sup>)

Tabel 3. Coefficient of Determination Test Result

R-squared	0.054638
Adjusted R-squared	0.030765

Source: Data processed with Eviews 13

The test's R-squared (R<sup>2</sup>) value of 0.054638 indicates that the five independent variables—profitability, transfer pricing, capital intensity, independent commissioner, and audit committee—explain only 5.46% of the variation in tax avoidance. The remaining 94.54% of the changes in tax avoidance are attributed to other factors not included in this study.

### F-Test

Tabel 4. F-Test Result

F-statistic	2.288698
Prob(F-statistic)	0.047396

Source: Data processed with Eviews 13

The F-test results indicate that the regression model is a good fit for the data. With an F-statistic of 2.288698 and a p-value of 0.047396 which is below the 0.05 significance level, the study shows that the independent variables—profitability, transfer pricing, capital intensity, independent commissioner, and the audit committee—collectively and significantly affect tax avoidance.

### Hypothesis Testing

Tabel 5. Hypothesis Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constanta	0.255496	0.058031	4.402714	0.0000
Profitability	-0.073545	0.058625	-1.254506	0.2111
Transfer Pricing	-0.033121	0.017960	-1.844090	0.0667
Capital Intensity	0.067742	0.030481	2.222397	0.0274
Independent Commissioner	0.020230	0.047779	0.423408	0.6725
Audit Committee	-0.012719	0.017438	-0.729347	0.4667

Source: Data processed with Eviews 13

- 1) Profitability has a negative but insignificant effect on tax avoidance, with a coefficient of -0.073545. The p-value of 0.2111 is greater than the 0.05 significance level, indicating that profitability does not have a significant impact on tax avoidance.
- 2) Transfer pricing has a negative effect with a coefficient of -0.033121 but statistically insignificant effect on tax avoidance because the p-value of 0.0667 is above the 0.05 significance level, meaning the relationship is not strong enough to influence tax avoidance.
- 3) Capital intensity has a significant positive effect on tax avoidance, with a coefficient of 0.067742. The p-value of 0.00274 is below the 0.05 significance level, confirming this relationship.

- 4) Although independent commissioners show a positive coefficient of 0.020230, their effect on tax avoidance is not statistically significant. This is because the p-value of 0.6725 is much higher than the 0.05 significance level.
- 5) The audit committee shows a negative coefficient of -0.012719, but its effect on tax avoidance is not statistically significant. This is confirmed by a p-value of 0.4667, which is much higher than the 0.05 significance level.

## Discussion

### The Impact of Profitability on Tax Avoidance

The research indicates that profitability is not a major factor influencing tax avoidance. Companies with higher profits tend to voluntarily pay higher taxes due to their financial capacity. Furthermore, profitable companies are generally those that have already established a strong reputation and name in the public eye. To protect this goodwill and reputation, management will try to avoid decisions that could harm the company's image, particularly by engaging in tax avoidance practices.

According to agency theory, management is often seen as acting opportunistically by engaging in tax avoidance to maximize the company's after-tax profit, thereby making their performance look good. However, as agents, management also tries its best to avoid actions that could harm the owners or shareholders. One way to do this is by not engaging in tax avoidance practices, which could lead to future consequences for the company, such as administrative tax penalties and damage to its reputation.

These findings are consistent with prior research by Ekawati & Utami (2024) and Fitriyani & Oktris (2023), who also concluded that profitability does not affect tax avoidance. However, this study's results are inconsistent with the findings of Novriyanti et al., (2020), Pandapotan & Nurlis (2023) and Tarmidi et al. (2020), which concluded that profitability does have an effect on tax avoidance.

### The Impact of Transfer Pricing on Tax Avoidance

The research indicates that transfer pricing does not influence tax avoidance. This suggests that it's not the main method companies use to avoid paying taxes. Stricter regulations and increased oversight, both in Indonesia and internationally, have likely made it harder for companies to use transfer pricing for tax avoidance. As a result, companies now must prepare extensive transfer pricing documentation that follows the arm's length principle and specific measurement standards.

Under agency theory, managers (the agents) are hesitant to use transfer pricing for tax avoidance because it involves high risks. The strict regulations, significant costs, and potential harm to the company's reputation outweigh the benefits. As a result, managers might use transfer pricing for other business purposes, such as improving cost efficiency or control, instead of using it to avoid taxes.

These findings align with studies by Ardiles et al., (2024) dan Ghasani et al., (2021) which also found that transfer pricing does not affect tax avoidance. However, these results are inconsistent with research from Astrina et al., (2022), Ramadhanti & Marlinah (2023) and Theodora Gunawan & Asih Surjandari (2022) which concluded that transfer pricing have influence on tax avoidance.

### **The Impact of Capital Intensity on Tax Avoidance**

The research findings show that capital intensity has a significant positive effect on tax avoidance. This suggests that companies with higher company invest more heavily in fixed assets such as buildings and equipment, are more likely to engage in tax avoidance. This is because larger investments in fixed assets lead to higher depreciation expenses, which are deductible from a company's taxable income, effectively reducing its tax burden.

Both agency theory and political cost theory help explain why companies engage in tax avoidance. Agency theory suggests managers may try to reduce taxes to boost net profit. Meanwhile, political cost theory explains that large companies face significant costs, like taxes, which they want to minimize. One legal way management can reduce the company's tax burden is by making large investments in fixed assets. Tax regulations allow the depreciation expenses from these assets to be deducted, which lowers the company's taxable income.

These findings are consistent with research by Herlina & Budyastuti (2023), Amni et al., (2023) and Urrahmah & Mukti (2021) which also show that capital intensity affects tax avoidance. However, these results are inconsistent with studies by Manihuruk et al., (2021) and Oktaviani (2023) which concluded that capital intensity does not have a significant effect on tax avoidance.

### **The Impact of Independent Commissioners on Tax Avoidance**

The study indicates that independent commissioners do not have a significant impact on tax avoidance and are not a key factor in a company's tax strategies. Although agency theory suggests their role is to enhance oversight for shareholders, this study found they have no significant influence in monitoring these practices. Independent commissioners may not have sufficient information because of information asymmetry, which prevents them from providing valuable input or perspective on tax avoidance strategies used by management. Independent commissioners have limited time for oversight as they primarily focus on non-tax areas, such as management, business operations, and efficiency. Independent commissioners have their own limited expertise is a crucial factor. If independent commissioners lack knowledge of complex tax laws and regulations, it becomes difficult for them to effectively identify and oversee tax avoidance practices.

These findings are consistent with studies by Nurjanah & Aligarh (2022) and Novita & Herliansyah (2019) which also found no significant effect of independent commissioners on tax avoidance. However, this study's results are inconsistent with research from Mappadang (2021), Sutarmin & Andesto (2022) and Skundarian & Hamidi (2021) which concluded that independent commissioners do have an effect on tax avoidance.

### **The Impact of Audit Committee on Tax Avoidance**

Based on this research, independent commissioners do not have a significant impact on tax avoidance. While agency theory suggests the audit committee should improve oversight of a company's financial reporting, its presence doesn't necessarily influence tax avoidance practices. An audit committee's power is restricted to making recommendations, not final decisions, which can lead to low involvement and ineffective oversight in tax matters. Although committee members are knowledgeable in accounting and finance, they may not have a deep understanding of complex tax laws, which weakens

their ability to monitor tax avoidance. Sometimes, the committee is established simply to meet government or Financial Services Authority (OJK) requirements to avoid penalties, rather than to genuinely ensure good corporate governance and tax compliance.

These findings are consistent with studies by Agustina & Mappadang (2022) and Skundarian & Hamidi (2021), which also show that the audit committee does not affect tax avoidance. However, these results are inconsistent with research conducted by Ayu Wardan & Nissa Nurharjanti (2019), Idzniah & Bernawati (2020), and Novita & Herliansyah (2019), who found that the audit committee does have a significant effect on tax avoidance.

## CONCLUSION

This study investigated how profitability, transfer pricing, capital intensity, independent commissioners, and the audit committee affect tax avoidance. The findings based on data analysis result and discussion, following conclusions are:

1. The study found no significant relationship between profitability and tax avoidance. Highly profitable companies can afford to pay their tax obligations and prefer to do so rather than risk the legal and reputational consequences of tax avoidance.
2. The research indicates that transfer pricing is not a key factor in tax avoidance. Strict regulations and the requirement for companies to follow the arm's length principle in their documentation make it much harder to use this method to avoid taxes.
3. There is a significant positive relationship between capital intensity and tax avoidance. Companies that invest more heavily in fixed assets are resulting increase in depreciation expenses can be legally deducted from their taxable income
4. Independent commissioners do not influences on tax avoidance. This could be because they often lack a deep understanding of complex tax matters and focus more on general business operations, which limits their ability to effectively monitor tax avoidance.
5. The audit committee also has no influence on tax avoidance. This may be due to their limited access, involvement, and expertise in evaluating the complex risks of tax avoidance, which prevents them from effectively overseeing these practices.

## Suggestion

Future studies should aim to improve upon this research by expanding the sample size and observation period. It is also recommended to include different company sectors and examine additional variables that may influence corporate tax avoidance. This study shows that capital intensity can be a legal way to reduce a company's tax burden, which is an important factor to consider. Investors should consider factors like its capital intensity when evaluating a company, as it may influence the company's tax avoidance practices. Last but not least, The Directorate General of Taxes should work to create new regulations that close tax loopholes and prevent companies from using them to avoid paying taxes, such as increasing oversight of fixed asset depreciation, which this study shows can be a tool for legitimate tax avoidance.

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