THE EFFECT OF TRANSFER PRICING ON TAX AVOIDANCE IN MANUFACTURING COMPANIES LISTED ON LQ 45 INDONESIA STOCK EXCHANGE 2015-2019

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ABSTRACT
This study aims to analyze the effect of transfer pricing on tax avoidance in manufacturing companies listed on LQ 45 in the Indonesia Stock Exchange in 2014-2019. The method used in this research is the descriptive analysis method with a survey approach. The data analysis used was panel data regression. The data collection procedure was obtained from the official website of the Indonesia Stock Exchange with quantitative data from the annual financial reports ending in December 2019. Sampling was taken out using a non-probability method with a purposive sampling approach. The results showed that transfer pricing affects tax avoidance. This shows that the practice of transfer pricing is still practiced by many companies to achieve maximum profit with tax avoidance.

Keywords: Transfer Pricing, Tax Avoidance

I. INTRODUCTION
Indonesia is one of the countries with tax revenue as the main source of state revenue from all national revenue in increasing the state treasury. This is reflected in the posture of the 2019 State Budget (APBN), that tax revenue in 2019 amounted to 1786.4 trillion of the total state revenue of 2165.1 trillion (www.kemenkeu.go.id/apbn2019). As the proportion of revenue that comes from taxes is 83%, this shows that tax revenue is the main support for Indonesia to runs economic activities in fulfilling public services, so that if the country does not get taxes, it is likely that state life will not run well. The following data is the Proportion of National Revenue Based on the page www.kemenkeu.go.id/apbn2019.

Figure 1. The Total of National Revenue (Processed by Researchers)

Tax role has become increasingly important in the State Budget (APBN) when viewed from the point of proportion and the nominal value of the tax revenue is soaring up in State revenue. Every year, state revenue from the tax sector continues to increase. The role of the Indonesian government to increase tax revenues by way of renewal and improvement of tax laws that aim to raise awareness of the taxpayer to be able to perform his duty as a citizen to pay taxes. On the other hand, things that help the company's survival are companies that pay taxes.
The company can pay the lowest possible tax because the tax reduces the amount of net profit the company will earn. The company performs tax management (tax planning) to keep down the amount of tax to be paid. This is what then encourages companies to practice tax avoidance. This tax avoidance activity is carried out by companies not to embezzle taxes, but only to minimize the burden of paying taxes. Quoted news.ddtc.co.id/ along with the inaugural event of Tax Certainty Day, the Organization for Economic Cooperation and Development (OECD) reported the latest statistics on dispute resolution. 2018 Mutual Agreement Procedure (MAP) statistics, covering 89 jurisdictions and nearly all MAP cases worldwide. These statistics contain detailed information about each jurisdiction as well as information globally. In these statistics, there are at least four aspects that get the spotlight. First, inventory. New cases continue to increase. Compared to 2017, cases of transfer pricing rose by nearly 20%. Meanwhile, other cases rose by more than 10%.

The majority of tax authorities settled or closed more cases than ever before. Country-by-country data shows a decrease in inventory in about half of the reporting jurisdictions and an increase in the other half. Second, schedule. On average, transfer pricing cases in 2018 took more time, which is an average of about 33 months or longer than the previous year's 30 months. For other cases, the average time taken is about 14 months, faster than 2017's position of 17 months. Third, results. More than 80% of the MAP concluded in 2018 resolved issues for transfer pricing cases. For other cases, the percentage is around 75%. Only 2% of MAP cases were closed because the authorities were unable to find a collective agreement. Fourth, jurisdiction-specific indicators. Statistics for the first time comparing the reporting performance of jurisdictions to key indicators such as the time taken to close MAP cases and comparing the number of MAP cases resolved with the burden for each case type per jurisdiction.

Based on a report made jointly by Ernesto Crivelli, an investigator from the IMF in 2016, then reanalyzed by the UN University using the International Center for Policy and Research (ICCTD) database, and the International Center for Taxation and Development (ICTD) stated that 30 countries carried out Tax avoidance includes Indonesia in the 11th largest with an estimated value of the US $ 6.48 billion, corporate tax is not paid by companies in Indonesia to the Directorate General of Taxes. As reported in CNN Indonesia, according to the Directorate General of Taxes (DGT) revealing as many motives as 2,000 multinational or foreign companies identified as evading taxes. On average, these companies are in arrears in the types of corporate income tax (PPh) articles 25 and 29. The purpose of not paying taxes is that they do not pay income tax articles 25 and 29 for reasons of continuous loss, even though the company is still running operational activities. According to the Director of Public Relations Services and Counseling (P2 Humas), the multinational company uses transfer pricing. This company is an affiliated company with its parent company abroad, so it is very vulnerable to transfer pricing processes such as Technical Assistants and Royalty Payment (www.cnnindonesia.com).

Quoted from Kontan.co.id it is said that in the Tax Justice Network report entitled The State of Tax Justice 2020: Tax Justice in the time of Covid-19 it is stated, from that figure, as much as the US $ 4.78 billion, equivalent to Rp.67.6 trillion of which is the result of corporate tax evasion in Indonesia. Meanwhile, the remaining US $ 78.83 million or around Rp 1.1 trillion comes from individual taxpayers. The report states that in practice multinational companies divert their profits to countries that are considered tax-havens. The aim is not to report how much profit is generated in the country where it does business. Thus, the corporation ends up paying less tax than it should. Meanwhile, individual taxpayers who are classified as wealthy hide assets and income declared abroad, beyond the reach of the law. As an illustration, the Ministry of Finance (Kemenkeu) has set a target of tax revenue in 2020 to reach IDR 1,198.82 trillion. This means that the estimated tax avoidance is equivalent to 5.7% of the final 2020 target. The estimated value of tax avoidance is also equivalent to 5.16% compared to the realization of 2019 tax revenue which was valued at Rp 1,332 trillion.

The Tax Justice Network matches the current pandemic situation; the amount of tax evasion is equivalent to 1.09 million salaries of medical personnel. When referring to the health stimulus in the 2020 National Economic Recovery (PEN) program, IDR 68.7 trillion of tax avoidance can cover 70.5% of the total health ceiling of IDR 97.26 trillion. The tax avoidance figure is also greater than the sectoral, ministerial/institutional stimulus ceiling, the local government in the PEN program, which is IDR 65.97 trillion, or the corporate financing budget of IDR 62.22 trillion. Meanwhile, in The State of Tax Justice 2020: Tax Justice in the time of Covid-19, Indonesia ranks fourth in Asia after China, India, and Japan. Currently, the Directorate General of Taxes monitors these special transactions based on financial information data available abroad. This effort takes advantage of relations between countries. In this case, Indonesia and the treaty partner countries exchange information related to the transaction. In addition, the case occurred at PT. Adaro Energy Tbk alleges tax evasion, according to Global
Tax avoidance is part of Tax Planning. Tax avoidance is an activity that has an impact on tax obligations, both activities permitted under tax regulations and special activities to reduce tax payment obligations. Tax avoidance practices usually take advantage of the weaknesses of tax law but do not break the rules of tax laws. In addition to providing benefits for the company, tax avoidance can also have a negative impact on the company, because tax avoidance can reflect the personal interests of managers by manipulating profits which results in incorrect information for investors. These investors can give a low assessment for the company (Dyreng et al., 2008). In the case of cross-border transactions, transfer pricing or the transfer price policy in a transaction between companies is considered to have an increasingly important role, especially in the context of taxation. Transfer pricing practices are currently increasing and complex. Not a few stakeholders have an interest related to transfer pricing, ranging from the government, multinational companies, to international organizations.

From a tax perspective, transfer pricing is a pricing policy in transactions carried out by related parties. Transfer prices are described as prices determined by taxpayers at the time of selling, buying, and sharing resources with affiliates. The assumption of transfer pricing is more connotated as something that is not good and has a pejorative meaning, namely the transfer of taxable income from one company in a multinational company group to another company in the same group of companies in a country with a lower tax rate. In contrast to the government, multinational companies have an interest in being able to optimize profits from the operations of multinational companies both as a group and as an entity.

For this reason, every multinational company makes various efforts to minimize costs and maximize profits through several efficiency measures, including the efficiency of tax burdens. The transfer is made to reduce the total tax burden of a group of multinational companies. The pejorative explanation presented is based on transfer pricing manipulation, abuse of transfer pricing, transfer mispricing, and so on. In this case, transfer pricing manipulation is interpreted as the activity of determining the transfer price at a stipulation that is too large or too small to lower the payable tax.

The purpose of establishing law in collecting taxes for citizens is to obtain the maximum state income from taxes. The emergence of loopholes in the tax law makes tax avoidance practice frequently carried out by taxpayers. In this case, this practice does not violate the contents of the law (The letter of law) but does not support the purpose of the taxation law. Research conducted (Liu et al., 2017) shows that there is a finding that on average there is a one percent difference in tax reduction on export transactions with related parties, which is indicated as a country with a low tax rate of three percent on lowered price settings. In addition, the rate of tax negligence caused by Transfer Mispricing has increased during the post-2009 territorial tax and this is greater for companies operating in the Research and Development sector (Resource & Development) and becomes new evidence of Transfer Pricing fraud that will be used in future policies.

The results of the analysis conducted by Panjalusman (2018) regarding the effect of transfer pricing on tax avoidance, it is concluded that transfer pricing has no significant effect (42%) on tax avoidance in multinational manufacturing companies listed on the Indonesia Stock Exchange (IDX). For the 2014 – 2017 period, this was due to several factors, such as a change in the government system which resulted in the emergence of many new policies, such as the existence of Tax Amnesty and so on.

According to Dyreng et al. in Sari et al. (2020), Tax Avoidance is all forms of activities that have an impact on tax obligations, whether activities are permitted by taxes or special activities that reduce taxes. Tax avoidance is usually carried out by taking advantage of the weaknesses of tax laws and not violating tax laws.

In Lingga (2012), it is stated that for global companies (multinational corporations), transfer pricing is believed to be an effective strategy to win the competition in fighting over limited resources. Companies tend to try to minimize costs (cost efficiency) including minimizing corporate income tax payments. This has led to transfer
pricing practices to avoid taxes (tax avoidance). Transfer pricing is believed to result in a reduction or loss of a country’s tax revenue potential because multinational companies tend to shift their tax obligations from countries that have high tax rates (high tax countries) to countries that apply low tax rates (low tax countries).

Kasim and Saad (2019) revealed that company size, profitability, foreign operation, capital intensity, and leverage are significant factors that affect the Tax Avoidance of multinational companies. These findings provide empirical evidence for the Inland Revenue Board Malaysia (IRBM) in dealing with the issue of aggressive tax planning among multinational companies. Criteria for the selection of audit cases by tax authorities can be based on the level of ETRs as suggested in this study. Currently, the tax authorities do not select highly profitable companies to audit because the selection criteria are usually for companies that report below-average earnings.

This tax evasion is an active resistance that comes from the taxpayer. This is done when the SKP (Tax Assessment Letter) has not been issued. Tax avoidance is done to avoid tax obligations or to reduce tax obligations. In Indonesian legislation, tax avoidance has not been regulated. This definition is in line with the definition of transfer pricing itself, namely tax avoidance efforts in the context of tax planning. So this research will examine how transfer pricing affects tax avoidance from the perspective of taxation in Indonesia.

Based on the research background described above, the identification of problem in this study is How Transfer Pricing affects Tax Avoidance in manufacturing companies listed on LQ 45 Indonesia Stock Exchange 2015-2019 Period?

II. LITERATURE REVIEW

Transfer Pricing

In Managerial Accounting, transfer pricing is used to maximize the profit of a company by determining the price of goods or services made by an organization from a company to other organizational units within the scope of the same company. The organizational unit in a company must be able to make a good contribution to a group of companies that are included in the category of multinational companies in implementing transfer pricing properly.

According to Arnold and McIntyre in Darussalam (2013), the transfer price is the price set by the taxpayer at the time of selling, buying, or sharing resources with affiliates. Transfer pricing is used by multinational companies to make sales and transfers of assets and services that are still within the same group of companies. In terms of company law, transfer pricing is used as a tool to increase efficiency and synergy between the company and its shareholders.

According to Sari (2004), Transfer pricing is a calculated price for management control over the transfer of goods and services between profit accountability or cost responsibility centers. In a more external sense, transfer pricing includes the calculation of prices between several entities, which by law can be the same or different owners. By considering the attributes of the entities, a boundary can be drawn between intra-company and inter-company transfers, namely the first which refers to transfers between divisions in one entity while the other refers to transfers between entities within a group of companies. On the other hand, the term transfer pricing is often associated with a systematic manipulation of prices to reduce artificial profits, making companies lose money, and avoiding taxes or duties in a country.

Transfer pricing from a tax perspective is a pricing policy in transactions carried out by parties with a special relationship (Darussalam et al., 2013). An explanation of transfer pricing in terms of multinational company behavior can be traced from the theory of multinational companies. At present, the internalization theory is the most dominant theory to explain the behavior of multinational companies in international business studies. Internalization theory is based on the organizational effort of interdependence between parties, all of which get rent by collecting collectively various capabilities or abilities, either the same ability or different.

The Purpose of Transfer Pricing

According to Sari (2004), Transfer pricing is intended to achieve the objectives of multinational corporation management optimally; As the purposes in question is as to ensure that the objectives of the units are in line with the achievement of the goals of the multinational corporation as a whole, to direct the managers in the units to make decisions that are in line with the objectives of the multinational corporation concerned, to achieve
efficiency in "Allocation of resources" between units and within each unit, so that there is a uniform measure to assess the performance of all units, to facilitate the implementation of effective communication for all these multinational corporations. There are several considerations for the use of transfer pricing, including reducing tax burdens, lowering rates, and avoiding foreign exchange controls.

The Strategy and Motivation of Transfer Pricing

Initially, the study of transfer pricing only focused on how the transfer pricing mechanism could be used as a tool to maximize company profits. In addition, the existing system must be able to fairly measure the contribution of each company (division) in the group. Most of the literature discusses an economic perspective on the issue of transfer pricing by trying to formulate a model to obtain an optimal transfer pricing solution after making several assumptions about the company, the priorities of the individuals involved, and other factors that influence allocations. Tax avoidance (or maximizing profit after tax) has not been widely discussed, mainly for two reasons: the basic assumptions regarding the transfer pricing model built in that period are placed in the intra-company context (or interactions between divisions within a business entity) and not many countries which regulate tax avoidance efforts via transfer pricing.

From several studies regarding transfer pricing without tax variables, it can be concluded that: in a reasonable agreement, the price that occurs is a negotiation process that is influenced by various factors whose effects cannot be predicted with certainty. This uncertainty creates high transaction costs. Whereas transaction costs hinder international trade and also tend to result in unproductive use of resources. The existence of an affiliate transaction scheme is useful in correcting this.

Multinational Companies, Countries, and Transfer Pricing Manipulation

The difference in tax rates in the country of origin of active multinational companies will tend to encourage these multinational companies to manipulate transfer pricing. Based on this situation, multinational companies are aware that there is an opportunity or profit that can be taken from transactions affiliated with a special relationship. The relationship between the government, market imperfections, and transfer pricing manipulation in the United States provides several important findings, namely transfer pricing manipulation will be triggered by market and government factors, transfer pricing manipulation will tend to be carried out if the market does not have a reference price, the scale (size) of multinational companies will positively correlated with transfer pricing manipulation. Large-scale multinational companies are more likely to be involved in transfer pricing manipulation, a high level of political risk will cause multinational companies to lower (or increase) export and import prices, to divert profits to a country with a more stable political situation, and transfer pricing manipulation will tend to be carried out on types of products that are increasingly differentiated, full of technology, or knowledge-intensive.

Furthermore, transfer pricing manipulation can affect a country's economy in various ways. First, transfer pricing manipulation can result in a decrease in state revenue or a loss of potential tax revenue. Second, these implications on the revenue side can also have implications for public expenditure policies. The limited budget encourages a country to limit its public spending for strategic sectors, such as infrastructure, health, education, and so on. Third, if the expenditure budget is not limited, another option is to find sources of financing for the budget deficit (domestic or multilateral loans). Finally, from a macroeconomic point of view, transfer pricing manipulation can also distort the balance of payments of countries where multinational companies are active, as well as erode foreign exchange reserves.

In terms of business activities, transfer pricing manipulation motives can encourage a shift in the location of company activities (investment options) from one country to another. A country may benefit more from transfer pricing manipulation practices. For example, a country that has relatively low tax rates, a territorial tax system, and protects the confidentiality of investor information, has become a favorite location for the establishment of subsidiaries or branches of multinational companies. Especially if the country has a policy and a transfer pricing examination process that is not strict. The study by Global Financial Integrity on the flow of embezzlement in Mexico from 1970 to 2010 yields interesting results. During that period, Mexico suffered losses of up to USD 872 billion, about 75% of which was caused by trade mispricing (manipulation of transfer pricing). The increase in losses due to trade mispricing was in line with Mexico’s entry into the North American Free Trade Agreement (NAFTA) in 1994.34 On average, Mexico lost approximately USD 15 billion/year during the period 1970-2010 from trade mispricing activities according to Darussalam et al. (2013).
Transfer Pricing Indicators

According to the results of the calculation of transfer pricing practice, the total trade receivables from related parties are divided by the total trade receivables. In management, transfer pricing can provide maximum results if prerequisite conditions can be met. The transfer pricing indicators according to Tiwa et al. (2017) are:

\[ TP = \frac{\text{Accounts Receivable from Related Parties (Affiliates)}}{\text{Total Accounts Receivable}} \]

Based on the Statement of Financial Accounting Standards no. 7 (2018) regarding Disclosures of parties who have a special relationship are:

"Parties that have a Related Relationship are parties that are considered to have a special relationship if one party can control the other party or has significant influence over the other party in making financial and operational decisions."

Transaction between related parties is a transfer of resources or obligations between related parties, regardless of whether a price is calculated. In the explanation of the definition, it will be further elaborated that including parties who have a special relationship are companies under the control of one or more intermediaries (intermediaries), associated companies; individuals who have significant voting rights, and close family members; key employees; and companies owned directly or indirectly by anyone who has significant influence.

Tax Avoidance

According to Pohan (2013), Tax avoidance is, "Tax avoidance efforts are carried out legally and safely for taxpayers because they do not conflict with taxation provisions, where the methods and techniques used tend to qamount of tax owed". Tax avoidance is an effort to ease the tax burden by not violating existing laws (Mardiasmo, 2009). Meanwhile, according to Brown (2012), Tax Avoidance is the "arrangement of a transaction to obtain a tax advantage, benefit or reduction in a manner unintended by the tax law."

Based on this definition, tax avoidance is an effort made by a company to avoid taxes that do not conflict with the applicable provisions by looking at the gray area of these provisions. The company strives to avoid this tax so that the tax owed is smaller and so that company efficiency can be achieved. In the tax avoidance process, taxpayers can do two possibilities in reducing their taxes. The first possibility is that the company does tax avoidance or even tax evasion. According to Simon James and Christopher Nobes IAI (2015), the difference between tax avoidance and tax management can be viewed from the legality aspect, where tax avoidance is generally considered a legal tax management effort because it uses more of the "loopholes" in applicable tax regulations. (lawful), while tax evasion tends to lead to an illegal tax crime, which is outside the tax provisions. According to Chelvathurai in IAI (2015) distinguishing the meaning of Tax avoidance and Tax evasion are:

1. Tax avoidance is used to denote the reduction of tax liability through legal means. In an extended or pejorative sense, however, the term is also used to describe tax reductions achieved by artificial arrangements of personal or business affairs by taking advantage of loopholes and anomalies in the law.

2. Tax evasion is usually defined as the reduction of tax by illegal means, including the omission of taxable income or transactions from tax declaration by fraudulent means.

Based on the understanding above, it can also be concluded that both tax avoidance and tax evasion aim to reduce/minimize tax debt. In this case, tax avoidance is carried out in ways that do not violate applicable provisions, while tax evasion is the opposite, namely carried out in ways that violate applicable provisions. Tax avoidance is always defined as a legal activity (for example minimizing the tax burden without violating tax provisions) and tax smuggling (tax evasion/tax fraud) is defined as illegal activity (for example minimizing the tax burden by manipulating bookkeeping). According to Gunadi in IAI (2015) avoidance mainly involves the commercialization and effective use of tax policies that are legitimate and defined tax techniques and tax evasion, especially with the removal or underreporting of tax objects which are sometimes supported by legal, accounting, and another administrative engineering. Prebble in IAI (2015) states that tax avoidance has several characteristics, including transactions are often pseudo-transactions, transactions that are carried out have no
meaningful economic meaning and there is no element of risk and there are efforts to exploit tax loopholes and regulations. IAI (2015) tax avoidance can be done in three ways:

1. Refrain, that is, the taxpayer does not do something that is taxable

2. Moving location is moving the business location and domicile with high tax rates to a location with low tax rates and

3. Judicial tax avoidance. These actions are carried out in such a way that the acts committed are not subject to tax. This is usually done by exploiting loopholes or loopholes.

Tax evasion is an action to minimize the tax burden by denying the (illegal) tax provisions, with such violations of course taxpayers can be punished with criminal sanctions. Tax evasion is a taxpayer’s effort to reduce, eliminate, manipulate taxes on tax debts or in other words escape from paying taxes as already owed according to statutory regulations. One of the efforts to demonstrate this tax evasion is in the form of under-declaring revenue or even manipulating the losses so that the tax burden owed can be reduced or even not paying taxes at all as a result of the loss manipulation.

Regarding the legal aspects of tax management for Indonesia, Mohammad Yusuf IAI (2015) argues that the signs that can be used to determine whether tax management is legal or not are the criminal provisions of Articles 38, 39, 41, 41, 41A, 41B and 43. Law Number 6 of 1983 as last amended by Law Number 28 of 2007 concerning General Provisions and Tax Procedures (UU KUP). According to the Committee on Fiscal Affairs of the Organization for Economic Cooperation (OECD) (Council of Executive Secretaries of Tax Organization (1991) in Suandy (2011), there are three characters of tax avoidance as follows:

1. There is an element of the artificial arrangement, in which various arrangements seem to exist in it but are not, and this is done in the absence of tax factors.

2. Such schemes often take advantage of loopholes (loopholes) of legislation or impose legal provisions for various purposes, which are contrary to the actual content of the law.

3. Confidentiality is also a form of this scheme where generally the consultants show the tools or ways to do tax avoidance on the condition that the taxpayer keeps it as confidential as possible.

According to Rohalgi in IAI (2015) states that in many countries tax avoidance is differentiated into acceptable tax avoidance/tax planning / tax mitigation and unacceptable tax avoidance. That is, tax avoidance can be considered illegal if the transaction is carried out solely for tax avoidance or does not have a good business purpose (bonafide business purpose). A transaction will be categorized as unacceptable tax avoidance or aggressive tax avoidance if it has characteristics according to IAI (2015) that does not have good business objectives, solely to avoid taxes, is not under the spirit of el intention of parliament, and there are engineered transactions. To incur costs or losses. Conversely, a transaction is categorized as acceptable tax avoidance if it fulfills the characteristics of having good business objectives, not merely avoiding taxes, under the spirit of el intention of the parliament and does not carry out engineered transactions. Similar to the statement of Kessler in IAI (2015) states that Tax avoidance is prohibited if the taxpayer's actions are correct according to the letter of the law but not true or not under the lawmaker's intent (spirit and intention parliament). Based on the description above, it can be said that the term tax avoidance is more complex than the term tax evasion.

Anti-Tax Avoidance Policy

According to IAI (2015) to deal with tax avoidance practices, especially those carried out by multinational companies, in general, a country issues a Specific Anti Avoidance Rule (SAAR) which is regulated in its domestic laws, such as controlled foreign company, arm's length rule, advance pricing agreement, and debt to equity ratio. In practice in several countries, the specific anti-avoidance rule is effective in preventing tax avoidance practices and providing legal certainty for taxpayers. In addition to these specific provisions, countries published the General Anti Avoidance Rule (GAAR).

The purpose of making general tax avoidance provisions is to anticipate tax avoidance practices that have not been regulated in specific provisions or to counter tax avoidance actions which in time are not yet known. This is
done because there is a tendency for tax avoidance practices from year to year to be increasingly sophisticated and difficult to detect and to counteract only by relying on a specific anti-avoidance rule. In this case, tax planning carried out by taxpayers is no longer defensive tax planning but has become increasingly offensive, which is often known as aggressive tax planning. Cooper in the IAI (2015) states that the General Anti Avoidance Rule must contain distinctions between transactions classified as acceptable tax avoidance and this classified as unacceptable tax avoidance because not all tax avoidance is offensive.

**Tax Avoidance Indicators**

One of the advantages of tax avoidance is to achieve profits and tax savings paid by companies to the state so that the profits obtained by the company are greater and the benefits for stakeholders in company activities, both directly and indirectly. Apart from the advantages, there are also disadvantages in tax avoidance, which can cause losses in the form of penalties or fines that can be imposed by the tax authorities. According to Ferdiawan in Nurrahmi and Rahayu (2020), CETR reflects a worldwide tax expense that is not only limited to domestic tax rates but also captures global tax rates. CETR is the amount of tax cash paid divided by the total profit before tax. According to Panjalusman et al. (2018) to calculate tax avoidance using the cash effective tax rate with the following formula:

\[
Cash \text{ effective Tax Rate} = \frac{Tax \text{ Expense}}{Pretax \text{ Income}}
\]

**Hypothesis**

According to Sugiyono (2016), "the hypothesis is interpreted as a temporary answer to the formulation of research problems, where the formulation of the research problem has been stated in the form of a statement sentence". It is said temporarily because the answers given are only based on relevant theories, not based on empirical facts obtained through research. Based on the formulation of the problem, objectives, theory, previous research, and a framework of thought, this study hypothesizes that it is suspected that there is an influence between transfer pricing on tax avoidance in manufacturing companies listed on LQ 45 Indonesia Stock Exchange 2015-2019 Period.

**III. RESEARCH METHODOLOGY**

**Population dan Sample**

This study's population consists of manufacturing corporations listed on the LQ 45 Indonesia Stock Exchange (BEI) from 2014-2019. Below are the number of manufacturing corporates listed on LQ 45 from 2014-2019.

<table>
<thead>
<tr>
<th>No.</th>
<th>Corporate Code Stock</th>
<th>Corporate Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ASII</td>
<td>Astra International Tbk.</td>
</tr>
<tr>
<td>2</td>
<td>BRPT</td>
<td>Barito Pacific Tbk.</td>
</tr>
<tr>
<td>3</td>
<td>GGRM</td>
<td>Gudang Garam Tbk.</td>
</tr>
<tr>
<td>4</td>
<td>HMSP</td>
<td>H.M. SAMPOERNA Tbk.</td>
</tr>
<tr>
<td>5</td>
<td>ICBP</td>
<td>Indofood CBP Sukses Makmur Tbk.</td>
</tr>
<tr>
<td>6</td>
<td>INDF</td>
<td>Indofood Sukses Makmur Tbk.</td>
</tr>
<tr>
<td>7</td>
<td>INKP</td>
<td>Indah Kiat Pulp &amp; Paper Tbk.</td>
</tr>
<tr>
<td>8</td>
<td>INTP</td>
<td>Indocement Tunggal Prakarsa Tbk.</td>
</tr>
<tr>
<td>9</td>
<td>KLB</td>
<td>Kalbe Farma Tbk.</td>
</tr>
<tr>
<td>10</td>
<td>SMGR</td>
<td>Semen Indonesia (Persero) Tbk.</td>
</tr>
<tr>
<td>11</td>
<td>SRL</td>
<td>Sri rejeki Isman Tbk.</td>
</tr>
<tr>
<td>12</td>
<td>TPIA</td>
<td>Chandra Asri Petrochemical Tbk.</td>
</tr>
<tr>
<td>13</td>
<td>UNVR</td>
<td>Unilever Indonesia Tbk.</td>
</tr>
<tr>
<td>14</td>
<td>WIKA</td>
<td>Wijaya Karya (persero) Tbk.</td>
</tr>
<tr>
<td>15</td>
<td>WSBP</td>
<td>Waskita Beton Precast Tbk.</td>
</tr>
<tr>
<td>16</td>
<td>TRAM</td>
<td>PT Trada Alam Minera Tbk.</td>
</tr>
</tbody>
</table>

Source: Data processed by researchers (2021).

This sample was chosen using a non-probability sampling method and purposive sampling techniques. The specifics are as follows:
Table 2. Sample Selection Criteria

<table>
<thead>
<tr>
<th>No.</th>
<th>Sample Selection Criteria</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Manufacturing firms not listed on LQ 45 Indonesia Stock Exchange (IDX) from 2014-2019</td>
<td>8 does not meet the criteria</td>
</tr>
<tr>
<td></td>
<td>Manufacturing firms on LQ 45 Indonesia Stock Exchange (IDX) from 2014-2019</td>
<td>8 meet the criteria</td>
</tr>
<tr>
<td>2</td>
<td>Manufacturing firms that did not consecutively 2014-2019 published their financial statements and have been audited on the company's website or the website of the Indonesia Stock Exchange</td>
<td>0 does not meet the criteria</td>
</tr>
<tr>
<td></td>
<td>Manufacturing firms in 2014-2019 published their financial statements and have been audited on the company's website or the Website of the Indonesia Stock Exchange</td>
<td>16 meet the criteria</td>
</tr>
<tr>
<td>3</td>
<td>Manufacturing firms that did not make a profit during the observation period and have no tax expenses</td>
<td>15 does not meet the criteria</td>
</tr>
<tr>
<td></td>
<td>Manufacturing firms that experience profits during the observation period and there is Tax Expense</td>
<td>16 meet the criteria</td>
</tr>
<tr>
<td>4</td>
<td>Manufacturing firms that do not fully disclose data variables data, including the independent auditor's report</td>
<td>16 does not meet the criteria</td>
</tr>
<tr>
<td></td>
<td>Manufacturing firms that disclose data relating to variables in full including independent auditor reports</td>
<td>16 meet the criteria</td>
</tr>
<tr>
<td>5</td>
<td>Manufacturing firms that are delisting during the observation period, as well as companies that have annual audit reports.</td>
<td>8 does not meet the criteria</td>
</tr>
<tr>
<td></td>
<td>Manufacturing firms that are not delisting during the observation period, as well as companies that have annual audit reports.</td>
<td>8 meet the criteria</td>
</tr>
<tr>
<td>6</td>
<td>Companies that do not have Transactions with Related Parties (Special Relationships of both Parents, Subsidiaries, and others)</td>
<td>16 does not meet the criteria</td>
</tr>
<tr>
<td></td>
<td>Companies that have Transactions with Related Parties (Special Relationships of both Parents, Subsidiaries, and others)</td>
<td>16 meet the criteria</td>
</tr>
</tbody>
</table>

Source: Data processed by researchers (2021).

The companies that meet the criteria to become samples based on purposive sampling techniques are as follows.

Table 3. Corporates Sample Research

<table>
<thead>
<tr>
<th>No.</th>
<th>Corporate Code Stock</th>
<th>Corporate Name</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ASII</td>
<td>Astra International Tbk.</td>
</tr>
<tr>
<td></td>
<td>SRIL</td>
<td>Sri Rejeki Isman Tbk.</td>
</tr>
<tr>
<td></td>
<td>INTP</td>
<td>Indocement Tunggal Prakarsa Tbk.</td>
</tr>
<tr>
<td></td>
<td>INDF</td>
<td>Indofood Sukses Makmur Tbk.</td>
</tr>
<tr>
<td></td>
<td>UNVR</td>
<td>Unilever Indonesia Tbk.</td>
</tr>
<tr>
<td></td>
<td>KLBF</td>
<td>Kalbe Farma Tbk.</td>
</tr>
<tr>
<td></td>
<td>ICBP</td>
<td>Indofood CBP Sukses Makmur Tbk.</td>
</tr>
<tr>
<td></td>
<td>SMGR</td>
<td>Semen Indonesia (Persero) Tbk.</td>
</tr>
</tbody>
</table>

Source: www.idx.co.id (Data processed by researchers, 2021).

Data Analysis Techniques

Data analysis techniques are describing what analysis techniques researchers will use to analyze the data they have collected, including their tests. The data collected is opposed by research issues that simultaneously reflect the characteristics of the study objectives whether for exploration, description, or hypothesis testing (Anwar Sanusi, 2012). To find out the results of "Effect of Transfer Pricing on Tax Avoidance". Therefore, this study's statistical analysis is as follows:

Descriptive Statistics

Descriptive statistics are tests conducted to see a summary or description of a research sample. This descriptive statistical test provides information in terms of maximum and minimum values, means, medians, and standard deviations, which are displayed in the descriptive statistics table.

Panel Data Model Estimation Method
According to Agus Widarjono (2009), the estimation method of the panel data regression model can be accomplished in three ways, among others:

**Common Effect Model**

It is the most basic approach of the panel data model because it only combines time series data and cross sections dimensions without taking into account individuals. As a result, the company's data is assumed to behave consistently over time. When this method is used, the Ordinary Least Squares (OLS) method or the smallest kuadrat method Use the Model technique to estimate the panel data model:

\[ Y_{it} = \alpha + X_{it} \beta_i + \epsilon_{it} \]

where

- **Y**: Dependent Variable
- **α**: Constant
- **X**: Independent Variable
- **β**: Regression Coefficient
- **ε**: Error Terms
- **t**: Time Series
- **i**: Cross Section (Individual) / Corporates RDS

**Fixed Effect Model**

Individual differences in intercepts are assumed to accommodate individual differences in this methodology. Interception differences can arise as a result of differences in work culture, management, and incentives when calculating fixed effect model panel data using dummy variable techniques for capturing differences in intercepts between companies. Nonetheless, the slop is the same between the two. This estimation model is also known as the Least Squares Dummy Variable (LSDV) technique. In the fixed-effect method, an estimation can be done without weighting (no weight) or Least Square Dummy Variable (LSDV) and by weighting (Cross-section weight) or General Least Square (GLS). The purpose of weighting is to reduce heterogeneity between cross-section units (Gujarat, 2004). Using this model is appropriate to see the behavior change of data from each variable so that the data is more dynamic in interpreting data.

**Random Effect Model**

This model will estimate panel data where interference variables may be connected across time and across individuals. The error terms of each company account for the differences in intercepts on the Random Effect model. The Random Effect model has the advantage of eliminating heteroskedasticity. The Error Component Model is another name for this model (ECM). The Ordinary Least Squares (OLS) method is ineffective for obtaining an efficient estimator for the random effect model. Assuming homoscedasticity and no cross-sectional correlation, the best method for estimating the random effect model is Generalized Least Squares (GLS).

**Selection of Panel Data Model**

**F test statistics (Chow test)**

To determine which model is better for testing panel data, dummy variables can be added so that different intercepts can be tested with the F Statistical test. This test is used to find out if the data panel regression technique with the Fixed Effect method is better than regression of panel data model without dummy variable or Common Effect method by looking at sum of residuals (RSS). The F test statistics are as follows:

\[ F = \frac{SSRR - SSRu}{qSSRu/(n-k)} \]
SSRR and SSRu is a sum of squared residuals technique without variables dummy (common effect) that is as restricted model and fixed effect technique with dummy variable as an unrestricted model. The null hypothesis in this test is that the intercept is the same, or that the right model for panel data regression is Common Effect, and the alternative hypothesis is that the intercept is not the same, or that the right model for panel data regression is Fixed Effect. The hypothesis for the Chow test is:

\[ H_0: \text{OLS Pooled (Common Effect) Model} \]

\[ H_1: \text{Fixed Effect Model} \]

In taking the F statistical test hypothesis, If the calculated F value is greater than the critical F, the null hypothesis is rejected, indicating that Fixed Effect is the best model for panel data regression. In contrast, if the calculated F value is less than critical F, the null hypothesis is accepted, indicating that the Common Effect model is the best fit for panel data regression.

**Hausman Test**

Hausman devised a test to determine whether the Fixed Effect and Random Effect methods are superior to the Common Effect method. Hausman's test is predicated on the notion that both the Least Square Dummy Variable (LSDV) methods in the Fixed Effect and Generalized Least Square (GLS) methods in the Random Effect method are efficient whereas ordinary least squares (OLS) in the Common Effect method are inefficient within the null hypothetical. The alternative hypothesis, on the other hand, is that OLS methods are reliable and GLS methods are inadequate. As a result, the null hypothesis test is the result of the two estimates being the same, and the Hausman test can be performed based on the difference in estimates. Hausman's test statistics closely resemble the distribution of Chi-Square statistics with a degree of freedom (df) equal to the number of free variables (independent variables). The hypothesis in Hausman's test is:

\[ H_0: \beta_1 > 0.05 \] Random Effect Model

\[ H_1: \beta_2 < 0.05 \] Fixed Effect Model

According to Hausman Examination if the statistical value of Hausman is greater than the value of the Chi-Square crisis then the null hypothesis is rejected indicating that the Fixed Effect model is the best fit for data regression panel. On the contrary, if Hausman's statistical value is less than the Chi-Square critical value, the null hypothesis is accepted, indicating that the Random Effect model is the best fit for panel data regression.

**Classic Assumption Test Data Panel**

Classic assumption testing aims to detect and test the feasibility of the regression model used in research. This test is intended to ensure that in the regression model used there is no multicollinearity and heteroskedasticity and to ensure that the resulting data is normally distributed (Ghozali, 2013). The steps taken in the classic assumption testing are as follows:

**Normality Test**

The objective of testing data normality is to decide whether or not a data set follows or approaches the normal distribution, which is characterized by a bell-shaped distribution. 'Good' data is data that has a pattern such as normal distribution, i.e. the distribution of data is not to the left or to the right (Santoso, 2015: 43). According to Ghozali (2013), the normality test was conducted with graph analysis, namely by looking at the histogram chart. If the histogram chart shows a normal distribution pattern, meaning that the curve top point is at zero (0) on the X axis then the regression model meets the normality requirements, and vice versa. In addition, normality testing is also conducted using statistical testing tools, namely using kolmogorov-Smirnov non-parametric statistical tests where if the significance is above 0.05 There is no significant difference between the data to be tested and the standard normal data, implying that the data distribution is normal.

**Heteroscedasticity Test**

The heteroscedasticity test aims to test the occurrence of residual variance differences from an observation period to another period. According to Ghozali (2013), the heteroscedasticity test is used to test whether in the regression model variance occurs from residual one observation to another. The heteroskedasticity test in this
study used the Park Test. Park test is performed by adding one residual variable squared, the new residual variable will be calculated by regression. A good regression model is a homoscedasticity or there is no heteroscedasticity.

**Autocorrelation Test**

The autocorrelation test determines whether there is a correlation between a bully error in the t period and a t-l period error in a linear regression model (earlier). If there is a correlation, it is referred to as an autocorrelation problem. Because sequential observations throughout time are related to one another, autocorrelation occurs. This problem arises because residual variations (error term) are not free from one observation to another (Ghozali in Pratama, 2017: 65). This often arises in time series data. One measure in determining the absence of autocorrelation problems is the Durbin-Watson (DW) test by determining the magnitude of α, k and n can be known through the DW table. A good regression model is free from autocorrelation, i.e:

a. \( dU < DW < 4-dU \) = no correlation, either positive or negative.

When the DW value is between the upper bound (dU) and (4-dU), the autocorrelation coefficient is equal to zero, indicating that no correlation exists.

b. \( 0 < DW < dL \) = there is a positive correlation

When the DW value is less than the lower bound (dL), the autocorrelation coefficient is larger than zero, indicating a positive relationship.

c. \( 4-dL < DW < 4 \) = there is a negative correlation.

When DW value is larger than (4-dL), the autocorrelation coefficient is smaller than zero, indicating a positive relationship.

d. \( 4-dU \leq DW \leq 4-dL \) = no conclusions can be drawn.

When DW is between (4-dU) and (4-dL), the outcome cannot be determined.

dL \( \leq DW \leq dU \) = no conclusions can be drawn.

If the DW value is between the upper (dU) and lower (dL) bounds, the outcome cannot be inferred.

According to Gujarati (2003), the use of GLS (Generalized Least Square) method can suppress the presence of autocorrelation that usually occurs in OLS (Ordinary Least Square) formulas, as a result of estimation errors (underestimate) variances so that with GLS autocorrelation problems can be solved. Assumptions of autocorrelation are often found in estimates using OLS, while in the estimation of panel data using fixed-effect methods both LSDV and GLS can ignore the occurrence of autocorrelation because in the GLS method there is weighting in the variation of data.

**Hypothesis testing Procedure**

Panel data regression analysis is used to test hypotheses. For the accuracy of calculations, while reducing human errors, researchers use a computer program processing statistical data use Eviews 11.

**Determinant Test (R2)**

A model has strengths and weaknesses if applied to different problems. The coefficient of determination is used to measure the strength of a model and how far the model can explain how much an independent variable describes dependent variables. If there are two or more independent variables, then adjusted R2 is a coefficient of determination Ghozali in Sarika (2015).

**Criterias for Coefficient Determination:**

1. If KD is close to zero, it refers to the effect of independent factors on low-level dependent variables.
If KD is close to one, it refers to the effect of independent variables on highly dependent variables.

**Partial Significance Test (Statistical Test t)**

The t test otherwise known as a partial test is used to partially test the predictions of each independent variable against dependent variables (Silalahi, 2015: 594). This test assumes that other variables are considered constants. According to Kuncoro (in Pratama, 2017: 66), "the t test shows how far one independent variable affects individually in describing variations of related variables". t test results with a certain level of significance or $\alpha$ can be seen in the table coefficients on the sig column (significance). Independent variable predictions of dependent variables will be known if the number of degrees of freedom (df) is 20 or more, and the degree of trust is 5%. $H_0$ can be rejected when the t value is greater than 2 (in absolute value). This test is performed by comparing the statistical value of t with the critical point according to the table. If the statistical value of t calculation result is higher than the table t value, then an alternative hypothesis is accepted. Test t requires

$$H_0: \rho_1 = 0 \quad \text{Partial Transfer Pricing does not affect Tax Avoidance.}$$

With degree of freedom (df) = k and (n-k) and Confidence Level 95% or $\alpha = 0.05$ so:

- If $p$-value < ($\alpha = 0.05$), $H_0$ rejected, $H_a$ accepted
- If $p$-value > ($\alpha = 0.05$), $H_0$ accepted, $H_a$ rejected

**IV. RESULTS AND DISCUSSION**

**Transfer Pricing**

Based on the findings of the descriptive statistics data set during the the exploration time frame, it may be seen that the measure of Transfer Pricing value in each example entity is as per the following:

<table>
<thead>
<tr>
<th>Corporates Name</th>
<th>Period</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>PT. Astra International Tbk.</td>
<td></td>
<td>0.0214</td>
<td>0.0221</td>
<td>0.0314</td>
<td>0.0318</td>
<td>0.0300</td>
<td>0.0282</td>
</tr>
<tr>
<td>PT. Sri Rejeki Isman Tbk.</td>
<td></td>
<td>0.2834</td>
<td>0.2123</td>
<td>0.2369</td>
<td>0.1388</td>
<td>0.2534</td>
<td>0.2077</td>
</tr>
<tr>
<td>PT. Indocement Tunggal Prakarsa Tbk.</td>
<td></td>
<td>0.0118</td>
<td>0.0105</td>
<td>0.0309</td>
<td>0.0147</td>
<td>0.0104</td>
<td>0.0165</td>
</tr>
<tr>
<td>PT. Indofood Sukses Makmur Tbk.</td>
<td></td>
<td>0.1721</td>
<td>0.1925</td>
<td>0.2007</td>
<td>0.1849</td>
<td>0.1714</td>
<td>0.2027</td>
</tr>
<tr>
<td>PT. Unilever Indonesia Tbk.</td>
<td></td>
<td>0.1545</td>
<td>0.1780</td>
<td>0.1139</td>
<td>0.0896</td>
<td>0.1030</td>
<td>0.0868</td>
</tr>
<tr>
<td>PT. Kalbe Farma Tbk.</td>
<td></td>
<td>0.0566</td>
<td>0.0072</td>
<td>0.0102</td>
<td>0.0083</td>
<td>0.0077</td>
<td>0.0119</td>
</tr>
<tr>
<td>PT. Indofood CBP Sukses Makmur Tbk.</td>
<td></td>
<td>0.6296</td>
<td>0.6864</td>
<td>0.7399</td>
<td>0.7237</td>
<td>0.7207</td>
<td>0.7367</td>
</tr>
<tr>
<td>PT. Semen Indonesia (Persero) Tbk.</td>
<td></td>
<td>0.2258</td>
<td>0.2358</td>
<td>0.1652</td>
<td>0.1783</td>
<td>0.2069</td>
<td>0.2341</td>
</tr>
<tr>
<td>Minimum</td>
<td></td>
<td>0.0118</td>
<td>0.0072</td>
<td>0.0102</td>
<td>0.0083</td>
<td>0.0077</td>
<td>0.0119</td>
</tr>
<tr>
<td>Maximum</td>
<td></td>
<td>0.6296</td>
<td>0.6864</td>
<td>0.7399</td>
<td>0.7237</td>
<td>0.7207</td>
<td>0.7367</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td>0.1944</td>
<td>0.1931</td>
<td>0.1911</td>
<td>0.1713</td>
<td>0.1880</td>
<td>0.1906</td>
</tr>
</tbody>
</table>

Source: Data processed from each company's financial statements, 2021

The largest percentage of Transfer Pricing calculated using Total Related Receivables or Receivables against Parties who have a special relationship divided by Total Receivables both reasoned and Independent, namely in PT. Indofood CBP Sukses Makmur Tbk., the Company is occupied with the business of making noodles and groceries, culinary food items, bread rolls, bites, nourishment and exceptional food sources, bundling, exchange, shipping, warehousing and cold stockpiling, the executives, and innovative work administrations with a percentage value of 0.7399 or 73.99% in 2016. This indicates that the rate of Events with affiliate in such companies tends to be high compared to Independent Transactions or third parties, where total trade receivables derived from relational parties amounted to 2,187,361 (Millions of Rupiah) while Related Other Receivables amounted to 121,580 (Millions of Rupiah) in contrast to Receivables obtained from Independent Parties or third parties where the trade receivables amounted to 1,010,473 (Millions of Rupiah) and other Receivables of Third Parties amounted to 44,283 (Millions of Rupiah) and other Receivables of Third Parties amounted to 44,283 (Expressed in Millions of
The largest percentage of Tax Avoidance is calculated using the effective cash tax ratio (CETR) formula where the tax Expense is divided by Earning before Tax or net profit before tax. Due to this, it is extremely important to find out the lowest percentage of tax avoidance that occurs in the sample companies. The smallest percentage of tax avoidance was in 2017 which was only 0.1713. The figures show that in all companies the sample of related party transactions tends to be low compared to the year before and after.

Source: Data processed from each company's financial statements, 2021

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Source: Data processed from each company's financial statements, 2021
shows that the tax charges charged in that year were the lowest percentage compared to all the sample companies studied.

In the years studied in all companies, the sample was obtained the maximum average calculation in 2015 which was at 0.2233 or 22.33%. This figure shows that in that year the average of all companies with a net income before tax tends to be higher than the year before and after. The lowest number at the minimum average was in 2016 at just 0.1870 or 18.7% compared to the year before and after. This low Cash Effective Tax Rate Ratio figure shows that pre-tax earnings across all sample companies in 2016 are likely to be lower.

**Method of Estimation Model Data Panel**

In the investigation information board there are three sorts of approaches that can be utilized, to be specific the standard/pooled least square methodology, fixed effect approach and random effect approach. The determination of board information testing technique is directed on all example information, in particular 8 financial organizations recorded on LQ 45 in the Indonesia Stock Exchange in 2014-2019. This test is performed on the condition to discover which model is generally fitting for the entire variable. The test consequences of the above approach are as per the following:

**Chow Test**

In light of the information investigation found, the result of the chow test using Likelihood Ratio is cross-section F probability value of 0.000 less than the alpha value of 0.05 then Ho successfully rejected by receiving Ha. So, the model used in the data panel regression is a fixed effect regression model.

<table>
<thead>
<tr>
<th>Test of Effect</th>
<th>Statistic</th>
<th>d.f</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>cross-section F</td>
<td>498.011651</td>
<td>(7.39)</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Source: Eviews data processing results, 2021

**Hausman Test**

Based on the data analysis conducted, Hausman's statistical test results are then contrasted to the Chi-Square table with a degree of freedom equal to the number of independent variables. In the estimations that have been done, it very well may be seen that the likelihood esteem in the test cross-section random effect shows a number worth 0.1059 which means significant because it is more than alpha 0.05. So, the decision taken in Hausman testing is to accept Ho (p-value < 0.05) with the hypothesis:

Ho: Random Effect Method is better compared to Fixed Effect Method

Ha: Fixed Effect Method is better compared to Random Effect Method

<table>
<thead>
<tr>
<th>Test Summary</th>
<th>Chi-Sq Statistic</th>
<th>Chi-Sq d.f</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-section random</td>
<td>2.613950</td>
<td>1</td>
<td>0.1059</td>
</tr>
</tbody>
</table>

Source: Eviews data processing results, 2021

**Normality Test**

Data normality test is used to decide if the dispersion of information follows or moves toward the ordinary circulation, in particular the dissemination of information with bell-shaped. This test was conducted with Kolmogorov-Smirnov non-parametric examinination statistics where if the significance is above 0.05 then there is no critical distinction between the data to be tested with the ordinary data standard so that the distribution of data is normal. Based on the test results, the Kolmogorov-Smirnov test score is 0.066796 > 0.05 means normal distributed data.
Heteroscedasticity Test

In this study, Park Test was used to see if there was a problem of heteroscedasticity in the study. Research is said to have heteroscedasticity problems when errors or residual models observed do not have a constant variant from one observation to another.

Table 8. Heteroscedasticity Test (Park Test)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.091416</td>
<td>0.007982</td>
<td>11.45233</td>
<td>0.0000</td>
</tr>
<tr>
<td>X</td>
<td>0.012677</td>
<td>0.028047</td>
<td>0.451986</td>
<td>0.6534</td>
</tr>
</tbody>
</table>

Autocorrelation Test

Autocorrelation test conducted using Durbin Watson test (DW test) to see whether there is a relationship between members of a series of time and space observations in linear regression models. If DW statistics are between du < d < 4 – du, at that point the relapse model in this investigation is liberated from autocorrelation. From the estimated value of dU of 1.5776, dL of 1.4928, 4-du of 2.4224, and 4-dL of 2.5072. By looking at the DW statistics there is positive autocorrelation, and reject the H₀ in the model. According to Sarwoko (2005: 143), the problem of autocorrelation can be solved by using the General Least Square (GLS) method. GLS is a method to remove the first-order autocorrelation at a regression estimate. So that by using this method the problem of autocorrelation can be solved.

Hypothesis Testing

Regression test

In view of the model particular test that has been finished, the model used is a model with analysis that uses the Hausman test. The result states that a better model to use is the Random Effect model with general least square (GLS) weighting. The use of GLS is used to reduce heterogeneity between cross-section units and ignore the existence of autocorrelations that occur because in the GLS method there is weighting in the variation of data.


Table 9. Hausman Test Result

<table>
<thead>
<tr>
<th>Test Summary</th>
<th>Chi-Sq Statistic</th>
<th>Chi-Sq d.f</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-section random</td>
<td>2.613950</td>
<td>1</td>
<td>0.1059</td>
</tr>
</tbody>
</table>

Source: Eviews data processing results, 2021

**Determinant Test (R2)**

R-squared test results are a measure to measure how large an independent variable is capable of describing its dependent variables. In view of the consequences of Panel Regression model estimate, judging by the magnitude of the R² number is 0.168917, the coefficient of determination is the following.

Table 10. R-Squared Result from Random Effects Model

<table>
<thead>
<tr>
<th>Weighted Statistics</th>
<th>R-squared</th>
<th>Mean dependent var</th>
<th>0.025201</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted R-squared</td>
<td>0.150850</td>
<td>S.D. dependent var</td>
<td>0.033113</td>
</tr>
<tr>
<td>S.E. of regression</td>
<td>0.030513</td>
<td>Sum squared resid</td>
<td>0.042828</td>
</tr>
<tr>
<td>F-statistic</td>
<td>9.349446</td>
<td>Durbin-Watson stat</td>
<td>1.711700</td>
</tr>
<tr>
<td>Prob(F-statistic)</td>
<td>0.003710</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Eviews data processing results, 2021

KD = R² x 100%
KD = 0.168917 x 100%
KD = 16.8917%

It shows that the impact of variable Transfer Pricing on profit management together influenced 16.8917% while the excess 83.1083% was impacted by different elements outside the exploration.

**Partial Significance Test (Statistical Test t)**

Measurable test t is utilized to decide the impact of one autonomous variable specifically Transfer Pricing exclusively or in part in portraying varieties ofward factors in particular Tax Avoidance. To test whether H1 is accepted or rejected is to analyze t count with table t. If t count > t table, then H0 (no linear relationship) is rejected and H1 (no linear relationship) is accepted, and vice versa. Partial significance test results or t-test with a confidence level of 95% (α = 0.05) result in the calculated t value of each variable is the following:

Table 11. Statistics test t Random Effects Model

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.142742</td>
<td>0.042301</td>
<td>3.374470</td>
<td>0.0015</td>
</tr>
<tr>
<td>X</td>
<td>0.361894</td>
<td>0.116132</td>
<td>3.110865</td>
<td>0.0032</td>
</tr>
</tbody>
</table>

Source: Eviews data processing results, 2021

Transfer Pricing (X): t count = 3.110865 > t table = 2.0129, with significance level 0.0032 < 0.05 with significance level 0.05 and degree of freedom obtained df = 48−1−1= 46. From the provision obtained t-table figure of 2.0129. Thus, t statistic < t table which means Ho successfully rejected. So there, Transfer Pricing influences Tax Avoidance. In addition, judging from the significant value of transfer pricing variables against Tax Avoidance of 0.0032 < 0.05, the impact of Transfer Pricing on Tax Avoidance variables has a significant effect). Based on the table of results Random effect model (attachment obtained regression equation as follows:

\[ \text{Tax Avoidance} = 0.142742 + 0.361894 \times 1 + 0.116332e_i \]

**Impact of Transfer Pricing on Tax Avoidance**

Transfer Pricing has an impact on tax avoidance which explains that the data studied succeeded in proving the effect of Transfer Pricing on Tax Avoidance and in line with the hypothesis expressed. This indicates that the more advanced level of transactions with affiliates, the highest the influence on Tax Avoidance. Other factors
(Residual) influences in addition to Transfer Pricing are allegedly natural cost formation, Thin Capitalization, and Treaty Shopping. Multinational companies or companies that have such special relationships to conduct transfer pricing. This can happen if the company is aware that there is a loophole, opportunity, or profit that can be taken from affiliate transactions with special relationships with subsidiaries, branches, or other business partners that are interrelated in the context of tax avoidance. However, transfer pricing can be linked to Tax Avoidance if the company reports its transactions fairly and accountably. Transfer pricing is part of Tax Avoidance because there are indications that taxpayers are doing business so that the tax paid is less than it should be by meeting certain criteria and Transfer pricing is an activity allowed in the company.

This is consistent with the findings of research by Lingga (2015) Multinational tax rates in the country of origin of the company's activities will tend to encourage companies to transfer pricing. Based on this situation, multinational companies are well aware that there is an opportunity or profit that can be taken from affiliate transactions with special relationships. Nurrahmi Rahayu (2020) transfer pricing has a significant and positive impact direction towards tax avoidance. This result shows that the large or small value of the transfer pricing results affects the company to conduct tax avoidance. Transfer Pricing is often also referred to as a reasonable action in conducting tax avoidance. The company conducts transfer pricing practices aimed at circumventing the amount of profit (profit) so that the payment of taxes to the state becomes low. Research conducted by Panjalusman et al. (2018) Variable Transfer pricing in this study has data that tends to be grouped and does not vary. Results were obtained by 103 companies that have above-average value and transfer pricing.

V. CONCLUSION

Conclusion

According to the findings of research conducted on transfer pricing against tax avoidance in Manufacturing Companies listed on LQ 45 Indonesia Stock Exchange Period 2015-2019, it is possible to conclude that the results of the partial significant test (t) show that variable transfer pricing has positive effect on tax avoidance. This indicates that there is a linear relationship between the variables studied, namely transfer pricing against tax avoidance. The large and small tax burden that is defined on the Profit is the impact of transfer pricing. In other words, companies still have the view that transfer pricing is one way to reduce the burden of taxation to maximize profits.

Suggestions

Based on the conclusions that have been described, the following suggestions can be used for the benefit of taxation parties, issuers, and for further researchers:

1. Taxation regulations on tax avoidance practices through transfer pricing activities listed in the Income Tax Law are still simple. Therefore, multinational companies still have the opportunity to conduct transfer pricing practices in their business activities to maximize the profit earned. Tax collectors need to consider the findings of this study’s analysis to be able to re-regulate tax regulations on transfer pricing activities so that multinational companies that have a gap in transfer pricing are more controlled through the law.

2. The Issuer/Investor may analyze the funds to be invested by considering the compliance of the company's report from the tax side related to overseas. Considering the tax compliance of an entity can be done by analyzing the parties related to the company. Understanding the importance of taxation is something that needs to be instilled by all businesses, both for internal companies and external companies. The more tax compliant an entity gets the bigger a country because tax is one of the sources of funds used by the state for development and infrastructure.

3. For researchers can then add other independent variables to get in-depth analysis such as Natura Cost, Thin Capitalization, and/or Treaty Shopping. In addition, the expansion of panel data is not only the scope of LQ 45 but can use other Listings, such as Kompas 100, Jakarta Islamic Index, or other Listings.

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