

The Effect Of Transfer Pricing, Political Connection, Leverage, And Deferred Tax On Tax Avoidance

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Abstract

Tax is the largest income for a country, the tax itself under the law is coercive, which means that taxpayers must pay taxes from their income if they have reached the required taxable limit. But in reality there are still many taxpayers who deliberately avoid paying taxes influenced by factors that can affect tax evasion. This study analyzes the factors of transfer pricing, political connections, leverage and deferred taxes on tax avoidance using multiple regression analysis of manufacturing companies listed on the IDX for the 2019-2021 period. This study found that transfer pricing and leverage have a significant effect on tax evasion, while political connections and deferred tax variables have no significant effect.

Keywords: Tax Avoidance, Transfer Pricing, Political Connection

INTRODUCTION

Law of the Republic of Indonesia Number 28 of 2007 concerning general provisions and procedures for taxation defines tax as a mandatory contribution from society to the state, and those who have the obligation to pay taxes are individuals or entities. Self-tax based on the law is 'coercive', meaning that individuals/business entities that have income and have reached the taxable limit are required to pay taxes. Taxes do not provide compensation directly to those who pay them, but tax revenues will be returned to the community, and used for the needs of the state and people's prosperity.

In taxation theory, there is one way for individuals/agencies to reduce the tax burden is to carry out tax management or tax planning by not violating tax regulations or referred to as tax avoidance (Tax Avoidance). According to tax law, tax evasion is not

325

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prohibited even though it often gets unfavorable attention from the tax office because it is considered to have a negative connotation (Sari, 2014). In essence, tax evasion will cause the state to lose tens to hundreds of billions of rupiah each year in state revenues originating from the taxation sector. Tax avoidance it self is carried out by the agency/company to maximize company profits because tax is a cost component for the agency.

There are several cases in Indonesia related to corporate/company tax avoidance through transfer pricing practices. The first tax evasion case that occurred in 2019, was carried out by PT. Adaro Energy Tbk, which is suspected of practicing tax avoidance. The practice of tax avoidance by means of transfer pricing is by transferring large amounts of profits from Indonesia to subsidiaries in countries that can exempt taxes or have low tax rates. This practice was carried out from 2009 to 2017 or tax evasion for 8 (eight) years. This can be done by PT. Adaro Energy because of a political figure who holds a position in a political party and serves as a shareholder in the company (Wareza, 2019).

Based on the previous explanation, there are 4 (four) factors that allow agencies/companies to use tax avoidance, namely transfer pricing, political connections, leverage, and deferred taxes. So in this study the authors will focus on analyzing how much influence these four factors have on tax avoidance. Thus the title used in this study is "The Effect of Transfer Pricing, Political Connection, Leverage, and Deferred Tax on Tax Avoidance."

THEORETICAL BASIS

Agency Theory

Agency theory is a theory that explains the differences in interests between principals and agents, in which both parties have a relationship, the agent acts on behalf of the interests of the principal in order to get certain rewards. The relationship is tied in a contract (Suwardjono, 2012). In agency theory, the agent is usually regarded as a party that wants to maximize personal profit while remaining in accordance with the existing contract. The contract is said to be efficient if the parties carry out what was agreed without dispute and the parties get the most optimal results from various alternative possibilities and actions taken by the agent. An efficient contract is a contract that does not cause disputes and encourages the contractor to carry out what has been agreed upon.

In the context of tax avoidance, the relationship between the state and firms that commit tax avoidance can be characterized as an agency relationship. The state acts as

326



the principal, and companies that commit tax evasion act as agents. Agency Theory can give rise to a conflict of interest between the Principal and the Agent. Agents within the company sometimes hide true information from Principals to protect their own interests, there by disrupting the interests of Principals who should receive correct information.

Compliance Theory

Compliance theory is a theory that explains a condition in someone who obeys the orders or rules given. According to Tyler (1997) There are two basic perspectives in the sociology literature regarding legal compliance which are called instrumental and normative.

- The instrumental perspective assumes that the individual as a whole is driven by personal interests and responses to changes related to behavior.
- The normative perspective deals with what people perceive as moral and against self-interest.

Based on the Regulation of the Minister of Finance (PERMENKEU) Number 192/PMK.03/2007 concerning Taxpayers with certain criteria, hereinafter referred to as Compliant Tax payers, are Tax payers who meet the following requirements:

1. Timely in submitting the notification letter;
2. Do not have tax arrears for all types of taxes, except for tax arrears that have obtained permission to repay or postpone tax payments;
3. Do not have tax arrears for all types of taxes, except for tax arrears that have obtained permission to repay or postpone tax payments;
4. Never been sentenced for committing a crime in the field of taxation based on a court decision that has permanent legal force within the last 5 years.

Transfer Pricing

Transfer Pricing is a policy carried out by a company to determine the transfer price of goods/services to other companies. Transfer pricing is usually carried out by domestic companies that sell their products to other companies that have special relationships which are usually located in tax haven countries with the parent company at very low prices in an effort to avoid taxes in the parent company's country.

If studied in agency theory, companies that carry out transfer pricing act as agents and countries that get income from paying corporate taxes act as principals. Agents carry out transfer pricing for the benefit of the company to avoid taxes, where the tax that should



be paid by the company is higher than it should have been before the company made transfer pricing.

Research by Panjalusman et al., (2018) found that transfer pricing has a positive effect on tax avoidance. Similar results were also shown by research Pratomo et al. (2021); Ramdhani et al. (2021), And Sujannah (2021) who found that transfer pricing has a positive effect on tax avoidance. Therefore, the first hypothesis of this study is:

H1: Transfer Pricing has a positive effect on Tax Avoidance.

Political Connections

Political connection is a variable that will explain the special relationship that companies have with the government or political parties. Companies that have a special relationship with the government tend to do things that benefit because they have this special access.

The board of directors, board of commissioners and shareholders also play an important role in the survival of the company, if the stakeholders have a special relationship with the government or political parties, it is likely that the company will have special privileges in operating its business activities. This special relationship is called political connection.

Research by Firmansyah et al., (2022) found that political connections have a positive effect on tax avoidance, this research is also supported by several studies such as research by Kim & Zhang (2016) who conducted research on US companies and found that companies that are politically connected tend to do tax avoidance than companies that are not politically connected. Based on this background, the second hypothesis in this study is:

H2: Political connection has a positive effect on tax avoidance.

Leverage

Leverage describes the company's ability to pay the company's debt using its equity. In accordance with agency theory, namely the relationship between agent and principal, the relationship between the owner/shareholder (principal) and the manager (agent), the relation is how company managers use debt in financing the company's operational activities. If the company uses debt in the composition of the financing, interest expenses will arise that must be paid so that it will be a deduction from taxable income (Dewanti & Sujana, 2019).



Research Nugraha & Mulyani (2019) found that leverage affects tax avoidance positively, which means that if the level of corporate leverage is high, then the probability of a company committing tax avoidance will be low. Other research that supports these results is research from Mahdiana & Amin (2020), Kushariadi & Putra, (2018), And Riskatari & Teak (2020) who found that leverage has a significant effect on tax avoidance. From this background, the third hypothesis in this study is:

H3: Leverage has a negative effect on tax avoidance.

Deferred Tax

Deferred tax is an expense that arises due to differences in the recognition of income or expenses in tax regulations and accounting standards. Deferred tax can also affect the tax burden that must be paid by the company in the future. In theory, if the deferred tax burden to be paid is high, it will make the company pay lower income tax than it should.

Research by Akbar et al. (2022) who found that tax deferred had a significant positive effect on tax avoidance in the property sector in Indonesia. Other research that supports that tax deferred has a positive effect on tax evasion is research from Cahyani & Kiswara (2019), from this background, the fourth hypothesis in this study is:

H4: Deferred taxes have a positive effect on tax avoidance.

Tax Evasion

Swingly, et al., (2015) defines that tax avoidance is one way that is done by taxpayers, to avoid legal tax payments by reducing the amount of tax owed by not violating the provisions of tax regulations. Furthermore Pohan (2019) explains that tax avoidance is a process of controlling actions, in order to avoid the impact of unwanted tax imposition. However, company management often takes advantage of laws that are vague or ambiguous, so that there are loopholes in the tax law (Suandy, 2011).

METHODOLOGY

The object of research in this study are manufacturing companies listed on the Indonesian Stock Exchange. This is a quantitative descriptive research with a research period of 2019-2021. The operational variables of this study are as follows:



Table 1. Operational Research Variables

Variable	Measurement	Scale
Tax Avoidance (Y)	$CETR = \frac{\text{Payment of taxes}}{\text{Profit before tax}}$	Ratio
Transfer Pricing (X1)	<i>Transfer Pricing</i> <i>Trade Receivables from related parties</i> $= \frac{\text{Transfer Pricing}}{\text{Total Receivables}} \times 100\%$	Ratio
Political Connection (X2)	1 = The Company Has Political Connections 0 = Company Not Connected Politically	Nominal
Leverage (X3)	$DER = \frac{\text{Long Term Debt}}{\text{Book Value Equity}}$	Ratio
Deferred Tax (X4)	$DTE_{it} = \frac{DTE_{it}}{TA_{it-1}}$	Ratio

The hypotheses in this study were tested using the estimation of multiple linear regression models with the following econometric structural forms:

$$TA_{it} = \alpha + \beta_1 TP_{it} + \beta_2 PC_{it} + \beta_3 LEV_{it} + \beta_4 DT_{it} + e_{it}$$

Which one :

- TA_{it}** : Tax Avoidance from company i, period t
β₁TP_{it} : *Transfer Pricing* company i, period t
β₂PC_{it} : Company Political Connection i, period t
β₃LEV_{it} : *leverage* company i, period t
β₄DT_{it} : Deferred tax company i, period t
e_{it} : Error term

DISCUSSION

This research is a study that has a hypothesis to analyze the effect of transfer pricing, political connections, leverage, and deferred taxes on tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange in the research period from 2019 to 2021. The method used for sampling This research used a purposive



sampling method, from this method a total of 214 company samples were obtained with the following details:

Table 2. Sampling by Purposive Sampling

Information	Amount
Population: Manufacturing companies listed on the IDX in 2019-2021	216
Companies newly listed on the IDX after January 1, 2019	(20)
Companies that experience losses in the 2019-2021 research period	(53)
Companies that do not have research completeness data	(58)
Total Research Sample (85x3)	255
Outliers	41
Total Research Sample Used	214

Multiple Regression Analysis Test**Table 3. Multiple Regression Analysis Test Results**

Coefficients								
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics		
	B	Std. Error	Betas			Tolerance	VIF	
1 (Constant)	1,372	.040		-34,256	.000			
Transfer Pricing (X1)	.159	.074	-.146	-2,134	.034	.974	1,026	
Political Connection (X2)	-.022	.042	-.036	-.515	.607	.923	1,083	
Leverage (X3)	-.058	.025	.162	2,313	.022	.928	1,077	
Deferred Tax (X4)	-4,473	5,283	-.058	-.847	.398	.974	1,026	
a. Dependent Variable: Tax Avoidance (Y)								

In table 3 the results of multiple linear analysis tests, the equations obtained in this study are as follows:

331



$$Y = -1.372 + 0.159X_1 - 0.22X_2 - 0.58X_3 - 4.473X_4$$

Effect Of Transfer Pricing on Tax Avoidance

The results of testing the hypothesis of the effect of transfer pricing on tax avoidance in this study are supported by the results of the t test with a significance level of $0.034 < 0.05$ in a positive direction, which means that the higher the value of transfer pricing, the higher the possibility of a company doing tax evasion. These results are supported by research Oktaviana et al., (2019) which proves that transfer pricing has a positive effect on tax avoidance. This study uses a proxy effective tax rate to measure tax avoidance in companies. This study also states that special relations between companies are the key to the occurrence of transfer pricing practices using unfair prices, which are different from independent companies.

Other research that supports the results of this study is research from Wulandari et al., (2023) who examines the effect of transfer pricing on tax avoidance in manufacturing companies in Indonesia. The results of this study indicate that transfer pricing has an effect on tax avoidance. This study also states that transfer pricing is carried out on parties related to the company. This is done to regulate unfair pricing so as to minimize corporate tax payments.

Sikka et al., (2010) in his research said that transfer pricing is used by certain parties for personal gain by avoiding public tax payments. Other studies that support the results of this study are research from Herianti et al., (2019), Fitri et al., (2021), And Pratomo et al., (2021) who found that transfer pricing has an effect on tax avoidance. From these results it can be concluded that H-1 in this study is acceptable. It can also be said that variable X_1 has a spatial effect on variable Y.

Effect of Political Connection on Tax Avoidance

The results of hypothesis testing for the effect of political connections on tax avoidance in this study are supported by the results of the t test with a significance level of $0.607 > 0.05$ in a negative direction, these results prove that political connections have no effect on tax avoidance. These results are supported by research Indarto et al., (2021) who found that political connections have a negative and insignificant relationship to tax avoidance. Indarto et al., (2021) states that companies with political links to the government have a higher level of public scrutiny. Companies do not want to take risks by doing tax evasion, because this can damage the company's reputation and will have a negative impact in the future.



Similar results were found in research Haztania et al., (2023). The research states that companies that have boards of commissioners and boards of directors that are politically connected to the government will maintain their image. Companies will comply more with existing regulations so that they can continue to be trusted by the public while doing business.

This study uses a sample of manufacturing companies listed on the Indonesia Stock Exchange. Several samples are state-owned companies that have an obligation to comply with state regulations. Minister of Finance Regulation (PMK) Number 71/PMK.03./2010 stipulates SOEs as low risk taxpayers. The PMK provides a signal that state-owned companies are not taking aggressive tax actions (Sulaeman, 2021).

Other research that supports the results of this study is research from Supriyati et al., (2021). This study conducts research in the banking sector in Indonesia and finds that political connections have no effect on tax evasion. From these results, it can be concluded that H2 in this study was not accepted. Variable X2 has no partial influence on variable Y in this study.

Effect of Leverage on Tax Avoidance

The results of hypothesis testing the effect of leverage on tax avoidance in this study are supported by the results of the t test with a significance level of $0.022 < 0.05$ with the direction positive, which means that the higher the leverage value, the higher the possibility of the company doing tax evasion.

Study Ariawan et al., (2017) conducted research on all companies listed on the Indonesia Stock Exchange regarding the effect of leverage on tax evasion. This study also suggests that if the company adopts a policy to increase the leverage ratio, it will affect tax avoidance behavior. The greater the debt owned by the company, it will affect its taxable profit. So that the tax costs to be paid by the company will be smaller.

Ghasani et al., (2021) In his research, he stated that based on the pecking order theory, companies will use debt to reduce tax costs (the use of debt creates a tax protection effect), so companies will avoid this activity. Therefore leverage can encourage tax avoidance. From these results it can be concluded that H3 in this study is accepted. It can also be said that variable X3 has a spatial effect on variable Y.

Effect of Deferred Tax on Tax Avoidance

The results of hypothesis testing for the effect of deferred tax on tax evasion in this study are supported by the results of the t test with a significance level of $0.398 > 0.05$ in

333



a negative direction, these results prove that deferred tax has no effect on tax evasion. These results are supported by research Panjaitan et al., (2022) who conducted research on tax deferred and tax evasion in various industrial sectors listed on the IDX and found results that deferred tax had no effect on tax evasion.

Several things can be factors that influence why the deferred tax research does not affect tax evasion. During the span of the study period, there was a change in tax rate reduction. The reduction in tax rates is regulated in Law No. 2/2020 (PERPU 1/2020) Article; 5 paragraph (3) which states that there is a reduction in tariffs of 3% lower than the previous year. This tax reduction rate may affect the calculation of deferred tax which allows companies to make adjustments to the deferred tax that is recovered in the research year.

Other research that supports the results of this study is research from Kalbuana et al., (2017) and also Veronica et al., (2021) who conducted research and found that deferred taxes have no effect on tax evasion. From the results of this study, it can be concluded that H4 in this study is not accepted. Variable X4 has no partial influence on variable Y in this study. But X4 has a simultaneous effect on variable Y.

CONCLUSION

This study aims to determine the effect of transfer pricing, political connections, leverage, and deferred taxes on tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange for the 2019-2021 period. The research results show that:

- Transfer pricing factors have an influence on tax avoidance. The practice of transfer pricing is carried out by many companies for several reasons, one of which is to avoid paying excess taxes. Companies usually conduct transactions with related parties by setting unreasonable prices so as to minimize tax payments.
- The political connection factor has no effect on tax avoidance. Companies that have relations and are related to the government will get the attention of the public directly. Companies that are politically connected tend to maintain the good name and image of the company. Therefore, the company tries to fulfill its obligations, including by paying taxes.
- The leverage factor has an influence on tax avoidance. This is because companies that rely on leverage to finance their business tend to avoid taxes. The greater the leverage ratio owned by the company, the more it will affect its taxable profit. This will reduce corporate tax payments.



- The deferred tax factor has no effect on tax evasion. In theory, if the deferred tax burden to be paid is high, it will make the company pay lower income tax than it should. However, this study found that deferred taxes have no effect on tax payments.

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