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The Effect of Income Shifting Incentives on Tax Avoidance

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Abstract

This research aims to examine the effect of income shifting incentives, which consist of multinationality, transfer pricing aggressiveness, thin capitalization, and intangible assets on tax avoidance. This research uses the fixed effect model (FEM) method. The population in this research is manufacturing companies listed on Indonesia Stock Exchange (IDX) for the 2019-2022 period with a sample of 95 companies taken using the purposive sampling method. This research finds that the multinationality variable has a positive and significant effect on tax avoidance. Meanwhile, other variable do not have a significant effect on tax avoidance. This research was only conducted on manufacturing companies listed on the IDX in 2019-2022, so it cannot provide a comparison for all conditions of multinational manufacturing companies. This research can be used as a reference for future researchers on the same research topic. Apart from that, it is hoped that this research can be used in decision making for companies that want to reduce the tax burden by practing multinationality, transfer pricing aggressiveness, thin capitalization, or intangible assets.

Keywords
Multinationality, Transfer Pricing Aggressiveness, Thin Capitalization, Intangible Assets, Tax Avoidance

1. Introduction

This grouping can be seen in several ways, one of which is the success of development in a country. The success of development can be determined by the total income of a country based on its location. This is because the more strategically a country is located, the more investment will be obtained, so that state income will also increase through tax revenues.

According to Ummah, (2015), taxes are one of the largest sources of income for a country to finance development carried out by the state. In addition, in the State Revenue and Expenditure Budget (APBN), tax sector revenues have a higher percentage than non-tax and grant sector revenues. In table 1, the percentage of tax revenue has indeed decreased from 2019 to 2021, but this percentage is still higher than non-tax revenue and grants.

Table 1
Proportion of Realized Government Revenue to Gross Domestic Product (Percent)

Year	Taxation	Non-Tax Revenue	Grant	Total	Tax Rate
2019	9.77	2.58	0.03	12.38	78.92
2020	8.33	2.23	0.12	10.68	78.00
2021	8,11	2.10	0.02	10.23	79.28

Source: bps.go.id

On the company side, taxes are considered a burden that can increase costs and reduce profits. Therefore, companies will try to minimize the tax burden to a minimum, even though not everything can be avoided in taxation (Kalbuana et al., 2017). Tax minimization carried out by companies is known as tax avoidance.

Tax avoidance is an effort made by a company to reduce the tax burden by exploiting deficiencies in a country's tax regulations (Hermawan et al., 2021), but not in conflict with applicable tax regulations. Therefore, companies with sufficient resources will try to carry out tax avoidance and reduce contributions to the state to a greater extent than companies that do not have resources (Gravelle, 2009). Tax avoidance practices have been carried out in various parts of the world, including Indonesia, one of which is PT Adaro.

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In 2019, PT Adaro was suspected of committing tax avoidance by transferring its income and profits through transfer pricing to a subsidiary company in Singapore, namely Coaltrade Service International. Whereas PT Adaro carried out two procedures, namely (1) selling coal mined in Indonesia to Coaltrade at a lower price and then reselling it at a high price; (2) a bonus of US$ 55 million given by a third party; and (3) PT Adaro's other subsidiaries were recorded by Coaltrade to minimize PT Adaro's taxes because the tax rate in Singapore is lower than in Indonesia (www.tribunsumbar.com).

With this phenomenon, it can be seen that companies can take advantage of various kinds of incentives, schemes, and structures that have been designed to carry out tax avoidance (Taylor & Richardson, 2012). There are several incentives that companies can use to carry out tax avoidance, namely multinationality (establishing subsidiary companies in countries with lower tax rates), transfer pricing aggressiveness (carrying out transactions with related entities through a transfer pricing scheme), thin capitalization (increasing debt compared to paid-in capital), and intangible assets (utilizing intangible assets owned by the company).

The difference between this research and previous research lies in the research variables, tax avoidance measuring instruments, research objects, and research year. First, this research focuses on four independent variables, namely multinationality, transfer pricing aggressiveness, thin capitalization, and intangible assets, so that it is more comprehensive. Second, in calculating tax avoidance, this research uses BTD because it can be calculated based on two levels of profit measurement, namely financial reporting regulations in providing profits according to accounting and tax law in generating taxable income (Wahab & Holland, 2015). Third, this research takes the manufacturing sector because it is the dominant sector on the IDX and has more complex characteristics than the trade and services sectors. Fourth, this research uses the years 2019-2022 to determine the current level of tax avoidance practices in the manufacturing sector.

1.1 Objectives

1. Testing and analyzing the influence of multinationality on tax avoidance.
2. Testing and analyzing the influence of transfer pricing aggressiveness on tax avoidance.
3. Testing and analyzing the influence of thin capitalization on tax avoidance.
4. Testing and analyzing the influence of intangible assest on tax avoidance.

2. Literature Review

Agency Theory

Agency theory describes an agency relationship as a contract between one or more parties (employer or principal) who employ a third party (agent) to carry out various authority tasks in decision-making (Jensen & Meckling, 2019). In agency theory, there is an assumption that each person who takes action as a principal or agent has different motivations and interests. These differences will have an impact on company operations, one of which is company tax policy. The main figures in this research are the government as a tax recipient (principal) and manufacturing companies as taxpayers (agents). In this research, there are differences between principals and agents because of the existence of a taxation system in the form of self-assessment or giving authority to companies to determine for themselves the amount of tax owed each year and report their own taxes. This makes many companies carry out tax avoidance, which will have an impact on reducing state income.

Tax Avoidance

Tax avoidance is one of the important strategies used by companies to reduce their tax burden. Tax avoidance is "an arrangement of a transaction in order to obtain a tax advantage, benefit, or reduction in a manner unintended by the tax law" or a strategy used by companies to obtain profits, benefits, or reductions in the company's tax burden (Prasiwi, 2015). Tax avoidance can also be strengthened by the company's debt costs (Lastiati et al., 2020). Apart from that, tax avoidance is a method used by companies to take advantage of existing weaknesses in tax law without violating existing tax laws in a country to reduce the company's tax burden. However, the use of tax avoidance strategies is not liked by the government, even though it is legal. This is because taxes are one of the largest sources of income for a country. The higher the tax imposition, the better the performance and development of the country.

Income Shifting Incentive

According to the official website of the Director General of Taxes, tax incentives can help increase a country's portfolio in the tax sector in the eyes of investors. However, tax incentives cannot completely influence the flow of

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investment to a country (www.pajakku.com). In general, tax incentives are divided into four types: exemption from taxation, reduction from the tax base, reduction in tax rates, and tax deferral. This incentive can be achieved by implementing income-shifting practices or shifting income to countries that have lower tax rates to reduce the tax burden imposed on companies. The four income shifting practices are: (1) multinationality; (2) transfer pricing aggressiveness; (3) thin capitalization; and (4) intangible assets.

According to Boone & Kurtz, (2007), multinational companies are companies that have significant operations and marketing activities outside their country. Multinational companies have a greater opportunity to succeed in tax avoidance because of the transfer of profitability to countries with lower tax rates through income shifting. Therefore, the more subsidiaries there are in other countries, the greater the opportunity for multinational companies to carry out tax avoidance.

Transfer pricing is the determination of prices related to the delivery of goods, services, or transfer of technology between companies that have a special relationship with the aim of systematically manipulating prices to artificially reduce profits so that the company appears to suffer losses due to tax avoidance or duties in a country (Suandy, 2011). According to Gusnardi, (2009), transfer pricing carried out by a multinational company aims to minimize tax obligations globally. Then, according to (Rachmawati & Martani, 2017) aggressive tax reporting is an effort used by companies to reduce taxable income. Thus, the maximum possible transfer pricing is carried out to move income to countries with lower tax rates or countries that have affiliated companies or divisions. However, tax aggressiveness can also increase the risks arising form errors or fraud committed by companies in obtaining incentives in the form of tax avoidance (Rachmawati et al., 2023). So companies must continue to think about the risks they will accept if they practice transfer pricing aggressiveness in obtaining incentives in the form of tax avoidance.

According to the OECD, (2012), thin capitalization is a situation where the company's debt level is higher than its capital. This is in line with the definition of thin capitalization contained in the research (Taylor & Richardson, 2013). In tax regulations, companies are allowed to use interest expenses as a deduction from income (deductible). However, dividends distributed cannot be used as a deduction in tax calculations (nondeductible) if the company obtains financing through equity. Therefore, the higher the level of debt in the company, the higher the interest burden that must be paid, which will have an impact on the company's fiscal profit (OECD, 2012).

In the OECD, (2010), it is said that intangible property or intangible assets owned by industry are patents, trademarks, trade names, designs, and models. This includes literature as well as artistic ownership rights and intellectual property rights. Intangible assets are one of the most important things in transactions with related entities, especially multinational companies. Where multinational companies can distribute intangible assets to company members located in countries with low tax rates and receive royalty payments from companies located in countries with high tax rates (Dudar et al., 2015).

The Effect of Multinationality on Tax Avoidance

According to Gravelle, (2009), multinational companies have a significant opportunity to reduce taxes by conducting operations in countries with lower tax rates. These operations can take the form of shifting profitability from countries with high tax rates to countries with low tax rates. This can be done by taking advantage of differences in tax regulations between countries and allocating expenses in the form of deductible expenses (such as interest expenses), which can reduce taxable income. The existence of different tax regulations and rates is also the reason why multinational companies have a greater opportunity to practice tax avoidance. Apart from that, multinational companies also have better resources for managing taxes in various countries. Based on this, the first hypothesis in this research is:

H_1: Multinationality has a positive effect on Tax Avoidance

The Effect of Transfer Pricing Aggressiveness on Tax Avoidance

Taylor & Richardson, (2012), found that transfer pricing has a positive influence on tax avoidance. This is in line with Desai et al. (2006), which state that transactions between related parties located in various tax jurisdictions can provide companies with considerable opportunities to carry out tax avoidance. Research from dari Rachmawati et al. (2019) dan Rachmawati et al. (2020) also stated that aggressive tax reporting is managing taxable income using a plan that can be considered a tax avoidance practice. This plan can take the form of controlling transfer prices carried out by the company for transactions with related parties. When the transfer price does not comply with the arm's length transaction principle, there is a transfer of profits between companies with special relationships. Profit diversion can be done by marking down (lowering prices), namely selling goods or services to subsidiary companies that have low

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tax rates at low prices. Then, the subsidiary company will resell the goods or services at a high price (markup) to other companies so that the company has the opportunity to carry out tax avoidance. Based on this, the hypothesis in this research is:

H_2: Transfer Pricing Aggressiveness has a positive effect on Tax Avoidance

The Effect of Thin Capitalization on Tax Avoidance

According to Taylor & Richardson, (2012), the practice of thin capitalization is often used in conjunction with the use of countries with lower tax rates to maximize tax avoidance opportunities by increasing the complexity of transactions involving countries with low tax rates. Then, Dyreng et al., (2008) prove that companies that practice tax avoidance have higher debt levels than companies that do not practice tax avoidance. When viewed from an agency theory perspective, monitoring carried out by shareholders will be stricter than that of creditors, so managers will choose to use more debt than they should, even though the risk of default will be a problem for the company in the future. Based on tax regulations, interest expenses can be a deduction from taxable income (deductible), while dividend distributions are not a deduction from taxable income (non-deductible). If you look at multinational companies, they will receive incentives in the form of tax reductions at higher rates due to interest charges. So, the third hypothesis in this research is:

H_3: Thin Capitalization has a positive effect on Tax Avoidance

The Influence of Intangible Assets on Tax Avoidance

Intangible assets are assets that do not have a physical existence. This asset has long-term economic value and is useful in every company's operational activity Husna & Wulandari, (2022). The OECD, (2010) states that intangible assets owned by an industry can be in the form of patents, trademarks, trade names, designs, and models. This asset has characteristics that are difficult to detect and can be used by company managers to fulfill the company's interests. As one of the assets that is difficult to detect, companies have the opportunity to transfer intangible assets to subsidiaries in countries with lower tax rates or to companies that have special relationships (Jefri & Mustikasari, 2016). In tax regulations, amortization expenses are also included in expenses that can reduce taxable income (deductible expenses). The greater the value of intangible assets, the greater the amortization expense to reduce a company's taxable income. Based on this, the fourth hypothesis in this research is:

H_4: Intangible Assets have a positive effect on Tax Avoidance

Operational Variables

Tax Avoidance

Tax availability is a practice that involves taking advantage of gaps in tax law to significantly reduce corporate taxes (Taylor & Richardson, 2012). In this research, the indicator used is Book Tax Differences (BTD), which is defined as the difference between two levels of profit measurement. The first measurement is determined by financial reporting regulations to provide profit according to accounting, and the second is using tax law to produce taxable income (Wahab & Holland, 2015). In addition, according to Rachmawati & Martani, (2014), book tax differences (BTD), or what is usually called the difference between generally accepted basic principles of financial accounting and tax regulations, are often used as a proxy to capture information about the quality of earnings. Indonesia has a relatively low level of book-tax conformity compared to other countries (Febrina & Rachmawati, 2023), so the potential for companies to carry out tax avoidance is quite high. So, the BTD formula according to (Taylor & Richardson, 2012) is as follows:

$$\text{Book-Taxes Differences (BTD)} = \frac{(\text{Pre Tax Accounting Income} - \text{Taxable Income})}{\text{Lagged Total Assets}}$$

In this case, taxable income is measured using the current tax burden divided by the corporate tax rate in effect in this research period, namely 22%. Where, the higher the Book-Taxes Differences (BTD) value, the higher the company's tendency to carry out tax avoidance.

Multinationality

In this case, multinationality is a multinational company that operates in various countries. According to Boone & Kurtz, (2007), multinational companies are defined as companies that operate and have marketing activities significantly outside their country. Multinationality can be measured by taking into account the difference in tax rates between the parent company and subsidiary companies in other countries. The multinationality formula is as follows:

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$$\text{Multinationality} = \text{Parent Company Tax Rate} - \text{Tax Rate of a Child Corporation Abroad}$$

In this case, the higher the difference between the parent tax rate and the subsidiary tax rate, the higher the company's potential for multinationality, and vice versa.

Transfer Pricing Aggressiveness

According to Nurhayati, (2013), transfer pricing is a mechanism for determining unfair prices for transactions for the delivery of goods and services by parties who have a special relationship (related parties). This mechanism can be carried out by increasing prices (markup) or reducing prices (markdown). In this way, according to Panjalusman et al., (2018) measuring transfer pricing can be formulated as follows:

$$\text{Transfer Pricing (TP)} = \frac{\text{Trade Receivables from Related Parties}}{\text{Total Receivables}}$$

In this case, the higher the value of trade receivables from related parties, the higher the company's potential for transfer pricing aggressiveness, and vice versa.

Thin Capitalization

According to Taylor & Richardson, (2013), thin capitalization is the formation of a capital structure in a company by using as much debt as possible and as little capital as possible. That way, thin capitalization can be formulated as follows:

$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

According to Utami & Irawan, (2022), the higher the value of debt a company has, the higher the company's potential for thin capitalization.

Intangible Assets

According to the Statement of Financial Accounting Standards (PSAK 19), intangible assets are non-monetary assets that can be identified without physical form. Where the calculation of intangible assets in this research refers to Taylor et al., (2015), which is calculated by the number of intangible assets divided by total assets, this can be formulated as follows:

$$\text{INTANG} = \frac{\text{Intangible Assets}}{\text{Total Assets}}$$

In this case, the higher the intangible assets owned by a company, the higher the company's potential for tax avoidance Nurhidayati & Fuadillah (2018).

Profitability

According to Praditasari & Setiawan, (2017), profitability is the main measure of the success of a company. Where the level of profitability will influence the occurrence of tax avoidance and have an impact on the company's effective tax rate. The formula for Return on Assets (ROA) is as follows:

$$\text{Return on Asset (ROA)} = \frac{\text{Earning After Tax}}{\text{Total Assets}}$$

According to Anderson & Reeb, (2003), the higher the company's profitability value, the higher the company's tax burden, so that the company's tendency to carry out tax avoidance will increase. This refers to agency theory, where agents have an interest in increasing company profits for the owners.

Firm Size

Firm size (company size) provides the difference between companies that fall into the large category and the small category. Companies with large categories will have things that are more complex than companies with small categories. These differences create gaps for companies to practice tax avoidance. The larger the company, the greater the possibility of the company practicing tax avoidance. Firm size can be calculated as follows:

$$\text{SIZE} = \text{Ln (Total Assets)}$$

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3. Methods

This research uses a data analysis method in the form of a fixed effect model which is explained in the following equation:

$$\mathbf{BTD_{it} = a + \beta_1 Multi_{it} + \beta_2 TP_{it} + \beta_3 DER_{it} + \beta_4 IA_{it} + \beta_5 ROA_{it} + \beta_6 SIZE_{it} + e}$$

Information:

BTD_{it} = Tax Avoidance, company i year t
$Multi_{it}$ = Multinationality, company i year t
TP_{it} = Transfer Pricing Aggressiveness, company i year t
DER_{it} = Thin Capitalization, company i year t
IA_{it} = Intangible Assets, company i year t
ROA_{it} = Profitability, company i year t
$Size_{it}$ = Firm Size, company i year t
e = Error

4. Data Collection

The population in this study is made up of manufacturing companies listed on the Indonesia Stock Exchange (BEI). Then, samples were taken using a purposive sampling technique with the following criteria: (1) Companies in the manufacturing sector that are listed on the Indonesia Stock Exchange (BEI) and have presented annual financial reports for the period 31 December 2019 - 31 December 2022; (2) Companies that present the required data in this research; (3) The company's annual financial report does not experience losses or does not have negative profits; and (4) It is a multinational company or has subsidiary companies in different countries. Based on predetermined criteria, a sample of 95 companies was obtained by looking at company documents in the form of annual reports for 2019-2022.

5. Results and Discussion

5.1 Numerical Results

Descriptive Statistical Analysis

Descriptive statistics aim to provide a description or general overview of the problems in the research objects used as samples. **Table 2** presents descriptive statistics containing the highest (maximum), lowest (minimum), middle (median), average (mean), and standard deviation values from the 2019-2022 research sample.

Table 2
Descriptive statistics

Variable	N	Mean	Median	Std. Dev	Minimum	Maximum
BTD	95	0.082	0.041	0.112	-0.063	0.417
MULTI	95	0.090	0.050	0.088	-0.080	0.220
TP	95	0.234	0.144	0.257	0,000	0.929
DER	95	0.807	0.798	0.501	0.097	2,523
IA	95	0.024	0.009	0.040	0.001	0.169
ROA	95	0.079	0.063	0.064	0.001	0.280
SIZE	95	30,079	29,840	1,569	26,630	34,756

These results indicate that there are 95 data points that meet the criteria in this study. Thus, a descriptive analysis for each variable can be presented as follows:

Tax avoidance is a dependent variable that is described by book-tax differences (BTD). This variable has a mean value of 0.082, which means that the average company used as a research sample has a tendency to practice tax avoidance. Then, this variable has a median value of 0.041, which is smaller than the mean value, which means that most companies have a tendency to practice tax avoidance. The standard deviation value of this variable is greater than the mean value, namely 0.112. This ilustrates that observations on this variable vary, with a maximum value od 0.417 and a minimum value of 0.063.

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Multinationality (MULTI) is the first independent variable in the research and has a mean value of 0.090. This value is positive (+), so it can be said that most of the sample companies in this study invest in countries with lower tax rates. This value is greater than the median value, namely 0.050, which describes the majority of companies practicing multinationality. Then, this variable has a standard deviation value that is smaller than the mean value, meaning that the data distribution for this variable is 8.8% of the total research sample, with a maximum value of 0.220 and a minimum value of -0.080. The maximum value for this variable indicates that there are sample companies that invest in countries with a tax rate of 0% (tax haven) so that the company can receive incentives in the form of exemption from taxation.

The third variable is transfer pricing aggressiveness (TP), which has a mean value of 0.234. This value can be interpreted as meaning that the average ownership of related trade receivables in the sample company is 23.4% of the company's total receivables. This variable has a median value of 0.144, which is lower than the mean value, so it can be interpreted that most companies carry out transfer pricing aggressively. Then, the standard deviation value for this variable is greater than the mean value, namely 0.257. This indicates that the observation data for this variable varies, with a maximum value of 0.929 and a minimum value of 0.000.

Thin capitalization, or the fourth variable in this research, is described by the debt-to-equity ratio (DER). This variable has a mean value of 0.807, which indicates that the average debt ownership in sample companies is 80.7% of equity. This value is still considered safe when compared with the thin capitalization provisions in PMK number 169/PMK.010/2015 regarding the ratio of the company's debt and capital. Then, this value is greater than the median value, namely 0.798, so it can be said that most companies carry out thin capitalization. This variable has a standard deviation value that is smaller than the mean value, namely 0.501. This illustrates that the distribution of data in this study is 50.1% of the total research sample. Then, this variable has a maximum value of 2.523 and a minimum value of 0.097.

The last variable, or fifth variable, included in the independent variable group is intangible assets (IA), with a mean value of 0.024. This can be interpreted as meaning that the average intangible assets owned by the sample company are 2.4% of the company's total assets. This value is greater than the median value for this variable, namely 0.009. This indicates that most companies utilize intangible assets to carry out tax avoidance, even though the value is low. The low value of intangible asset ownership can be caused by the selection of the company sector used as the research sample. This is because companies belonging to the manufacturing sector are more likely to have fixed assets to convert raw materials into semi-finished goods or finished goods that have sales value compared to intangible assets. Then, this variable has a standard deviation value that is greater than the mean value, namely 0.040. This value illustrates that the IA variable has varying data observations, with a maximum value of 0.169 and a minimum value of 0.001.

The next variable is the control variable, which consists of profitability (ROA) and firm size (size). The first control variable is profitability, which is measured using return on assets (ROA). The mean value of this variable is 0.079, which means that on average, the sample company can produce a profitability of 7.9%. Then, this variable has a median value that is close to the mean value, namely 0.063, so it can be said that most of the sample companies have high profitability values. The standard deviation value for this variable is smaller than the mean value, namely 0.064, so it can be said that each company has almost the same profitability value, with a maximum value of 0.28023, or 28.02%, and a minimum value of 0.00087, or 0.09%.

The second control variable is firm size (SIZE), with a mean value of 30.079, so it can be said that the average total assets owned by the sample companies are 30.079. Then, this variable has a median value of 29.840, which means that the company sample in this study has a large company size. This variable has a standard deviation value that is smaller than the mean and median values, namely 1.569. This value illustrates that the company size in the research sample has the same magnitude, with a maximum value of 34,756 and a minimum value of 26,630.

Correlation Analysis

Correlation analysis can show the relationship between the dependent variable and the independent variable using pairwise correlation. If a study has a correlation between variables of more than 0.8, it can be said that there is a multicollinearity problem in it (Porter & Gujarati, 2009).

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Table 3
Pearson Correlation Test Results

	BTD	MULTI	TP	DER	IA	ROA	SIZE
BTD	1,0000						
MULTI	0.0938	1,0000					
TP	-0.1529	0.0061	1,0000				
DER	-0.2625	0.2695	-0.1098	1,0000			
IA	0.0726	0.2412	0.1294	0.0019	1,0000		
ROA	0.0952	-0.3411	0.2354	-0.6171	0.0468	1,0000	
SIZE	-0.2689	0.5201	0.2938	0.3740	0.1612	-0.2409	1,0000

The results of the pairwise correlation test for each variable in **Table 3** do not indicate a multicolinearity problem in this study because the variables do not have a correlation value higher than 0.8.

Data Analysis Results

The Fixed Effect Model (FEM) regression on the independent variables, namely multinationality, transfer pricing aggressiveness, thin capitalization, and intangible assets, with the control variables profitability and firm size on the dependent variable tax avoidance are:

Table 4
FEM (Fixed Effect Model) Regression Results with Robust Treatment

BTD	Prediction	Coefficient	Q	P > |t|
MULTI	+	1,224	173.20	0,000**
TP	+	-0.027	-1.40	0.244
DER	+	0.023	1.98	0.165
IA	+	-0.492	-2.36	0.124
ROA	+	0.587	5.54	0.005**
SIZE	+	0.031	4.40	0.019**
_Cons		-1,003	-2.30	0.029
R-Squared			0.3400	
Adjusted R-Squared			0.1427	
Prob (F-Statistic)			0.0003	

6. Discussion

The Effect of Multinationality on Tax Avoidance

The effect of the multinationality variable on tax avoidance can be seen in **Table 4**, which proves that there is a positive and significant influence on the tax avoidance variable because the t value for this variable is 173.20 and the value P>|t| of 0,000 or less than *a*. In this way, hypothesis one (H1) is accepted.

This hypothesis shows that **Multinationality Has a Positive and Significant Influence on Tax Avoidance**. The results of this hypothesis can be said to be that the higher the value of multinationality as seen from the difference between parent tax rates and subsidiary tax rates abroad, the higher the company's tendency to practice tax avoidance. The size of the difference between the parent tax rate and the overseas subsidiary tax rate can illustrate the company's tendency to practice tax avoidance. Multinational companies that have subsidiary companies in various countries will take advantage of differences in tax rates between countries to avoid high tax burdens. The high profits a company has will have an impact on the company's high tax burden, so the profits earned will be smaller (Putri & Lautania, 2016). That way, some companies will take advantage of differences in tax rates between countries to increase company profits or profitability. This is because companies will receive incentives in the form of reduced tax rates on taxable income if they have subsidiary companies in countries with lower tax rates. Another incentive that the company will receive is freedom from taxation when the subsidiary company is located in a country with a tax rate of 0% (tax haven). That way, the company's tax burden will be smaller, and the company's profitability will increase.

Another study states that the higher the multinationality value, the higher the company's tendency to practice tax avoidance by shifting profits from the parent company to subsidiary companies in other countries with different tax rates (Pramudya et al., 2021). Then, the research results of Ariyani & Arif (2023) also state that the multinationality

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variable has a positive and significant influence on tax avoidance practices, so these results are in line with this research.

The Effect of Transfer Pricing Aggressiveness on Tax Avoidance

The regression results in **Table 4** show that the t value of transfer pricing aggressiveness is -1.40 and the P value > |t| is greater than the value of a, namely 0.244. This indicates that the transfer pricing aggressiveness variable has no influence on the tax avoidance variable. Therefore, it can be said that hypothesis two (H2) is rejected.

The results of the hypothesis state that **Transfer Pricing Aggressiveness Does Not Have a Significant Effect on Tax Avoidance.** According to Falbo & Firmansyah (2018), this is due to PMK 213/PMK.03/2016, which has been in effect since 2017 regarding the types of documents that taxpayers must collect as well as additional information in the form of management procedures after carrying out transactions with parties who have a special relationship. This regulation has been changed to PMK Number 172 of 2023 concerning the application of the principles of fairness and business customs to transactions influenced by special relationships. In Article 1, paragraph 11, it is stated that there is an inspection of a group of activities regarding the collection and processing of data, evidence, and information, which must be carried out objectively and professionally in accordance with audit standards in testing taxpayer compliance with statutory regulations. Then, in Article 1, paragraph (12), it is said that documents related to determining transfer prices are documents owned by taxpayers, such as data or information used to support transactions with related parties that are in accordance with the principles of fairness and business practice. From these two (2) paragraphs, it can be seen that it is difficult for companies to use transfer pricing schemes to practice tax avoidance because of special tax provisions and strict and firm control from the PMK.

These results are in line with research by Isnaini (2019) which states that transfer pricing partially has no effect on tax avoidance due to the renewal of the country's government system, which is marked by the issuance of new policies related to transfer pricing. Apart from that, this research is also in line with Damayanti & Prastiwi (2017) which also prove that the transfer pricing variable has no effect on tax avoidance.

The Effect of Thin Capitalization on Tax Avoidance

In **Table 4**, there are t values and P values > |t| with thin capitalization. The t value of this variable is 1.98 and the P value > |t| is greater than the value of a, namely 0.165. These results indicate that the thin capitalization variable has no significant effect on tax avoidance variable. In this way, it can be said that the third hypothesis (H3) is rejected.

The results of the hypothesis state that **Thin Capitalization Does Not Have A Significant Effect on Tax Avoidance.** According to Retdhawati (2022), this is because companies use debt as funding not to minimize the tax burden but for the company's operational needs. Then, in Law Number 36 of 2008, Article 18, paragraph (1), regarding thin capitalization provisions, it is stated that the minister of finance is given the authority to regulate the ratio between debt and capital of parties who have special relationships. This law is supported by PMK number 169/PMK.010/2015, which contains provisions regarding the ratio between a company's debt and capital in calculating taxes, which is four to one (4:1). The final cause of this research is that the maximum number of the thin capitalization (DER) variable contained in Table 4.2 is 2.523. This figure is no more than the predetermined comparison value, namely (4:1), so the sample in this study is said to have no significant effect on tax avoidance.

This research has similarities with the results of research by Oktania & Putra (2023) which show that the higher the thin capitalization value, the less significant the influence on the company's tendency to practice tax avoidance. Then, research from Prayoga (2019) also proves that this variable partially does not have a significant influence on tax avoidance, so it can be said that this research is in line with the results of this research.

The Effect of Intangible Assets on Tax Avoidance

The regression results in **Table 4** show the t value and P value > |t| owned by the intangible assets variable. The t value of intangible assets is -2.36, and the P value > |t| intangible assets is greater than the value of a, namely 0.124, which means this variable has no significant effect on the tax avoidance variable. In this way, hypothesis four (H4) is rejected.

The results of the hypothesis state that **Intangible Assets Do Not Have a Significant Effect On Tax Avoidance.** This is because manufacturing companies are more likely to have fixed assets (such as machines, equipment, and so on) compared to intangible assets (such as brand rights, patents, and so on), because these companies focus more on producing unfinished materials into almost finished goods or finished goods. that have resale value. Meanwhile, intangible assets tend to be owned by service companies because these companies focus more on selling services or

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services that can generate income for the company. In Table 4.2, there is a mean value of intangible assets, namely 0.024, which means that the manufacturing companies used as samples in this study have a small value of intangible assets. Then, Naruli et al. (2022) say that most manufacturing companies only use intangible assets to maximize the company's profitability value, not to practice tax avoidance, for example, ownership of brand equity or brand rights. This ownership can increase the company's branding and will have an impact on sales levels, so that the company's profitability will increase.

Research by Naruli et al. (2022) has the same results as this research, namely that intangible assets are stated to have no influence on tax avoidance. It can be said that the size of the value of intangible assets will not affect the company's tendency to practice tax avoidance.

The Effect of Control Variables on Tax Avoidance

Panel data regression results for each variable, including the control variables, are in **Table 4.** The first control variable, namely profitability (ROA), has a P value > |t| smaller than the value of a, namely 0.005. This indicates that the hypothesis result for this variable is that **Profitability (ROA) Has a Positive and Significant Influence On Tax Avoidance**. Profitability is one of the factors used to measure the level of a company's tax burden. The high value of company profitability will have an impact on the company's high tax burden. This burden will be one of the expenses that will reduce the company's profitability. That way, the company will try to do everything it can to minimize the tax burden so that the company's profitability increases. These results are in line with Sherly (2022) who states that profitability has an influence on tax avoidance because the size of the company's profitability value will influence the company's tendency to carry out tax avoidance.

In **Table 4**, there are also regression results from firm size, which state that this variable has a positive and significant effect on tax avoidance with a value of P>|t| smaller than the value of a, namely 0.029. In this way, the hypothesized result of this variable is that **Firm Size Has A Positive And Significant Influence On Tax Avoidance.** Firm size is a variable used to see the size of the company through the total assets owned by the company. The greater the firm size value seen in the company's total assets, the greater the depreciation value, which can be used to reduce the tax burden. Therefore, company size is one of the variables used by companies to practice tax avoidance. Andawiyah et al. (2019) also stated that firm size has a significant influence on tax avoidance because the greater the value of firm size or company size, the more it can describe the company's tendency to carry out tax avoidance.

7. Conclusion

The use of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2022 in this research aims to determine the influence of multinationality, transfer pricing aggressiveness, thin capitalization, and intangible assets on tax avoidance, so the conclusions from the results of this research are:

The influence of multinationality (MULTI) on tax avoidance (BTD) in this research is positive and significant, so it can be seen that the greater the value of multinationality as seen from the difference between parent tax rates and subsidiary tax rates abroad, the greater the company's tendency to do so tax avoidance practices. Research that is in line with these results is by Pramudya et al. (2021) and Ariyani & Arif (2023).

The results of this research show that transfer pricing aggressiveness (TP) does not have a significant effect on tax avoidance (BTD), which means that the size of the value of related party trade receivables cannot describe the company's tendency to practice tax avoidance. The results of this research support the research of Isnaini (2019) and Damayanti & Prastiwi (2017).

Thin capitalization (DER) is said to have no significant influence on tax avoidance (BTD), so it can be interpreted that the high and low value of a company's debt cannot indicate the company's tendency to carry out tax avoidance. The research results from Oktania & Putra (2023) and Prayoga (2019) are in line with this research.

This research shows that intangible assets (IA) do not significantly influence tax avoidance (BTD). This can be interpreted as meaning that the size of the intangible assets (IA) value cannot describe the company's tendency to practice tax avoidance. Research from Naruli et al. (2022) is in line with this result.

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