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The effect of transfer pricing on tax avoidance on transport and logistics sector companies listed on Indonesia Stock Exchange in 2019 – 2022

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ABSTRACT

This study aims to determine the effect of transfer prices on tax avoidance. This type of research is quantitative. The data used in this study are secondary data. The population in this study is service companies listed on the Indonesia Stock Exchange in the transportation and logistics sector in 2019–2022. The total population in this study was 30 companies. The sampling technique used purposive sampling and obtained as many as 24 companies with a research period of 4 years, so that 96 sample data points were obtained. The data analysis used in this study is descriptive analysis, classical assumption testing, correlation coefficients, determination coefficients, significance tests, and regression analysis.

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1. INTRODUCTION

Tax is an obligation of payment that must be made compulsorily from the people to the state to support the construction and facilities of the state. As supported by Law No. 28 Year (2007), which says that tax is a contribution that must be made to the government by individuals or legal entities in accordance with binding legal provisions without receiving direct compensation, the aim is to support public welfare and state needs as best as possible. Tax is coercive, which is an obligation that must be fulfilled by every individual or entity referred to as a taxpayer, and non-compliance with this tax obligation has the potential to result in the application of sanctions in accordance with applicable regulations. On the other hand, when the government strives to increase the country's potential tax revenue to support economic development and national development, every company always strives to achieve the greatest possible profit. Companies believe that high tax liabilities can reduce their profitability, which can hurt the company. Therefore, the large tax liability that companies must pay tends to encourage them to look for more efficient ways of paying taxes by avoiding actions that can reduce state revenue through tax avoidance in accordance with applicable regulations.(Hasanah, 2021).

Tax management can involve the use of tax avoidance strategies, commonly referred to as tax avoidance. The goal of tax avoidance is to reduce the tax burden by exploiting loopholes in regulations, such as those supported by (Wardani & Puspitasari, 2022) Tax avoidance refers to actions taken by individuals or legal entities who have a tax obligation to reduce the amount of tax they have to pay by exploiting existing weaknesses or gaps in tax regulations. Taxpayers often avoid it by means of a Tax Assessment Letter, or SKP, and also by using Article 23 of the Income Tax Act.

Reporting from Kontan.co.id, the Director General of Taxes of the Ministry of Finance, Suryo Utomo, has revealed that tax avoidance practices are found that are estimated to burden the state by Rp 68.7 trillion every year. This disclosure comes from the Tax Justice Network, which reveals that Indonesia is estimated to suffer losses of up to around $4.86 billion annually due to tax avoidance practices. Of the total, around US$ 4.78 billion, or around Rp 67.6 trillion, came from tax avoidance practices carried out by companies in Indonesia. The remaining part, about US$78.83 million, or around Rp1.1 trillion, came from individuals who committed tax evasion. In an effort to reduce tax avoidance

To reduce tax avoidance, companies can apply transfer pricing to their strategy. Transfer pricing is a pricing policy for transactions determined by the company, whether prices increase or decrease. Powered by (Rafinska, 2019) Transfer pricing refers to the policies that companies apply to determine transfer prices in various types of transactions, including the prices of goods, services, intangible assets, and financial transactions carried out by the company.

Transfer pricing is the selling price used for exchange between buyers and sellers. According to (Sutedi, 2011) Transfer pricing is a specially adjusted selling price used in exchange transactions between internal divisions to record the revenue of the selling division (seller's division) and the fees charged to the buying division (buyer's division), or as said by (Estes R, 2019) Transfer pricing is an internal price charged to a unit, division, subsidiary, or certain parts of a company that are within the same entity. Kesimpulan yang bisa diambil is that transfer pricing is a way to set prices on transactions between companies that are in the same group of entities.

Reporting from Investigasi.tempo The phenomenon related to transfer pricing practices that occurred at PT Toyofuji Manufaktur Indonesia recorded significant changes in the company's gross margin. In 2015, PT Toyofuji Manufaktur's gross margin increased from 11% to 14% annually. However, after undergoing restructuring, PT Toyofuji Manufacturing Indonesia's gross margin is in the range of 1.8% to 8.3% annually. On the other hand, PT Toyota Astra Motor, which is a company that acts as the only brand-holder agent formed after the restructuring process, has a gross margin of around 3.8% to 5%. If we add up the gross margin of PT Toyofuji Manufaktur with PT Toyota Manufacturing Indonesia, the total reaches 7%. In other words, there was a 7% decrease in profit margin before tax after the restructuring, compared to 14% in gross margin in 2014.

In view of this, the tax inspector made a correction to the transaction price between Toyota Manufacturing and Toyota Motor Asia Pacific in Singapore. Export mode with an unnatural value also occurred in that year. As a result, Toyofuji Manufacturing's sales revenue in 2015 experienced a sharp increase compared to the company's initial report, rising from half a trillion to around Rp 1.7 trillion.

In addition, in relevant research on transfer pricing, there are different variations in results. Panjalusman et al., (2018) state that transfer pricing has an insignificant impact, Irawan et al., (2020) concluded that transfer pricing had a significant negative impact, while Rifai & Atiningsih (2019) concluded that transfer pricing had a significant positive impact.

This research uses transportation and logistics companies because this sub-sector is infrastructure or services that have an important role in the main activities of the economy that contribute to high growth in Gross Domestic Product (GDP) and the community that helps in maintaining an efficient service industry sector.

From the explanation above, the author identifies contradictory phenomena and differences, so the researcher was interested in conducting a study entitled "The Effect of

Transfer Pricing on Tax Avoidance in Transportation and Logistics Sub-Sector Service Companies Listed on the Indonesia Stock Exchange in 2019–2021)."

Transfer Pricing Transfer pricing is the act of determining the value applied in the process of transferring goods, services, or intellectual property rights between two parties who have a related relationship, such as a branch of a company within the scope of a multinational company, or between different parts within the same company, or as said by (Estes R, 2019) Transfer pricing is an internal price charged to one unit, division, subsidiary, or other part of a company that is within the same entity.

One variable that is thought to affect tax avoidance is transfer pricing. Transfer pricing practices can be based on tax motives or non-tax motives. In the context of tax motivation, transactions between business units within a multinational group of companies often involve cross-border transactions, which are carried out with the aim of reducing tax liability. This is achieved by shifting tax costs from high-tax countries to low-tax countries (Kamilah, 2016).

Tax avoidance is a strategy implemented by companies to reduce their tax liabilities without violating legal provisions while complying with legitimate practices (Mardiasmo, 2016) Tax avoidance refers to efforts to reduce tax liabilities lawfully without violating the law. And according to (W. Waluyo & Doktoralina, 2018) tax avoidance is an attempt to violate taxes aimed at easing the tax burden. Furthermore, from the explanation above, it can be concluded that tax avoidance is an action that aims to reduce taxes with the intention of reducing tax payments, which are run by companies without violating applicable.

The selling price carried out by the company must have a purpose as well as transfer pricing. According to (Rafinska, 2019) The purpose of transfer pricing is an intercompany transaction that often starts with a special relationship between these companies.

According to Naruli et al., (2022) indicates that transfer pricing has a considerable impact on tax avoidance practices. Apparently, the more multinational companies implement transfer pricing strategies, the more successfully they reduce the tax liability to be paid. The results of this study are also supported by Rahmawati (2019) and (Wijaya & Hidayat, 2022) which found that transfer pricing has an effect on tax avoidance to minimize tax deposits to the state. But the results of this study are not in line with Arliani (2023) and (Napitupulu et al., 2020) argues that transfer pricing has no effect on tax avoidance because there is no difference in rates imposed on related parties. Besides that, there are regulations that must be obeyed by taxpayers to avoid tax avoidance efforts.

2. RESEARCH METHOD

Data types and sources

The information used in this study was sourced from secondary data. This secondary data becomes the basis of research information used by researchers, obtained indirectly through intermediaries (received and recorded by other parties). This research data was obtained from the financial statements of transportation and logistics sector companies listed on the Indonesia Stock Exchange during the period 2019–2022, as a provider of financial statement data.

Population and Sample

As the group of companies that are the focus of this study, the author selects service companies in the Transportation and Logistics sub-sector listed on the Indonesia Stock Exchange during the period 2019–2022. The number of samples used in the study was 30 companies, and the data was collected over four years. Thus, the total sample data analyzed in this study reached 96. The sampling procedure in this study follows the purposive sampling method, where sample selection is carried out with special consideration based on certain criteria, as follows:

Table 1 Criteria Sampling

No	Criterion	Quantity
1	Criterion Transportation and Logistics Company is listed on the Indonesia Stock Exchange for the period 2019–2022.	30
2	Transportation and logistics companies that do not publish complete company financial statements during the period 2019–2022	0
3	Companies that do not disclose information related to variables needed in research during the period 2019–2022	-6
Number of Samples		24
Number of Observations		96

Operational Definition

Tax Avoidance

Tax avoidance is a variety of actions that impact tax liabilities, whether they are actions allowed by tax regulations or actions specifically designed to reduce taxes. Tax avoidance practices generally use loopholes in tax law and do not violate tax regulations. (Azizah, 2016). Tax Avoidance in this study can be calculated by Effective Tax Rate. According to T. M. Waluyo et al., (2015) ETR can be calculated as follows: ETR = Income Tax Expense/Pre-Tax Income

Transfer Pricing

Transfer pricing refers to the price set when one division within the company provides goods or services to other divisions within the same company (Monica & Irawati, 2021). However, often the term transfer pricing is associated with unethical practices (transfer pricing abuse). In this case, income is transferred from a company located in a high-tax country to another company in a lower-tax country to reduce the amount of tax payable by the company. According to (Noordiatmoko et al., 2020) Transfer pricing can be calculated as follows: ROS = (Profit before Tax and Interest/Sales) x 100%

Data Analysis Techniques

This research uses the descriptive analysis method, the classical assumption test, the correlation coefficient, the determination coefficient, the significance test, and regression analysis.

3. RESULTS AND DISCUSSIONS

Descriptive Analysis Test

This test aims to provide an overview of the variables used, such as the minimum value, maximum value, average, and standard deviation of each variable tested.

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Transfer Pricing	96	17.00	870.00	181.1042	159.28455
Tax Avoidance	96	1.00	297.00	67.5313	69.87808
Valid N (listwise)	96				

Based on the results of the descriptive calculations in Table 2, it is known that the average value of transfer pricing from 96 data points throughout the company for 4 (four) is 181.1042, with a standard deviation of 159.28455. The average value for tax is 67.5313, with a standard deviation of 69.87808.

Classical Assumption Test

The purpose of testing the classical assumption test is to provide certainty that the regression equation obtained has accuracy in estimation, is not biased, and is consistent. The dependent variable in this study is tax avoidance.

Table 3. One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		96
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.90639521
Most Extreme Differences	Absolute	.060
	Positive	.041
	Negative	-.060
Test Statistic		.060
Asymp. Sig. (2-tailed)		.200[c,d]

Based on Table 3, the result of 0.200 > 0.05 means that the data is normally distributed, which means that the data has the feasibility to continue the next testing process.

Correlation Coefficient Test

This test aims to measure the magnitude of the relationship that exists between the independent variable and the dependent variable. In research.

Table 4. Correlations

		Transfer Pricing	Tax Avoidance
Transfer Pricing	Pearson Correlation	1	-.314**
	Sig. (2-tailed)		.002
	N	96	96
Tax Avoidance	Pearson Correlation	-.314**	1
	Sig. (2-tailed)	.002	
	N	96	96

**. Correlation is significant at the 0.01 level (2-tailed).

Based on Table 4, the results of statistical processing using the SPSS application resulted in a relationship of 0.002. Thus, it can be interpreted that transfer pricing has a correlation with the degree of relationship, namely a weak correlation and a negative relationship.

Coefficient of Determination Test

This test aims to find out how much influence a variable has. The higher the value of R2, the better the prediction odel in research mode.

Table 5. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.314[a]	.099	.089	66.69552

a. Predictors: (Constant), Transfer Pricing

Based on Table 5, the value of the coefficient of determination was found to be 0.099, or 9.9%, meaning that transfer pricing only contributed 9.9% to changes in tax avoidance. It can be mentioned that transfer pricing has an influence on tax avoidance practices.

Significance Test

This test aims to find what independent variables can stimulatively affect the dependent variable in this study. The F test is usually done to see the effect of all independent variables simultaneously on the dependent variable.

Table 6. ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	45740.431	1	45740.431	10.283	.002[b]
	Residual	418139.475	94	4448.292		
	Total	463879.906	95			

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

Based on Table 6, the significance test results show a value of 0.002 < 0.05, which means that there is acceptance of the hypothesis. which means that there is a significant effect of transfer pricing on tax avoidance. These results support the study.(Rahmawati, 2019) and (Wijaya & Hidayat, 2022). While the results of this study are not in line with the results of the study (Napitupulu et al., 2020).

Regress Analysis Test

This test aims to predict the influence of the prediction variable on the criterion variable, or, in other words, to see whether the independent variable (X) and the dependent variable (Y) have a relationship or not.

Table 7. Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	92.480	10.338		8.946	.000
	Transfer Pricing	-.138	.043	-.314	-3.207	.002

The results of the t test (partial) show that the significance value of the effect of transfer pricing on tax avoidance is 0.002. There is a significant effect of transfer pricing on tax avoidance.

Discussion

Based on the results of testing the first hypothesis (H1) in this study, which shows a significance value of 0.002 smaller than the significance level of 5% or 0.05, which means that transfer pricing has a significant effect on tax avoidance, H1 is accepted. These results support research (Saragih et al., 2021) and (Makenta Evan, 2017), which concludes that transfer pricing affects tax avoidance. However, this research is not in line with the research conducted (Ghasani et al., 2021). The application of transfer pricing is still used by multinational companies to avoid taxes. They tend to see effective tax rates as guidelines. In other words, the greater the tax that a company must pay to the state, the more motivated multinational companies that focus on profit are to find ways to reduce taxes, one of which is through transfer pricing.

4. CONCLUSION

It is concluded from the results of the research above that variable transfer pricing has an influence on tax avoidance for transportation and logistics sector service companies listed on the IDX in 2019–2022. This result is obtained through a correlation coefficient test, which shows that transfer pricing has a correlation with the degree of relationship, namely a weak correlation and a negative relationship. The significance test results show a value of 0.002 < 0.05, which means that there is acceptance of the hypothesis. That means there is a significant effect of transfer pricing on tax avoidance. Also, the results of the t test (partial) show that the significance value of the effect of transfer pricing on tax avoidance is 0.002. There is a significant effect of transfer pricing on tax avoidance. Based on the results, this research proves that transfer pricing has a negative relationship with tax avoidance. As a suggestion for future research, the author recommends that other researchers add more variables related to TP, such as liquidity, profitability, and capital intensity. Furthermore, expand the population of research to collect more accurate and comprehensive research.

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