

# The Effect Of Multinationality And Transfer Pricing On Tax Avoidance Through Profitability

*Multinationality,  
Transfer Pricing and  
Tax Avoidance*

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**351**

Submitted:  
MARCH 2024

Accepted:  
MAY 2024

## ABSTRACT

The decline in tax revenues from palm oil companies over the past decade, despite increasing production, suggests potential tax avoidance practices. This study aims to examine the effect of **multinationality** and **transfer pricing** on **tax avoidance**, with **profitability** as a moderating variable. The analysis employs a multiple regression model using the EViews application, based on financial data from palm oil companies listed on the Indonesia Stock Exchange for the period 2013–2020. A total of 112 observations were selected from an initial population of 235 through purposive sampling. The results show that **multinationality has a positive and significant effect on tax avoidance** ( $p < 0.01$ ), while **transfer pricing does not show a significant effect** ( $p > 0.05$ ). Furthermore, **profitability does not significantly moderate** the relationship between multinationality or transfer pricing and tax avoidance. The regression model has an **R<sup>2</sup> value of 0.1426**, indicating that the independent and moderating variables explain approximately **14.26%** of the variation in tax avoidance. These findings provide important policy implications for strengthening tax oversight and regulation in the palm oil industry.

**Keywords:** multinationality, transfer pricing, tax avoidance, profitability.

## INTRODUCTION

The palm oil plantation sector plays a strategic role in the Indonesian economy, contributing significantly to job creation and state revenue through tax payments. However, tax revenues from this industry have declined over the past decade. The average tax revenue from the palm oil sector in the 2013–2020 period only reached IDR 17 trillion, with the highest value recorded in 2017 at IDR 21.87 trillion. This fact is contrary to the trend of increasing palm oil production and expansion of palm oil plantations in Indonesia every year. This indicates the possibility of tax avoidance practices by palm oil companies to reduce their tax burden (Saputra, 2022).

Tax avoidance behavior is often influenced by the existence of multinational companies. Multinationalism refers to a company's efforts to open branches in various countries. This international expansion is usually carried out to improve operational efficiency and reduce tax liabilities (Medioli, Azzali & Mazza, 2023). In recent decades, document leaks such as LuxLeaks, Panama Papers, and Paradise Papers have raised questions about the extent to which tax avoidance practices are carried out by multinational companies (Makni, Maaloul & Dabbebi, 2020).

Multinational companies that engage in tax avoidance practices tend to use aggressive tax planning strategies, such as exploiting loopholes in tax laws and taking advantage of differences in tax regulations between countries. The main purpose of this action is to reduce the tax burden that must be borne (Ramesh & Athira, 2024). Multinational companies also take advantage of various tax loopholes to hide profits, reduce taxable income, or shift profits to jurisdictions with low or no tax rates, even though economic activity in the region is minimal (Saka, Oshika & Jimichi, 2019). This

**JIAKES**

Jurnal Ilmiah Akuntansi  
Kesatuan  
Vol. 12 No. 3, 2024  
pg. 351-362  
IBI Kesatuan  
ISSN 2337 – 7852  
E-ISSN 2721 – 3048  
DOI: 10.37641/jiakes.v12i3.1507

technique is used to shift profits from jurisdictions with high tax rates to jurisdictions with low tax rates, thereby significantly reducing the total tax that companies must pay on their global profits (Omer, Molloy & Ziebart, 1993).

Tax avoidance by multinational companies has become the focus of international tax policy. Nainggolan & Sari (2019) and Nurhidayah & Rahmawati (2021) prove that companies with international transactions tend to engage in tax avoidance practices. The more subsidiaries abroad, the greater the likelihood of tax avoidance. However, research results on the relationship between multinationality and tax avoidance are inconsistent. Some studies, such as Hanlon & Heitzman (2010), show that multinationality has a significant effect on tax avoidance, while other studies, such as Heidi & Ngadiman (2021), find the opposite.

Another factor that influences tax avoidance behavior is transfer pricing. Transfer pricing policies are used to set internal transaction prices, such as buying and selling, using intangible assets, or financial transactions between companies and related parties (Sundari & Susanti, 2016). This practice is often used by companies as part of tax planning to reduce tax burdens through price manipulation in transactions between affiliated entities (Amidu, Coffie, & Acquah, 2019). To ensure a strong basis for making tax adjustments based on transfer pricing claims, the tax authorities will consider the arm's length principle and special relationships between parties. Dwianika & Ahmad (2021) found that transfer pricing had a significant effect on tax avoidance practices, while profitability and institutional ownership also influenced the practice. However, research by Napitupulu & Situngkir (2020) showed different results, where transfer pricing and profitability did not have a significant effect on tax avoidance behavior.

Many studies have been conducted on tax avoidance using independent variables of multinationality and transfer pricing, but the results are still varied and inconsistent (Anggraini Astri & Minovia, 2020; Dwianika & Ahmad, 2021; Hanlon & Heitzman, 2010; Madita Heidi & Ngadiman, 2021; Oktaviani, Wulandari & Sunarto, 2023). Previous studies often do not pay attention to the role of profitability as a moderating variable. Therefore, this study adds novelty to previous studies, such as Anggraini et al. (2020), Dwianika & Ahmad (2021), and Oktaviani et al. (2023), by including profitability as a moderating variable.

There is a gap in the academic literature regarding tax avoidance practices in the palm oil plantation sector. Although this industry generates significant revenue and has a large economic impact, research on tax avoidance practices in this sector is still very limited. Therefore, this study aims to provide a deeper understanding of how profitability affects the relationship between multinationality, transfer pricing, and tax avoidance practices in the palm oil plantation sector. Previous studies, such as Andriani & Putri (2022) who examined tax avoidance practices in the manufacturing sector, Anggraini et al. (2020) in the property sector, and Dwianika & Ahmad (2021) in the mining sector, have not explored tax avoidance practices in the palm oil plantation sector. This study is expected to fill this knowledge gap and provide a more comprehensive insight into the dynamics of taxation in the palm oil plantation sector.

This study revealed that the realization of tax revenue from the palm oil plantation sector decreased during the period 2013–2020, with an average tax revenue of only around IDR 17 trillion. The highest revenue was recorded in 2017 at IDR 21.87 trillion. In addition, in 2019, the Corruption Eradication Commission (KPK) released the results of a study showing that the area of palm oil plantations in Indonesia reached 16.4 million hectares, larger than the official government data at that time, which was 14 million hectares. Based on this area of coverage, the KPK estimated that the potential tax revenue in 2017 should have reached IDR 40 trillion, but the government was only able to collect around IDR 21.87 trillion (Laia, 2021; Putra, 2023). In line with the findings of Laia (2021) and Putra (2023), this study chose the time span of 2013–2020 to accommodate changes in tax regulations and government policies that could potentially influence tax avoidance practices by palm oil plantation companies during that period.

The main focus of this study is to explore the relationship between multinationality, transfer pricing, and tax avoidance. This study involves statistical analysis to understand how these variables are interrelated, as well as the direction and strength of the relationship between them. In addition, this study also evaluates whether profitability affects the intensity and direction of the relationship. Through in-depth analysis, the results of this study are expected to provide useful policy implications for governments, tax authorities, and multinational companies in managing transfer pricing practices, multinationality, and tax avoidance more efficiently and fairly. The contribution of this study is expected to provide valuable insights into tax policy discussions and improve corporate transparency in the current era of economic globalization.

## **LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

### **Agency Theory**

Agency theory, introduced by Jensen & Meckling (1976), explains the conflict of interest between agents (parties acting on behalf of principals) and principals (owners or shareholders). Principals expect maximum profit from the investment made, while agents, in this case company management, seek to obtain incentives and compensation in return for their role in managing the company. In this context, the principal acts as a partner, while the agent acts as a manager. Agency theory also highlights that affiliate transactions carried out by agents can be motivated by personal gain, which has the potential to harm the principal and is often considered a form of opportunistic action (Marchini, Mazza & Medioli, 2018).

### **Tax evasion**

According to Dyreng, Hanlon, & Maydew (2019), tax avoidance includes any activity that reduces a company's tax burden compared to pre-tax income. This activity includes a variety of actions, both considered "aggressive" and illegal, which are defined as strategic initiatives. Tax avoidance strategies often involve artificially shifting accounting income or expenses between business units and/or accounting periods without any underlying economic basis, and depending on certain economic and financial events. This can create discrepancies with the information reported in the financial statements (Baker, Lyu & Perotti, 2023). It is important to note that legitimate tax avoidance, which takes advantage of loopholes in tax rules, is different from illegal actions that violate tax laws and fall into the category of criminal acts (Fisher, 2014). Tax avoidance activities are often the result of incentives or privileges given by the government to businesses (Duhoon & Singh, 2023). In addition, tax avoidance can also be interpreted as a legitimate transfer of funds from the state to the business sector (Liem, Thu & Khanh, 2020).

Corporate tax avoidance is a global phenomenon that occurs in various countries (Jones & Temouri, 2016). This topic has become the focus of debate in accounting, finance, and management, and has attracted the attention of academics (Zolotoy, O'Sullivan, Martin & Wiseman, 2021). Although tax avoidance can improve a company's financial performance in the short term by reducing the tax burden, this practice is often seen as an attempt to withhold resources from the state that should be used for the benefit of society. This creates a negative perception because, although it can increase short-term profitability, tax avoidance hinders the redistribution of resources for social purposes. Therefore, tax avoidance is considered a risky business strategy (Medioli et al., 2022). In addition, some public opinions tend to associate this practice with greed, assuming that companies that do not pay their fair share of taxes are less concerned about social welfare (Saul & Cohen, 2019).

### **Multinationality**

A multinational group is a collection of interrelated companies operating in one or more jurisdictions. Meanwhile, a multinational corporation is a business entity that is part of a multinational group (OECD, 2009). Multinational corporations carry out business activities such as the production and sale of goods and services in various

countries (Pamungkas & Nurcahyo, 2018). This company has a special relationship between its entities and carries out business activities across national borders. According to the United Nations, a multinational corporation is defined as an entity that owns or controls production or service facilities outside its home country (May, 2017).

In general, multinational companies engage in cross-border business activities and have subsidiaries or affiliates in other jurisdictions (Oktaviani et al., 2023). Cristea & Nguyen (2016), in their study using a sample of companies in Denmark, showed that Danish multinational companies export low-priced goods to affiliates in low-tax countries, while expensive goods are exported to affiliates in countries with high tax rates. Research on income shifting by Beuselinck, Deloof & Vanstraelen (2015) found that differences in tax rates between subsidiaries and parent companies can trigger income shifting. In other words, if the tax rate in the home country is lower, income will be shifted domestically. Conversely, if the tax rate in the foreign country is lower, then income shifting will flow abroad.

#### ***Transfer Pricing***

One tactic used by companies to compete in the global market with limited resources is through transfer pricing. This approach involves shifting profits from entities operating in jurisdictions with higher tax rates to entities in jurisdictions with lower tax rates. The main objective of this practice is to reduce the overall tax burden. Transfer pricing is generally implemented by companies with strong internal networks. Decisions related to transfer pricing, as part of a company's strategy, are not only based on financial considerations, but also include aspects such as efficiency, effectiveness, transaction volume, resources, corporate image, and increased profits (Kalra & Afzal, 2023). Although transfer pricing is considered a profitable strategy for the business world, the government believes that this practice can reduce the potential for state tax revenues (Azhar & Setiawan, 2021).

#### ***Profitability***

Profitability is an indicator used to evaluate a company's ability to generate profits (Duuhoon & Singh, 2023). Basically, profitability metrics are ratios used by companies to assess the effectiveness of daily operations in generating profits (Hery, 2017). This ratio also functions to evaluate management efficiency in generating profits and is an important tool in assessing the company's overall performance. Profitability reflects a company's ability to use its assets efficiently to generate profits, as measured by Return on Assets (ROA). In this study, ROA is used as a variable to measure the company's level of profitability. According to Kurniasih & Sari (2013), ROA is related to the company's net profit and the application of income tax which affects profitability.

#### ***Multinationals and Tax Avoidance***

Effective tax planning is often carried out by multinational companies for each entity in their group, with revenues originating from various countries. Tax avoidance activities are carried out to maximize the overall profit of the group (Nuraini, 2014). According to agency theory, managers tend to choose the level of tax avoidance that is in accordance with the interests of shareholders, especially if balanced with strict supervision and incentives (Fama, 1980). The geographical advantages of multinational companies give them the flexibility to take advantage of differences in tax rates between countries to reduce the tax burden (Oktaviani et al., 2023). Multinational companies face a higher risk of tax avoidance than domestic companies. Some corporations establish vehicle companies for tax manipulation purposes, usually based in tax haven countries with low or even zero tax rates. This condition is attractive for investors to invest their capital in the country (Anggraini et al., 2020). Research by Dyreng, Hanlon, & Maydew (2019) shows that corporations with a strong international presence tend to engage in tax avoidance activities, while other companies do not. Based on the description, the author formulates the following hypothesis: H1: Multinationality has an effect on tax avoidance.

#### ***Transfer Pricing and Tax Avoidance***

The main objective of the company is to maximize accounting profit, often through *transfer pricing practices* used by multinational companies to adjust transaction

prices to shift profits from high-tax jurisdictions to low-tax jurisdictions, thereby reducing the tax burden (Löffler, 2019). Jacob's (1996) research shows that tax avoidance can occur through related party transactions within a corporate group. From an agency theory perspective, related party transactions provide an opportunity for management to set transaction prices for personal gain, taking advantage of the limitations of audit reports that only list the name and amount of transactions without details of specific provisions (Marchini et al., 2018; Kalra & Afzal, 2023). Based on this, the formulated hypothesis is: H2: *Transfer pricing* has an effect on tax avoidance.

### **The Moderating Effect of Profitability on the Relationship between Multinationality and Tax Avoidance**

Companies with high operational standards but low profitability tend to be more active in tax avoidance than companies with high profitability (Gunaasih, 2021). Profitability reflects the operational efficiency of a company, which is an indicator of its operational performance (Rani, Susetyo & Fuadah, 2018). Within the framework of agency theory, the government seeks to maximize tax revenue, while company managers, as agents, seek to minimize the tax burden (Irianto & Wafirli, 2017). A high level of profitability indicates large profits, which has implications for a larger tax burden for the company (Ichsani & Susanti, 2019). Based on this description, the formulated hypothesis is: H3: Profitability has a moderating effect on the relationship between multinationality and tax avoidance.

### **The Effect of Profitability Moderation on the Relationship between Transfer Pricing and Tax Avoidance**

Profitability is an indicator of company performance that shows the effectiveness of asset management, measured by the level of profit obtained (Ichsani & Susanti, 2019). Company managers often implement tax burden reduction strategies to maximize accounting profits (Herianti & Chairina, 2019). Transfer pricing is considered an effective tool in tax avoidance practices, because it allows transfer price adjustments to optimize profits while minimizing tax obligations to the state (Nurrahmi & Rahayu, 2020). Transfer pricing practices are common with one of the main objectives being to support tax avoidance (Napitupulu & Situngkir, 2020). Based on this description, the formulated hypothesis is: H4: Profitability has a moderating effect on the relationship between transfer pricing and tax avoidance.

## **METHODS**

This study applies multiple regression analysis using the Eviews application to process data. The data used are secondary data in the form of financial reports from 30 palm oil issuers listed on the Indonesia Stock Exchange during the period 2013–2020, resulting in a total population of 235 data. The selection of this time period is based on the decline in tax revenues from the palm oil plantation sector during that period, as in line with the research findings of Laia (2021) and Putra (2023).

This study uses all palm oil companies listed on the Indonesia Stock Exchange (IDX) for the period 2013–2020 as the study population, selected due to the complexity of the financial structure and significant developments in efforts to improve the financial performance of these companies. Sampling was carried out using the *purposive sampling method* based on three criteria, namely: the company did not experience commercial or tax losses during the reporting period, had submitted audited financial statements, and had receivables transactions with affiliated companies. By applying these criteria, 112 samples were obtained for this study, which were analyzed using the research model as stated in equation (1).

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 Z + \beta_4 X_1 Z + \beta_5 X_2 Z + \varepsilon \dots (1)$$

Information:

Y = Tax avoidance;

$\alpha$  = Constant;

$\beta_1$ - $\beta_5$  = regression coefficient;

X1 = multinationality ;

X2 = Transfer Pricing;

Z = Profitability;

$\varepsilon$  = error

### **Operational Definition and Measurement of Tax Avoidance Variables**

The calculation of the tax avoidance variable is measured using the GAAP effective tax rate (ETR) proxy (Kovermann & Wendt, 2019; Chang et al., 2020).

$$\text{ETR} = \text{Income Tax Expense} / \text{Profit before tax.}$$

This study uses the GAAP ETR model as a proxy for tax avoidance due to data limitations, measurement consistency, academic justification, and conformity with previous studies such as Kalbuana, Taqi, Uzliawati & Ramdhani (2023); Rani et al. (2018); Sari (2021). Specific data on tax avoidance activities are often difficult to obtain, so ETR, which is calculated based on the company's public financial statements according to GAAP standards, is a reliable and easily accessible indicator. GAAP ETR allows consistent comparisons between companies, reflects the amount of tax paid, and has legitimacy in the tax literature. The lower the ETR percentage, the higher the likelihood of tax avoidance practices, conversely the higher the ETR indicates a lower likelihood of tax avoidance. The use of ETR as a proxy not only provides a strong foundation for measuring tax practices, but also allows the results of this study to be in line and comparable with previous studies, strengthening the scientific knowledge base.

#### **Multinationality**

Multinationality refers to the characteristics of companies that operate in more than one country (Babcock, 2021). In this study, the measurement of multinationality was carried out by evaluating the existence of parent companies and subsidiaries in one or more countries, using dummy variables. A value of 1 is given to companies that operate internationally, namely having parent companies or subsidiaries in more than one country, while a value of 0 is given to companies that do not operate internationally (Anggraini et al., 2020; Oktaviani et al., 2023; Pamungkas & Nurcahyo, 2018).

#### **Transfer Pricing**

Transfer pricing is a concept in multinationality that involves the determination of transfer prices between subsidiaries operating in different countries (Foley, Hines & Wessel, 2021). In this study, transfer pricing measurement is carried out by comparing the total receivables of related parties to the total receivables as a whole (Supriyati, Murdiawati & Prananjaya, 2021; Nurdiansyah & Masripah, 2023). Although transfer pricing covers various types of internal transactions, receivables are considered an adequate indicator to represent transfer pricing practices, because they reflect sales transactions of goods or services between related entities that involve transfer pricing.  $\text{Transfer Pricing} = \text{Receivables of related parties} / \text{Total receivables}$ .

#### **Moderation Variables**

This study uses profitability as a moderating variable to identify a more complex relationship between the independent variables, namely multinationality and transfer pricing, with the dependent variable, namely tax avoidance. By including profitability as a moderating variable, this study can explore whether the relationship between multinationality, transfer pricing, and tax avoidance is influenced by the level of company profitability, thereby increasing the external validity of the study by considering a more complex context in the palm oil industry, making the results more relevant and applicable in real situations. Profitability, as measured by Return on Assets (ROA), is used to evaluate the efficiency of a company in generating profits from asset utilization (Gunaasih, 2021; Novianto, 2021). ROA has also been applied as an indicator of profitability in previous studies (Ichsani & Susanti, 2019).  $\text{ROA} = \text{Net Profit} / \text{Total Assets}$ .

## **RESULT AND DISCUSSION**

### **Descriptive Analysis**

Table 1 presents descriptive statistics for four research variables, namely multinationality (Mult), transfer pricing (TP), profitability (ROA), and tax avoidance (ETR), with a total of 112 samples. The ETR variable has a mean of 0.3482 and a standard deviation of 1.5608, with a maximum value of 16.04254 and a minimum of -3.1860. A

smaller standard deviation than the mean indicates that most ETR values tend to gather around the mean, indicating a data distribution that is relatively centered on the mean.

The analysis results of 112 sample companies show that the majority of companies have ETR values that are relatively close to the average of 0.3482. Although there are extreme values, namely a maximum of 16.0425 and a minimum of -3.1860, the distribution of tax avoidance tends to be concentrated around the average value. This indicates that most companies in the sample have a uniform ETR level, with relatively limited variation between companies.

The multinationality variable (Mult) has a mean of 0.6607 with a standard deviation of 0.4755, indicating that the majority of firms in the sample have a high level of multinationality, approaching the maximum value of 1. The low standard deviation reflects little variation across multinationality values, indicating that most firms in the sample consistently demonstrate a significant global presence, such as operations in multiple countries or having subsidiaries abroad.

The transfer pricing (TP) variable has a mean of 0.3475 with a standard deviation of 0.3855, indicating greater variability in the distribution of TP values than the other variables. Although the mean TP is relatively low, the high standard deviation indicates that TP values vary significantly across companies in the sample. This variability may reflect differences in company policies or practices regarding transfer pricing between related entities.

The profitability variable (ROA) has an average of 0.0179 with a standard deviation of 0.0500, which is greater than the average, indicating a wide distribution of data. ROA values range from a maximum of 0.4133 to a minimum of -0.1040, reflecting significant variation in the level of profitability between companies in the sample. This high variability may be influenced by factors such as operational efficiency, business strategy, or market conditions, which cause significant differences in the financial performance of companies.

The high variation in ROA values, with standard deviations exceeding the mean, indicates that the profitability data of companies in the sample are widely spread. The range of ROA values from -0.1040 to 0.4133 indicates significant differences in financial efficiency between companies, where some companies record high ROA, while others have low or negative ROA. This variability may reflect the influence of various factors, such as operational strategy, market dynamics, or management policies, which have important implications in the analysis of the relationship between ROA and other variables in this study.

**Moderated Regression Analysis (MRA)**

This study uses Moderated Regression Analysis (MRA) in a multiple linear regression model to analyze the effect of transfer pricing (TP) and profitability (ROA) on tax avoidance (ETR) in palm oil companies listed on the Indonesia Stock Exchange (IDX) during the period 2013–2020. The results of the multiple regression analysis are detailed in Table 2 to obtain equation (2).

$$Y = 0.1973 + 0.0900X_1 - 0.0729X_2 + 0.7908Z - 0.6053X_1xZ - 0.6053X_2xZ + 0.826$$

**Tabel 1.**  
Statistik Deskriptif

Variable	Obs	Mean	Max	Min	Std Dev
Mult	112	0,6607	1,0000	0,0000	0,4755
TP	112	0,3475	1,0000	0,0000	0,3855
ROA	112	0,0179	0,4133	-0,1040	0,0500
ETR	112	0,3482	16,042	-3,1860	1,5608

The t-test is used to measure the partial effect of independent variables on the dependent variable in the research model. Based on Table 5, the multinationality variable (Mult) has a significance value of 0.0067, indicating a positive and significant effect on tax avoidance (ETR) in palm oil issuers on the Indonesia Stock Exchange (IDX) for the period 2013–2020. On the other hand, the transfer pricing variable (TP) with a

significance value of 0.0927 ( $>0.05$ ) does not have a significant effect on tax avoidance. In addition, profitability (ROA) does not show a moderating effect on the relationship between multinationality and tax avoidance. Likewise, with a significance value of 0.1808, profitability does not significantly moderate the relationship between transfer pricing and tax avoidance in palm oil issuers during the period 2013–2020.

**Multinationality versus tax avoidance**

Partial testing of the multinationality variable on tax avoidance shows that multinationality has a positive and significant effect on tax avoidance in palm oil companies listed on the Indonesia Stock Exchange (IDX) for the period 2013–2020, thus supporting hypothesis H1. This finding is in line with previous research which states that multinational companies tend to utilize global tax planning strategies to reduce the tax liabilities of corporate groups (Pamungkas & Nurcahyo, 2018). Companies operating across countries are often involved in tax avoidance practices, taking advantage of the difficulties of domestic tax authorities in supervising business activities abroad. Although mechanisms for exchanging tax data between countries have existed, limitations such as bureaucratic complexity and time make supervision challenging, so multinational companies exploit this loophole through transactions with group entities abroad, which can result in low effective tax rates (Nurdiansyah & Masripah, 2023). These results are consistent with research by Hanlon & Heitzman (2010), which found that multinationality has a positive and significant effect on tax avoidance.

**The effect of transfer pricing on tax avoidance**

The results of the analysis for the 2013–2020 period show that transfer pricing does not have a positive effect on tax avoidance in palm oil issuers, consistent with the findings of previous studies by Napitupulu & Situngkir (2020) and Sari, Utama & Fitriany (2020). In this study, transfer pricing is measured using the proxy ratio of affiliated receivables to total receivables. Although transfer pricing is not only limited to receivables transactions, but can also include sales, purchases, or accounts payable with related parties, palm oil issuers often make purchases from related suppliers or sales to related party customers in their business activities.

**Tabel 2**  
*Moderated Regression Analysis (MRA)*

Variable	Coefficient	Std. Error	t-Statistic	Prob
C	0,1973	0,0292	6,7364	0,0000
Mult	0,0900	0,0324	2,7719	0,0067
TP	-0,0729	0,0429	-1,6984	0,0927
ROA	0,7908	0,3919	2,0178	0,0464
X1xZ	-0,6053	0,4063	-1,4895	0,1397
X2xZ	-0,6218	0,4612	-1,3482	0,1808
<i>R-squared</i>	0,1901	<i>F-Statistic</i>	3,4676	
<i>Adjusted R-squared</i>	0,1475	<i>Prob (F-Statistic)</i>	0,0000	

**The influence of profitability as a moderating variable in the relationship between multinationality and tax avoidance.**

The test results show that profitability, as a moderating variable, does not have a significant effect on the relationship between multinationality and tax avoidance practices in palm oil companies listed on the Indonesia Stock Exchange (IDX) during the period 2013–2020. Profitability does not determine a company's tendency to operate multinationally or only on a national scale. Instead, profitability reflects the implementation of optimal tax planning, which can reduce tax avoidance practices. The amount of company profit is not a driving factor for tax avoidance (Napitupulu & Situngkir, 2020), and this does not have a negative impact on state tax revenues, because multinational companies tend not to carry out transfer pricing transactions with subsidiaries abroad (Madita Heidy & Ngadiman, 2021).

### **The influence of profitability as a moderating variable in the relationship between transfer pricing and tax avoidance.**

The results of testing the profitability variable as a moderating variable in the relationship between transfer pricing and tax avoidance practices in palm oil issuers for the period 2013–2020 did not show any significant effect. This indicates that profitability does not strengthen or weaken the relationship between transfer pricing and tax avoidance. In practice, there are companies that report losses consecutively for several years with low or even negative profitability levels, but continue to practice transfer pricing as part of a tax avoidance strategy. Companies with large loss balances tend to have a higher risk of transferring pricing manipulation. Tax authorities also face limitations in supervising such companies, one of which is due to regulations that limit the audit period for companies that report losses accompanied by excess tax payments. Supervision of companies with high levels of losses is considered less effective and efficient, because the results rarely produce new tax collections that can support the achievement of annual tax revenue targets. This condition encourages companies with low or negative profitability to be more free to practice tax avoidance. On the other hand, when a company achieves a high level of profitability, transfer pricing strategies are prioritized over tax avoidance, because companies prefer to utilize internal funding sources (Agustina, 2019). On the other hand, companies that record low pre-tax profits tend to use transfer pricing by designing their debt structure in such a way as to report more interest expenses and less profit. As a result, companies become more aggressive in implementing transfer pricing by recording losses in high-tax countries as an effort to shift profits to low-tax jurisdictions.

### **CONCLUSION**

This study shows that multinationality has a positive and significant effect on tax avoidance practices, in line with the results of previous studies. In contrast, transfer pricing is not proven to significantly affect tax avoidance, which is likely influenced by changes in government policy in the field of taxation. In addition, the results of the analysis also show that profitability does not play a significant role in moderating the relationship between multinationality and tax avoidance, as well as between transfer pricing and tax avoidance.

The measurement of transfer pricing variables in this study uses the ratio of receivables to related parties to total receivables as a proxy. However, this approach is considered incapable of accurately measuring the effect of *transfer pricing* on tax avoidance practices. In addition, many transfer pricing transactions that occur are still domestic, namely between related parties in one country with the same tax rate. This makes the risk of tax avoidance through domestic transfer pricing relatively low. The issue of tax avoidance through *transfer pricing* only becomes significant when transactions are carried out across countries, especially to countries with lower tax rates or countries known as tax havens. This study uses the method of dividing related party receivables by total receivables to assess the level of *transfer pricing* that occurs. Choosing the right transfer pricing method is very important for both companies and tax authorities. For companies, the method used must reflect the transaction price with related parties in accordance with the arm's length principle and applicable business standards, and assist in the preparation of transfer pricing documents. Meanwhile, for tax authorities, the method is used to evaluate whether the transfer price is in accordance with the principle of fairness and applicable regulations. For further research, it is recommended that the measurement of transfer pricing variables be carried out in a more comprehensive manner, such as testing items in *transfer pricing documents*, rather than relying solely on receivables data from affiliated parties.

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