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The Effect of Financial Distress, Transfer Pricing, and Corporate Social Responsibility on Tax Aggressiveness

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Abstract

The purpose of this study is to determine the effect of Financial Distress, Transfer Pricing, and Corporate Social Responsibility on Tax Aggressiveness. The population in this study is all Consumer Non-Cyclicals sector companies listed on the Indonesia Stock Exchange (IDX) for the 2020-2024 period, while the research sample was determined using a purposive sampling technique. The research method used in this study is quantitative research. Data analysis techniques used are descriptive statistical tests, classical assumption tests, multiple linear regression tests, and hypothesis testing. The data used are secondary data. The results of the study indicate that Financial Distress, Transfer Pricing, and Corporate Social Responsibility simultaneously affect Tax Aggressiveness. The results of the study indicate that Financial Distress affects Tax Aggressiveness. The results of the study indicate that Transfer Pricing does not affect Tax Aggressiveness. The results of the study indicate that Corporate Social Responsibility affects Tax Aggressiveness.

Keywords: ***Financial Distress, Transfer Pricing, Corporate Social Responsibility, and Tax Aggressiveness***

INTRODUCTION

Tax is nothing else but a mandatory contribution owed by individuals or business entities that is compelling to the state based on law number 28 of 2007, and does not expect a direct reward that will be used for state purposes for the benefit of the community (www.katadata.co.id). Tax aggressiveness is the activity of designing taxable income by companies by carrying out tax planning actions, either in ways classified as legal (tax avoidance) or illegal (tax evasion). The company believes that taxation can reduce the company's burden and is considered more aggressive in carrying out taxation (Agus Purwanto, 2016). For companies, tax aggressiveness carries great risks because if done illegally and the authorities discover indications of violating the rules, the company will

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receive sanctions or fines that are more burdensome and can even ruin the company's reputation (Maulida et al., 2023).

The phenomenon of tax aggressiveness through transfer pricing schemes in Indonesia is evident in the case of PT. Bentoel Internasional Investama Tbk. In 2019, the Tax Justice Network published that the company had carried out tax aggressiveness actions in Indonesia. The mode used was through intra-company credit via a related company in the Netherlands, Rothman Far East BV, in 2013 and 2015. The interest payments on these loans were deducted from the company's taxable income in Indonesia (Isnaini & Arianti, 2024).

Tax aggressiveness is influenced by several factors, including financial distress, transfer pricing, and corporate social responsibility. Financial distress is a state where a company is still able to run its operations despite experiencing financial difficulties so that it cannot pay its obligations (Astika & Asalam, 2023). Handayani & Mardiansyah (2021) state that financial distress has a positive and significant effect on tax aggressiveness, whereas Astika & Asalam (2023) state that financial distress has a negative effect on tax aggressiveness.

Transfer pricing shows that there is a difference in interests between the government and issuers, impacting the reduction of state tax revenues because issuers reduce prices or transfer profits obtained among companies in one group or beneficiaries that have lower tax rates (Tarigan et al., 2023). Manoppo (2022) states there is no effect of transfer pricing on tax aggressiveness, inversely proportional to Aljundi & Purwatiningsih (2025) who state transfer pricing simultaneously has a significant effect on tax aggressiveness.

Furthermore, Corporate Social Responsibility (CSR) involves joint stakeholder responsibility. Many companies realize the importance of corporate social responsibility disclosure as a corporate strategy to increase firm value and gain legitimacy (Nadia & Susi, 2020). Rahayu & Suryarini (2021) state that CSR has a positive effect on tax aggressiveness, whereas AP Romadhina (2020) reveals that CSR has no effect on tax aggressiveness.

These differences in interests can be explained through Agency Theory, which explains the existence of a contract between the company owner and the agent (Jensen & Meckling, 1976). In an asymmetric information situation, managers or agents have a wider reach or access to company information compared to shareholders (Prastiwi & Walidah, 2020). Additionally, Legitimacy Theory explains that companies will continue to strive in carrying out their operational activities to adapt to the norms prevailing in society to obtain legitimacy from the community regarding their activities (Apriyanti and Arifin, 2021).

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METHOD

This research uses a quantitative method with an associative approach, utilizing secondary data as the data source. The population used in this study constitutes Consumer Non-Cyclical companies listed on the Indonesia Stock Exchange (IDX) during the 2020 to 2024 period, obtaining a population of 131 companies. The sampling was conducted based on a non-probability sampling technique, specifically purposive sampling, utilizing specific criteria such as publishing complete financial reports in Rupiah and not being delisted from the IDX during the research period.

This study involves three independent variables and one dependent variable. The dependent variable is tax aggressiveness, measured using the Effective Tax Rate (ETR). The independent variables include financial distress, measured using the Altman Z-Score method; transfer pricing, measured by total related party receivables divided by total receivables; and corporate social responsibility, measured using a 91-item CSR index.

Table 1. Operational Research Variables

Variable Name	Measurement Indicator	Scale
Tax Aggressiveness	ETR = Total income tax expense / Profit Before Tax	Ratio
Financial Distress	Z-Score = 1.2A + 1.4B + 3.3C + 0.99D	Ratio
Transfer Pricing	TP = Total Related Party Receivables / Total Receivables	Ratio
Corporate Social Responsibility	CSR = xij / 91 items	Ratio

The data collection technique used is documentation, obtaining data and information in the form of financial reports of the sample companies sourced from the IDX website and the respective company websites. Additionally, a literature study was employed to gather references from theories related to the variables, measurement parameters, and related scientific knowledge.

The data analysis techniques include descriptive statistics and panel data regression analysis, which comprises the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). To determine the most appropriate estimation model, the Chow Test, Hausman Test, and Lagrange Multiplier (LM) Test were conducted. The study also utilizes classical assumption tests (normality, multicollinearity, autocorrelation, and heteroscedasticity), multiple linear regression analysis, coefficient of determination (R2) test, and hypothesis testing, which includes the simultaneous test (F-statistic) and partial test (t-test).

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RESULTS AND DISCUSSIONS

Descriptive Statistics Test

Table 2. Descriptive Statistics Test

	Agresivitas Pajak (Y)	Financial Distress (X1)	Transfer Pricing (X2)	Corporate Social Responsibility (X3)
Mean	-0.090286	-0.072289	0.004030	-0.000418
Median	0.050302	-0.082725	0.000000	-0.001962
Maximum	0.327524	0.118846	0.044673	0.012087
Minimum	-6.647966	-6.653989	-0.030256	-0.019678
Std. Dev.	0.652726	0.577221	0.014487	0.006070
Observations	175	175	175	175

Agresivitas pajak (Y) with a total data of 175. From the results of the descriptive statistical test, an average value (Mean) of -0.090286 was obtained with a standard deviation of 0.652726. Financial Distress (X1) with a total data of 175. From the results of the descriptive statistical test, an average value (Mean) of -0.072289 was obtained with a standard deviation of 0.577221. Transfer Pricing (X2) with a total data of 175. From the results of the descriptive statistical test, an average value (Mean) of 0.004030 was obtained with a standard deviation of 0.014487. Corporate Social Responsibility (X3) with a total data of 175. From the results of the descriptive statistical test, an average value (Mean) of -0.000418 was obtained with a standard deviation of 0.006070.

Panel Data Regression Model Selection

Table 3. Panel Data Regression Model Selection Results

Method	Description	Results
Chow Test	CEM vs FEM	FEM
Hausman Test	FEM vs REM	REM
Lagrange Multiplier Test	CEM vs REM	CEM

Based on the results of the chow test, hausman test and lagrange multiplier test above, the best model to be used in this study is the Common Effect Model (CEM).

Classical Assumption Test

Based on the Histogram Normality Test results, it shows that the Jarque-Bera value is 36579.33 with a Probability value of 0.000000. This Probability value is smaller than the significance value (0.05) so it can be concluded that the data is not normally

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distributed. In this study, the number of observations used is 175 data, so it can be categorized as a large sample. Therefore, although the normality test results show that the residuals are not normally distributed, this condition does not become a serious problem in this study. Based on the multicollinearity test, it is seen that the values between variables are all less than 0.90, so it can be concluded that there is no multicollinearity problem between variables. The Durbin-Watson stat value is 1.552693, which means there is no autocorrelation either positively or negatively. The Prob. Chi-Square (Obs *R-squared) value is 0.5940, which means it is greater than the significant level of 0.05, so it can be said that there are no heteroscedasticity symptoms.

Multiple Linear Regression Analysis & Coefficient of Determination (R2)

Following are the results of the panel data analysis test: ETR = -0.00777467384428 + 0.826086503067.X1 - 4.36920418837.X2 + 12.4219934692.X3 + e. The Adjusted R-squared value of 0.563097 or 56.30% means that the ability of the independent variables, namely Financial Distress, Transfer Pricing and Corporate Social Responsibility together, has an influence on the dependent variable (tax aggressiveness) of 56.30%, while the remaining 43.70% is influenced by other variables not included in this research model.

Hypothesis Testing

Table 4. t-Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.007775	0.038166	-0.203706	0.8388
X1	0.826087	0.059280	13.93534	0.0000
X2	-4.369204	2.420976	-1.804728	0.0729
X3	12.42199	5.923258	2.097155	0.0375

Based on the F test results, it is known that the calculated F value is 75.75266 with a significance level of 0.000000. The F table value is 2.66 so that the calculated F 75.75266 > 2.66 with a significant value of 0.000000 < 0.05. These results conclude that Financial Distress, Transfer Pricing, and Corporate Social Responsibility simultaneously affect Tax Aggressiveness.

DISCUSSIONS

The Effect of Financial Distress, Transfer Pricing, and Corporate Social Responsibility on Tax Aggressiveness

Based on the simultaneous test (F test) obtained from the selected model, namely the common effect model, and obtaining a probability value of 0.000000, it shows that the

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probability value is smaller than the significance level of 0.05 (0.000000 < 0.05). It can be concluded that the independent variables consisting of X1 namely Financial Distress, X2 namely Transfer Pricing, and X3 namely Corporate Social Responsibility simultaneously affect the dependent variable Y namely Tax Aggressiveness, then H1 is accepted. This shows that financial distress, transfer pricing, and corporate social responsibility play a role in increasing or decreasing the level of tax aggressiveness in Consumer Non-Cyclical sector companies.

The Effect of Financial Distress on Tax Aggressiveness

Based on the t test results, it shows the X1 probability value of 0.0000 < 0.05 with a t-statistic or calculated t of 13.93534. When compared with the t table of 1.69726, the calculated t value is greater than the t table, namely (13.93534 > 1.69726). Thus, it can be concluded that financial distress has an effect on tax aggressiveness, so H2 is accepted. When a company experiences financial distress, the company may be motivated to reduce tax payments so as to have more cash to run operations and pay debts.

The Effect of Transfer Pricing on Tax Aggressiveness

Based on the t test results, it shows the X2 probability value of 0.0729 > 0.05 with a t-statistic or calculated t of -1.804728. When compared with the t table of 1.69726, the calculated t value is smaller than the t table, namely (-1.804728 < 1.69726). Thus, it can be concluded that transfer pricing has no effect on tax aggressiveness, so H3 is rejected. Changes or application of transfer pricing do not cause the company's level of tax aggressiveness to be significantly higher or lower. The existence of transfer pricing has not been proven to be the main means used by companies to make tax savings.

The Effect of Corporate Social Responsibility on Tax Aggressiveness

Based on the t test results, it shows the X3 probability value of 0.0375 < 0.05 with a t-statistic or calculated t of 2.097155. When compared with the t table of 1.69726, the calculated t value is greater than the t table, namely (2.097155 > 1.69726). Thus, it can be concluded that corporate social responsibility has an effect on tax aggressiveness, so H4 is accepted. This is in line with the legitimacy theory which states that companies strive to obtain and maintain acceptance and trust from the community. When a company is active in conducting CSR, the company tends to pay more attention to the community's assessment of every business decision, including in tax management.

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CONCLUSION

Based on the research results that have been described, it can be concluded that Financial Distress, Transfer Pricing, and Corporate Social Responsibility simultaneously affect Tax Aggressiveness. This is because the calculated F value of 75.75266 > 2.66 with a significant value of 0.000000 < 0.05, meaning H0 is rejected and H1 is accepted. Partially, Financial Distress significantly affects Tax Aggressiveness (calculated t 13.93534 > t table 1.69726; significance 0.0000 < 0.05), and Corporate Social Responsibility significantly affects Tax Aggressiveness (calculated t 2.097155 > t table 1.69726; significance 0.0375 < 0.05). However, Transfer Pricing does not significantly affect Tax Aggressiveness, as the calculated t value is -1.804728 < t table 1.69726 with a significant value of 0.0729 > 0.05, meaning H0 is accepted and H3 is rejected.

Based on the analysis, discussions, and conclusions, it is recommended that companies manage their financial conditions more optimally to reduce the potential for financial distress, apply transfer pricing practices in accordance with the arm's length principle, and improve the quality of Corporate Social Responsibility (CSR) disclosures as a form of responsibility to stakeholders. Future researchers are advised to expand the research object by using other company sectors, extend the research period, and add other variables suspected of influencing tax aggressiveness so the results obtained are more representative. Investors are advised to not only consider profitability aspects but also pay attention to financial conditions, transfer pricing practices, CSR implementation, and corporate tax policies as materials for consideration in making investment decisions. Meanwhile, the government and tax authorities are expected to continue improving supervision of transfer pricing practices and corporate tax aggressiveness behaviors, as well as strengthening regulations and law enforcement so that corporate tax compliance increases.

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