

## The Effect of Tax Planning, Foreign Ownership, and Firm Size on Transfer Pricing

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### Abstract

*This study was conducted to empirically analyze the effect of Tax planning, Foreign Ownership, and Firm Size on Transfer pricing in energy sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020-2024 period. Transfer pricing is an important issue in multinational business practices because it is often used as a strategy to minimize tax burdens through the manipulation of transaction prices between related companies, making it an interesting subject for examining the factors that influence it. The population in this study consists of all energy companies listed on the IDX, with the sampling technique using purposive sampling based on certain criteria, resulting in a sample of 7 companies that met the requirements over the five-year observation period. The data used in this study is secondary data sourced from the annual financial statements of each sample company. The analytical method used is panel data regression analysis with the assistance of EViews 12 software to test the relationships between variables both simultaneously and partially. The results of the study show that simultaneously, Tax planning, Foreign Ownership, and Firm Size have a significant effect on Transfer pricing. However, partially, the results show that Tax planning and Foreign Ownership do not have a significant effect on Transfer pricing, while Firm Size has been proven to have a significant effect on Transfer pricing. These findings imply that the scale of a company is a dominant factor that needs to be considered by regulators and tax authorities in supervising transfer pricing practices in the energy sector.*

**Keywords:** *Tax planning, Foreign Ownership, Firm Size, Transfer pricing*

### INTRODUCTION

Tax is one of the sectors that has a significant role for the Indonesian economy. Based on Article 1 paragraph 1 of Law Number 6 of 1983 concerning General Provisions and Tax Procedures as last amended by Law Number 16 of 2009 (UU KUP), the tax referred to is a mandatory contribution to the state owed by an individual or entity that is

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compelling based on regulations and laws, and is used for the prosperity of the people. Taxes are often seen as a burden that can reduce company profits. Therefore, many companies try to find ways to minimize the amount of tax that must be paid. One method that can be applied by companies is transfer pricing (Kurnila et al., 2023).

According to a study by the Tax Justice Network (2020) entitled *The State Of Tax Justice 2020: Tax Justice in the Time of COVID-19*, Indonesia is estimated to lose an average tax revenue of \$4.86 billion or equivalent to Rp. 68.7 trillion per year due to tax avoidance activities. In practice, large multinational companies tend to shift their profits to countries with lower tax rates, placing Indonesia in fourth position in Asia after China, India, and Japan (Kompas.com, 2020). The transfer pricing phenomenon as a strategy to reduce tax burdens is now increasingly being applied by multinational entities, especially in the energy sector, thus having implications for the shrinking of potential state revenue from the tax sector.

Agency theory reveals the relationship between two parties, namely, the agent party, in which case is the company manager or board of directors acting as the decision-maker in running the company, and the principal party, namely the company owner or shareholder who evaluates information and manages the running of the company. Based on agency theory, agency conflicts occur between managers and shareholders due to the information gap between the two parties.

Transfer pricing is influenced by various decisions, one of which is tax planning. Tax planning is the beginning of tax management, which aims to fulfill tax obligations correctly but still minimize the amount of tax as much as possible to increase profits and liquidity (Fitrianti, 2021). With effective and efficient tax planning, it can minimize fraudulent acts against tax payments by the company. However, there are still many multinational companies (Andhika & Sparta, 2024) that conduct tax avoidance with transfer pricing practices (Anggraini & Sugiyarti, 2024). The existence of good tax planning will limit managers' efforts to manipulate financial statements because transfer pricing actions will have a broad impact on the company (Hasna & Mulyani, 2020).

Another factor that can affect transfer pricing is foreign ownership. Foreign ownership is share ownership controlled by individuals or institutions from abroad. Foreign ownership can usually increase the level of tax revenue realized because there is no international tax policy regulation. Company performance is considered good if its foreign ownership is high so that it can attract foreign investors' interest to invest (Nasywa Ghina et al., 2024).

The third factor that affects whether a company is good or bad at implementing transfer pricing is company size. Firm size refers to the size of a business entity. The larger the firm size will incur large taxes so that transfer pricing transactions will often be

carried out in international transaction affairs by utilizing countries that are weak in tax costs which benefit the company (Anisa et al., 2024).

Considering how important this issue is to be studied further, this research was prepared with the aim of expanding the understanding of the variables that play a role in encouraging tax avoidance actions. Therefore, this study is conducted to determine the simultaneous and partial effect of tax planning, foreign ownership, and firm size on transfer pricing.

## METHOD

This research uses quantitative and associative methods to identify the extent of the effect of the independent variables on the dependent variable. The population used is all energy sector companies listed on the Indonesia Stock Exchange (IDX) for the 2020-2024 period, totaling 91 companies. The sampling technique used is purposive sampling with specific criteria: energy sector companies providing complete financial reports, issuing financial reports in Rupiah, not experiencing delisting, and not having zero tax expense or unreasonable Effective Tax Rate (ETR). The application of these criteria resulted in 7 companies that met the requirements, yielding 35 data observations over a five-year period.

The data used is secondary data obtained from the official IDX website ([www.idx.co.id](http://www.idx.co.id)) and the official websites of the respective companies through documentation and literature study methods. The dependent variable in this study is transfer pricing. The independent variables consist of tax planning, foreign ownership, and firm size. The measurement indicators for each variable are detailed in the following table.

**Table 1. Operationalization of Research Variables**

| No. | Variable Name     | Measurement Indicator                                                                                               | Scale |
|-----|-------------------|---------------------------------------------------------------------------------------------------------------------|-------|
| 1   | Transfer pricing  | $TP = (\text{Related party receivables} / \text{Total Receivables}) \times 100\%$                                   | Ratio |
| 2   | Tax Planning      | $ETR = (\text{Tax Expense} / \text{Profit Before Tax}) \times 100\%$                                                | Ratio |
| 3   | Foreign Ownership | $\text{Foreign Ownership} = (\text{Number of foreign-owned shares} / \text{Total outstanding shares}) \times 100\%$ | Ratio |
| 4   | Firm Size         | $\text{Size} = \ln \text{Total Assets}$                                                                             | Ratio |

The data analysis technique utilizes statistical calculations with the E-Views Series 12 application. The analysis stages begin with descriptive statistical tests to provide

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information regarding the characteristics of the research variables. The panel data regression model estimation uses three approaches: Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). To determine the most appropriate model, model suitability tests were conducted, consisting of the Chow Test, Hausman Test, and Lagrange Multiplier (LM) Test.

Before conducting regression analysis, classical assumption tests are performed to determine whether the regression model meets the statistical requirements, covering normality, multicollinearity, heteroskedasticity, and autocorrelation tests. Furthermore, multiple linear regression analysis is used to measure the effect and relationship of the independent variables with the dependent variable. Hypothesis testing is carried out through the coefficient of determination (Adjusted R<sup>2</sup>) to measure how far the independent variables can explain the dependent variable, the partial test (t-statistic test), and the simultaneous test (F-statistic test).

## RESULTS AND DISCUSSIONS

### Results

The research utilized panel data regression to analyze the effect of Tax Planning, Foreign Ownership, and Firm Size on Transfer Pricing. Based on the model selection process comparing Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) through the Chow Test, Hausman Test, and Lagrange Multiplier (LM) Test, the Random Effect Model (REM) was selected as the most appropriate model.

The descriptive statistics presented in the table below provide an overview of the data characteristics for the 35 observations:

**Table 2. Descriptive Statistics**

| Variable               | Observations | Mean      | Minimum   | Maximum   | Std. Deviation |
|------------------------|--------------|-----------|-----------|-----------|----------------|
| Transfer Pricing (Y)   | 35           | -2.624392 | -7.019619 | -0.010753 | 1.092766       |
| Tax Planning (X1)      | 35           | 0.236928  | 0.010269  | 0.962012  | 0.193568       |
| Foreign Ownership (X2) | 35           | 0.197620  | 0.011248  | 0.879581  | 0.165015       |
| Firm Size (X3)         | 35           | 28.97699  | 26.290107 | 31.44563  | 1.638717       |

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The regression results obtained from the Random Effect Model estimation are detailed below:

**Table 3. Random Effect Model Regression Results**

| Variable               | Coefficient | Std. Error | t-Statistic | Prob.  |
|------------------------|-------------|------------|-------------|--------|
| C                      | 33.18988    | 7.025341   | 4.724311    | 0.0001 |
| Tax Planning (X1)      | -0.260244   | 0.521719   | -0.498821   | 0.6214 |
| Foreign Ownership (X2) | -0.351685   | 0.512489   | -0.686223   | 0.4977 |
| Firm Size (X3)         | -1.231429   | 0.290458   | -4.239628   | 0.0002 |

To ensure the validity of the regression model, classical assumption tests were performed. The results of these tests, which include Multicollinearity and Heteroskedasticity tests, are shown in the following table:

**Table 4. Classical Assumption Test Results**

| Test                    | Indicator              | Value    | Conclusion            |
|-------------------------|------------------------|----------|-----------------------|
| Multicollinearity (VIF) | Tax Planning (X1)      | 1.282639 | No Multicollinearity  |
| Multicollinearity (VIF) | Foreign Ownership (X2) | 1.252105 | No Multicollinearity  |
| Multicollinearity (VIF) | Firm Size (X3)         | 1.133447 | No Multicollinearity  |
| Heteroskedasticity      | Prob. Chi-Square(3)    | 0.0552   | No Heteroskedasticity |

The F-statistic test result was 5.272588 with a probability of 0.004687, which is significant at the 5% level, indicating that the independent variables simultaneously affect Transfer Pricing. Additionally, the Adjusted R-squared value of 0.273780 suggests that 27.38% of the variation in Transfer Pricing is explained by the model, while the remaining 72.62% is explained by other factors.

## DISCUSSION

### Simultaneous Effect of Variables

The simultaneous test results confirm that Tax Planning, Foreign Ownership, and Firm Size collectively influence Transfer Pricing decisions. This finding supports agency

theory, which highlights the conflict of interest between managers and shareholders. Managers may perform strategies like transfer pricing to optimize firm performance or achieve personal incentives, while the complex nature of the energy sector further necessitates these strategic maneuvers to maintain fiscal efficiency.

### **Partial Effect of Tax Planning**

The partial test results indicate that Tax Planning does not have a significant effect on Transfer Pricing. This implies that the companies' tax planning efforts are likely focused on legitimate tax incentives rather than aggressive transfer pricing manipulations. The stringent regulatory oversight by tax authorities and the mandatory application of the arm's length principle serve as significant barriers, limiting management's ability to utilize transfer pricing purely for tax avoidance purposes.

### **Partial Effect of Foreign Ownership**

The analysis shows that Foreign Ownership does not significantly affect Transfer Pricing. This suggests that foreign shareholders often function as passive investors who delegate operational control to local management. Consequently, the presence of foreign ownership does not automatically translate into direct influence over transfer pricing policies. Furthermore, the increasing intensity of audit procedures regarding inter-company transactions effectively restricts the room for management to shift profits abroad regardless of the ownership structure.

### **Partial Effect of Firm Size**

The results demonstrate that Firm Size has a significant negative effect on Transfer Pricing. This finding suggests that larger firms have a greater capacity for tax management due to their extensive resources and more mature internal control systems. While larger firms have more complex operations that could facilitate transfer pricing, they are also under higher public and regulatory scrutiny. This visibility compels management to be more cautious and compliant, thereby reducing the tendency to engage in aggressive transfer pricing compared to smaller entities.

### **CONCLUSION**

Based on the empirical analysis examining the effect of tax planning, foreign ownership, and firm size on transfer pricing in energy sector companies listed on the Indonesia Stock Exchange during the 2020-2024 period, it can be concluded that tax planning, foreign ownership, and firm size simultaneously exert a significant effect on transfer pricing. This demonstrates that the combination of tax management strategies,

international ownership structures, and business scale collectively shape corporate policies regarding related-party transaction pricing.

However, when tested partially, the results indicate that tax planning and foreign ownership do not have a significant effect on transfer pricing, suggesting that strict regulatory oversight and the arm's length principle limit the exploitation of these factors for profit shifting. Conversely, firm size proves to have a significant effect on transfer pricing, confirming that larger scale and operational complexity serve as dominant factors influencing management decisions in regulating transfer pricing within corporate groups.

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