E-ISSN 2985-7910

Proceeding Medan International Conference Economics and Business

Volume 1, Year 2023
"Entrepreneurship on Global Economics Development in the Era of Society 5.0"

The Effect of Transfer Pricing and Profit Management on Tax Avoidance

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ABSTRACT
Tax avoidance is a practice carried out by related companies in minimizing the tax burden they owe. This research was conducted to determine the effect of transfer pricing and earnings management on tax avoidance. The object of this research is a manufacturing company in the goods and consumption industry sector which is listed on the Indonesia Stock Exchange in 2019-2021. The approach used in this research is quantitative research. This type of research data is secondary data consisting of 32 financial reports using the purposive sampling method. The data analysis used is the Common Effect Model. The results of this study indicate that transfer pricing does not affect tax evasion, while earnings management harms tax evasion.

Keywords: tax avoidance, transfer pricing, earnings management

INTRODUCTION

Tax avoidance is a practice that is legal and still bound by tax regulations. Tax avoidance is mostly done by related companies to minimize tax payments from the amount owed. The phenomenon of tax avoidance has been explained in an article (CNN, 2020) with the Study Title: Tax Avoidance Losses the Global Economy Rp. 6,046 T. The Tax Justice Network (TJN) study states that a nominal value of US$ 427 billion, equivalent to Rp. 6.62 trillion, is the number of losses resulting from the practice of tax avoidance in Indonesia. Then the Tax Justice Network (TJN) also predicts that the remainder will be made by individual taxpayers of US$182 billion and US$245 billion will be made by corporate taxpayers. The thing that causes economic losses occurs due to the income tax ratio in Indonesia tends to decrease every year. Based on data explained by the Ministry of Finance, the tax ratio decreased in 2020 by 6.95% of the Gross Domestic Product and increased in 2021 by 7.53%.

Cases of tax evasion also occur in other countries, namely the Chongqing Liyan Culture Media Co., Ltd. Company. According to the Chongqing City Seventh Inspection Bureau of the State Tax Administration, the company has violated the Law of the People's Republic of China on the tax collection system. The company has a consumption expenditure that is not tied to the company's production and operations of 8.15 million yuan, equivalent to 18.227 billion rupiah. Therefore, the government of China gave a fine of 60% of undeducted taxes and uncollected receivables 978,000 (Akuprim, 2020).

Transfer pricing is the transfer price originating from different entities with the same trading company. Transfer pricing is a tax avoidance measure that shifts profits from countries with high tax rates to countries with low tax rates. Joel Barker, Asare, and Sharon Brickman (2017) said that this transfer is carried out by selling goods or services to affiliates with lower tax costs, resulting in low income for affiliates with high tax rates and companies selling goods or services that have high profits. in countries with low tax rates. Research related to transfer pricing states that transfer pricing has an effect on tax avoidance both positively on research results ((H. Hidayat & Wijaya, 2021), Nurrahmi and Sri Rahayu (2020), Alfarizi, Sar, and Ajengtiyas (2021)) and negative on research results (Nadhifah & Arif, 2020), Irawan, Kinanti, and Suhendra (2020)). While the results of research (Susanti, M, & Silvera, 2021), Sa'diah and Afriyenti (2021), Napitupulu, Situngkir, and Arfani (2020), Suryantari and Mimba (2022), Nugroho (2022)) regarding transfer pricing state that transfer pricing does not affect tax avoidance.

Earnings management is a practice carried out to achieve profit targets and avoid losses in the company's operational activities. According to Yoshida (2022a) said that earnings management is a procedure used by management to influence the amount of profit in a planned manner by sorting out accounting procedures and policies so that management can optimize profits or value from the industry. Research related to earnings management states that earnings management has a positive effect on tax avoidance in research results (Falbo & Firmansyah, 2021), Hong, Quyen, and Thuy (2022), Aisyah, Erlina, and Erwin (2022), Thalita, Hariadi, and Rusydi (2022)) or negative on research results (Nadhifah & Arif, 2020). While the results of research (Yoshida, 2022b), Henny (2019), Suyanto, Apriliyana, Alfani, and Putri (2022), Siregar, Rahman, and Aryathama (2022), Ferdiawan and Firmansyah (2017)) regarding earnings management state that earnings management no effect on tax avoidance.

Judging from the phenomena and results of previous research, it can be concluded that the higher the transfer pricing, the higher the level of related party buying and selling transactions. Thus resulting in higher levels of sales. If the higher the level of sales, the income is also higher. So that it will affect the profit before tax to be high. With a high level of profit, the company will be required to transfer income related to the payment of taxes. With the behavior of transferring income to related parties, the company will not pay taxes. So that the higher the level of transfer of income to related parties in countries with lower tax rates, the higher the tax evasion (Wicaksono, 2019).

The higher the earnings management of a company, the more it influences the level of minimizing costs. So that the greater the tax burden reported in the financial statements, the lower the tax rate payable (Irawan et al., 2020). A low tax rate will increase profits in the future. If the profit for the previous period is predicted to decrease, it will be overcome by taking the previous profit amount. Therefore the company reports high net income to get big profits, and the company will even out the profits presented to attract investors. This is done to increase opportunities in the capital market and for tax savings which will lead to higher tax evasion (Yoshida, 2022a).

Referring to research by Alfarizi et al. (2021) changed the object of research on mining companies during the 2016-2019 period to become manufacturing companies in the goods and consumption industry sector during 2019-2021. Then for the variables used by previous studies, there was a change in the profitability variable, which the researchers did not test for this variable in this study. Whereas the measurement used by previous researchers also has differences in the dependent variable, this study measures tax avoidance using the Effective Tax Rate (ETR) formula, which is a calculation of the ratio of the total tax burden to pre-tax profit.

Based on logic theory, phenomena related to research results on inconsistent tax avoidance in Indonesia and supported by literature studies, the researchers tried to re-examine the effect of transfer pricing and profit management on tax avoidance by using registered manufacturing companies in the consumer goods industry sector for 2019-2021 on the Indonesia Stock Exchange (IDX). Researchers use manufacturing companies in the consumer goods industry sector because activity in manufacturing companies always tends to increase, which is one source of government revenue from the tax sector which has a significant influence on the level of power in taxation. It can be seen that the income of manufacturing companies has quite a big impact on the state, so it is hoped that they will not practice tax evasion which can harm the country's economy.

METHOD

This research is associative quantitative research. Associative research is a relationship between the independent variable and the dependent variable which aims to explain or control an indication. This study aims to examine the effect of transfer pricing and earnings management on tax avoidance in consumer goods industry manufacturing companies that have been listed on the Indonesia Stock Exchange in 2019-2021. The sampling technique was carried out using purposive sampling. Purposive sampling is a method of determining a sample from a study with certain criteria. Based on the description above, the researcher determined the sample based on several criteria as

1. Manufacturing companies in the consumer goods industry sector that have been listed on

the Indonesia Stock Exchange in 2019-2021.
2. Manufacturing companies in the consumer goods industry sector that publish annual financial reports for the 2019-2021 period.
3. Manufacturing companies in the consumer goods industry sector that earn profits.
4. Manufacturing companies in the consumer goods industry sector that carry out transfer pricing in 2019-2021.
5. Manufacturing companies in the consumer goods industry sector that carry out earnings management in 2019-2021.

Operational Definition and Variable Measurement

A.1 Dependent Variable

a) Tax Avoidance

Tax evasion in this study uses the Effective Tax Rate (ETR) proxy. The measurement standard for this model states that if the value of the ETR is below 0.25 or <25%, the level of tax evasion will be higher, in which case the company has practiced tax avoidance and causes the tax burden to be relatively low. Meanwhile, if the value of the ETR is above 0.25 or > 25%, the level of tax avoidance is lower, in which the company does not practice tax avoidance and the tax burden becomes relatively high. The following is a method for measuring tax avoidance.

$$ETR = \frac{\text{Income Tax Expanse}}{\text{Profit Before Tax}}$$

B.2 Independent Variable

a. Transfer Pricing

Transfer pricing in this study uses a proxy for receivables related to total receivables. This measurement standard is seen from how much the company's transfer pricing value is. If the transfer pricing value is close to 0 or below 0.5, the level of receivables from related parties is lower, so it can be said that the company is not doing tax evasion. Meanwhile, if the transfer pricing value is close to 1 or above 0.5, the level of receivables from related parties increases, which results in companies not paying taxes or doing tax evasion. The following are methods for measuring transfer pricing:

$$TP = \frac{\text{Trade Receivables From Related Parties}}{\text{Total Receivable}}$$

b. Profit Management

Earnings management in this study uses measurements made from research (AP P. N. J. J. o. A. A. Wicaksono & Taxation, 2020) using discretionary accruals as measured by the Modified Jones Model (Jones, 1991; Luchs et al., 2009). The measurement standard for this model states that if the value of discretionary accruals (DA) is above 1 or > 1, then the company performs earnings management by increasing the value of a company's profits. Meanwhile, if the value of discretionary accruals (DA) is below 1 or <1, then the company performs earnings management by reducing the value of a company's profits. This model has been tested to be accurate in detecting costs in earnings management behavior with the following steps:

1. $DA_{it} = TA_{it} / A_{it-1} - NDA_{it}$
2. TA_{it} is from
3. $TA_{it} = NI_{it} - CFO_{it}$

4. NDA_{it} is from :

$$NDAit = \beta 1 \frac{1}{Ait-1} + \beta 2 \left(\frac{\Delta REVt}{Ait-1} - \frac{\Delta RECit}{Ait-1} \right) + \beta 3 \left(\frac{PPEt}{Ait-1} \right)$$

5. To look for profit beta value (β_1, β_2, β_3,) it is necessary to do a multiple linear regression test of :

$$TAit/Ait\text{-}1 = \beta 0 + \beta 1 \frac{1}{Ait-1} + \beta 2 \left(\frac{\Delta REVt}{Ait-1} - \frac{\Delta RECit}{Ait-1} \right) + \beta 3 \left(\frac{PPEt}{Ait-1} \right) + eit$$

Description :

DAit	: Discretionary accrual company i in period tT
Ait-1	: Total accrual company i in period t
Ait-1	: Total asset company i in period t-1
NDAit	: Non Discretionary Accrual company i in period t
NIit	: Net profit company i in period t
CFOit	: Cash flow from operational activity in company i in period t
B	: Beta
ΔREVit	: Changes in income of the research year with the previous year
ΔRECit	: Changes in receivables of company i between period t and period t-1
PPEit	: Value of fixed assets (property, plant, equipment) i in period t

RESULT AND DISCUSSION

A. General Description of the Research Object

In this study, the object used is a manufacturing company in the consumer goods industry sector which is listed on the Indonesia Stock Exchange in 2019-2021. Manufacturing companies are companies that have a large number of sub-sectors. This study only uses the consumer goods industry sector which is used as the object of research in re-examining inconsistent variables. There are 52 companies listed in the consumer goods industry sector on the Indonesia Stock Exchange in 2019-2021. However, after the data was processed on the Eviews test tool, there were outlier data that caused problems in the classic assumption test, so the data had to be removed from the sample research and resulting in a total of 28 research data companies that met the research criteria. The technique used in this study in selecting the sample is the purposive sampling technique. Purposive sampling is a method of determining a sample from a study with certain criteria. The following is a list of manufacturing companies in the goods and consumer goods industry sector**.**

Table 1. Sample Selection Criteria

No.	Sample Criteria	Total
1.	Goods and industrial sector manufacturing companies	52
2.	consumption listed on the IDX in 2019-2021	(0)
3.	Manufacturing companies in the goods and consumption industry sector that do not issue reports	(20)

4.	the financial year 2019-2021	(10)
5.	Companies that do not earn profits	32
	Total Company	**32**
	Research year	3
	Total Data During Research	96
	Outliers Data	(12)
	Total Net Data	**84**

A. Data Description

The dependent variable used in this study is tax avoidance with the Effective Tax Rate proxy. The independent variable in this study is transfer pricing by proxy for related receivables divided by total receivables, while earnings management by proxy for discretionary accruals.

1. Tax Avoidance

Tax evasion is a practice that takes advantage of weaknesses in laws and regulations as an opportunity to get a lower amount of the tax burden than it should. Measurement of tax avoidance in this study uses the Effective Tax Rate proxy. The lower the ETR value, the higher the level of tax avoidance, in the company has practiced tax avoidance. Vice versa, the higher the ETR value, the lower the level of tax evasion, in which companies do not practice tax evasion. The period used in this study is 2019-2021 or as many as 3 years. The number of samples obtained was 32 companies but the data used in this study were from 28 companies. Based on data processing of 32 samples or 69% of companies that are indicated to be doing tax evasion with an ETR value below 0.25. Then, as many as 10 samples, or 31% of companies that do not indicate doing tax evasion with an ETR value above 0.25. The average tax evasion carried out by manufacturing companies in the consumer goods industry sector in 2019 was 0.24 or 24%. Then for 2020, the average tax avoidance is 0.23 or 23% while in 2021, the average tax avoidance is 0.22 or 22%. It is assumed that within 3 years the manufacturing companies in the consumer goods industry sector have decreased by 1%.

2. Transfer Pricing

Transfer pricing is a transfer price in optimizing the profits of a company in pricing carried out by an organization to other organizational units within the scope of the same company. An organizational unit within a company must be able to make a good contribution to a group of companies listed in the category of companies that have good relationships in practicing transfer pricing. The period used in this study is 2019-2021 or as many as 3 years. The number of samples obtained was 32 companies but the data used in this study were from 28 companies. Based on data processing, it explains that the average transfer pricing value in 2019 is 0.21, in 2020 it is 0.20 and 0.18 in 2021. It is assumed that the average transfer pricing value over 3 years has decreased by 2020 at 1% in 2021 at 2%.

3. Profit Management

Earnings management is a practice carried out by companies in achieving profit targets and avoiding losses in company operations. However, earnings management is often abused by company managers in managing sales results, overproduction, and cost reductions. Which is done to increase the profits of a company. The period used in this study is 2019-2021 or as many as 3 years. The number of samples obtained was 32 companies but the data used in this study were from 28 companies. Based on data processing, it explains that the average DA value in 2019 is 0.01, in 2020 -0.01 and 0.005 in 2021. It is assumed that the average

DA value in 3 years has decreased in 2020 by 10 % and in 2019 by 0.5%.

B. Data Analysis Results

1. Descriptive Statistical Analysis

Descriptive statistical analysis in this study is in the form of an illustration that is used to show the minimum, maximum, mean, median and standard deviation values which explain information about each research variable. The following are the results of the descriptive statistical tests of all the variables that have been studied:

Table 2. Statistical Descriptive

Variable	Obs	Mean	Std.Dev	Min	Max
TAX_AVOIDANCE	84	0,233511	0,029713	0,159032	0,308865
TRANSFER_PRICING	84	0,200876	0,311200	0,000000	0,976097
DA	84	0,000547	0,201397	-0,282747	1,013545

Source: Eviews Processed Data 10, 2022

Based on the table of descriptive statistical test results with the Eviews version 10 tool, it indicates that the number of samples (observations) in this study were 84 manufacturing companies in the goods and consumption industry sector in 2019-2021 which were listed on the Indonesia Stock Exchange and explained the mean, median, maximum, minimum values and the standard deviation of each variable.

The dependent variable (Y) in this study is tax avoidance with the proxy Effective Tax Rate with a predetermined assessment standard. If the ETR value is below 0.25 then it is indicated that the company is taking tax evasion, but if the value is above 0.25 then the company is not indicated to be doing tax evasion. The statistical results show that the maximum value of 0.308865 was obtained by PT Merck Indonesia Tbk. This shows that among the manufacturing companies in the consumer goods industry sector in 2019-2021 that do not indicate practicing tax avoidance is PT Merck Indonesia Tbk while the minimum value is 0.159032 obtained by PT Kino Indonesia Tbk, this shows that among the manufacturing companies in the consumer goods industry in 2019-2021 which have indications of practicing tax avoidance is PT Kino Indonesia Tbk. The average value (mean) is 0.233511 and the value of the standard deviation obtained is 0.029713 the results of the data test explain that the average value (mean) > standard deviation value, which means that the dependent variable data is said to vary and stable and the mean value indicates the existence of tax avoidance practices of 0.233511 or 23%.

The first independent variable (X1) in this study is transfer pricing with a comparison of related receivables to total receivables. The standard of assessment used in this study uses a mathematical perspective theory, if the transfer pricing value is close to 0 or below 0.5, the level of receivables from related parties will be lower, whereas if the transfer pricing value is close to 1 or above 0.5, then the level of receivables from related parties will be reduced. the higher the relationship, this can be said to be good for the company but not good for the government because this behavior avoids paying VAT. The statistical results show that the maximum value of 0.976097 was obtained by PT Mayora Indah Tbk which explained that the level of transfer pricing carried out by companies with related parties was 97% while the minimum value was 0.000000 obtained by PT Campina Ice Cream Industry Tbk and PT Wahana Interfood Nusantara Tbk and several other companies explained that there were no receivables from related parties. The average value (mean) is 0.200876 and the standard deviation obtained is 0.311200 which the results of the data test explain that the average value (mean) < standard deviation value, which means that manufacturing companies in the consumer goods industry sector in carrying out transfer pricing practices can be said to be low.

The second independent variable (X2) in this study is earnings management by proxy for discretionary accruals with predetermined valuation standards. If the DA value is below 1 or <1 then the company performs earnings management by reducing profits, but if the DA value is above 1 or > 1 then the company performs earnings management by increasing the profit value. Statistical results show that the maximum value of 1.013545 was obtained by PT Kino Indonesia Tbk. This indicates that the company performs earnings management by increasing profits by 1% while the minimum value is -0.282747 obtained by PT Merck Shampoo Dohme Pharma Tbk, this shows that the company is managing earnings by reducing profits by -28%. The average value (mean) is 0.000547 and the standard deviation obtained is 0.201397 which the results of the data test explain that the average value (mean) < standard deviation value, which means that manufacturing companies in the food and beverage industry sector carry out earnings management by reducing earnings.

1. Panel Data Regression Model Selection

a. Test

The regression model selection test is the determination of the panel data regression model in determining the best model that will explain further data in each variable. In the panel data regression test, there are three model parameters presented, including the Common Effect Model, Fixed Effect Model and Random Effect Model. To determine the best model, there are three steps, including the Chow Test, Hausman Test and Lagrange Multiple Test.

b. Chow

Chow test is used in determining the panel data regression model which is selected between the common effect model or the fixed effect model. Following are the results of the chow test that has been carried out in the study.

Chi2(31) = 31.50
Prob < chi2 = 0.0079

Based on the table above, the prob value is 0.0079 <0.5, so the selected model is the fixed effect model. If in the Chow test, the fixed effect model is selected, then the next step is the Hausman test.

c. Hausman

Hausman test is used in determining the selected panel data regression between the fixed effect model and the random effect model. The following are the results of the Hausman test that has been carried out in research.

Prob > Chi2 = 0.3286

Based on the table above, the prob value is 0.3286 > 0.5, so the selected model is the random effect model. If in the Chow test, the random effect model is selected, then the next step is a multiple lagrange test.

d. Lagrange Multiple

The multiple lagrange test is used to determine the selected panel data regression between the common effect model and the random effect model. The following are the results of the Hausman test that has been carried out in research.

Prob > Chibar2 = 0.1435

Based on the table above, the value is 0.1435 > 0.5, so the model chosen is the common effect model.

1. Classic Assumption Test

a. Normality Test

The normality test aims to evaluate whether the residual values are normally distributed or not. The following are the results of the normality test that has been carried out by research.

Table 3. Normality Test

Variable	Obs	Prob>z
Residual	84	0,414177

Source: Eviews Processed Data 10, 2022

Based on the table above, the prob value > Z is 0.414177, it can be concluded that the test results are normally distributed because the prob value is 0.0414177 > 0.5.

a. Multikolonierity Test

Table 4. Multikolonierity Test

Variable	VIF
Transfer Pricing	-0,126745
DA	-0,126745

Source: Eviews Processed Data 10, 2022

Based on the table above the VIF results on the transfer pricing variable and earnings management of -0.126745 which is less than 10, it can be concluded that the transfer pricing and earnings management variables are free from multicollinearity.

b. Heteroscedasticity Test

Table 5. Heteroscedasticity Test

Value	Prob>z
1,056123	1,0000

Source: Eviews Processed Data 10, 2022

Based on the table above, the prob results are 1.0000 > 0.5, it can be concluded that the variable is free from the existence of heteroscedasticity.

c. Autocorrelation Test

$$4 - du = 4 - 1{,}6942 = 2{,}3058$$

$$4 - dl = 4 - 1{,}5969 = 2{,}4031$$

$$0 < DW < dl \text{ ; Positive Autocorrelation}$$

$$0 < 1{,}248907 < 1{,}5969 \text{ ; Positive Autocorrelation}$$

The Durbin Watson value in this study was 1.248907, which is smaller than the dl value. It can be concluded that it is free from positive autocorrelation disturbances.

d. Hypothesis Testing

Table 6. Hypothesis Test

Variable	Common Effect Model			Fixed Effect Model			Random Effect Model			Kesimpulan
	Coefficient	**t-Statistic**	**Prob**	**Coefficient**	**t-Statistic**	**Prob**	**Coefficient**	**t-Statistic**	**Prob**	
Constant a	0,235955	64,921530	0,0000	0,23627	34,1455	0,0000	0,236839	52,1583	0,0000	
TRANSFER_PRICING	-0,012019	-1,213049	0,2286	-0,013392	-0,41732	0,6782	-0,013583	-1,13642	0,2591	melalui CEM;FEM;REM
DA	-0,054750	-3,576001	0,0006	-0,1260	-2532353	0,0145	-0,0618	-3,3008	0,0014	H_2 diterima, melalui CEM;FEM;REM
F-Statistic	6,687261			2,596297			5,587678			
Prob-F	0,002051			0,001131			0,005330			
R-Square	0,141718			0,63148			0,121240			
Adj R-Square	0,120525			0,63148			0,099542			
Chow Test (Chi Square)	0,0079									Prob < 0,05, maka model terpilih FEM
Hausmann Test	0,3286									Prob > 0,05, maka model terpilih REM
Breusch Pagan Test / Lagrange	0,1435									Prob > 0,05, maka model terpilih CEM

Source: Eviews Processed Data 10, 2022

e. Statistical Test

Based on the results of the common effect model, fixed effect model and random effect model it can be explained regarding the hypothesis testing of each variable

1. Transfer Pricing

The transfer pricing hypothesis is proposed as follows:

Ho: transfer pricing has no effect on tax avoidance for manufacturing companies in the goods and consumption industry sector in 2019-2021.

Ha: transfer pricing has no effect on tax avoidance for manufacturing companies in the goods and consumption industry sector in 2019-2021.

Based on the results of the common effect model, the prob value of transfer pricing is 0.2286 > 0.1. The result of the fixed effect model is the prob transfer pricing value of 0.6782 > 0.1. The result of the random effect model is the transfer pricing prob value of 0.2591. So it can be concluded that the transfer pricing variable has no effect on tax evasion in manufacturing companies in the goods and consumption industry sector which are listed on the Indonesia

Stock Exchange. Based on the hypothesis, Ho is accepted and Ha is rejected, which means that the transfer pricing variable does not affect tax avoidance for companies manufacturing the goods and consumption industry sector that are listed on the Indonesia Stock Exchange in 2019-2021.

2. Profit Management

The transfer pricing hypothesis is proposed as follows:
Ho: earnings management has no effect on tax avoidance for manufacturing companies in the goods and consumption industry sector in 2019-2021.
Ha: earnings management has an effect on tax avoidance for manufacturing companies in the goods and consumption industry sector in 2019-2021.
Based on the results of the common effect model, the prob DA value is 0.0006 <0.1. The result of the fixed effect model is the DA prob value of 0.0145
< 0.1. The result of the random effect model is the DA prob value of 0.0014. So it can be concluded that the earnings management variable has an effect on tax avoidance in manufacturing companies in the goods and consumption industry sector which are listed on the Indonesia Stock Exchange. Based on the hypothesis, Ha is accepted and Ho is rejected, which means that the earnings management variable affects tax avoidance of manufacturing companies in the goods and consumption industry sector
listed on the Indonesia Stock Exchange in 2019-2021.

3. F Statistical Test

Transfer pricing and earnings management hypotheses are proposed as follows:
Ho: transfer pricing and earnings management simultaneously do not affect tax evasion
Ha: transfer pricing and profit management simultaneously affect tax avoidance.
Based on the results of the common effect model, the prob value < F is 0.002051 < 0.1. The results of the fixed effect model obtained a prob value <F, namely 0.001131 <0.1. The results of the random effect model obtained a prob <F value of 0.005330. So it can be concluded that simultaneously the independent variables affect tax evasion in manufacturing companies in the goods and consumption industry sector in 2019-2021. Based on the hypothesis proposed, Ha is accepted and Ho is rejected, which means that transfer pricing and profit management variables simultaneously affect manufacturing company tax evasion goods and consumption industry sector listed on the Indonesia Stock Exchange in 2019-2021.

4. Determination Test (R2)

The R-squared coefficient value from the results of the common effect model test is 0.141718 or 14.17%, this value indicates that the transfer pricing and earnings management variables can explain 14.17% of tax avoidance while the remaining 85.83% can be explained by other variables. . The results of the fixed effect model test were 0.63148 or 63.14%, this value indicated that transfer pricing and earnings management variables could explain 63.14% of tax avoidance, while the remaining 16.86% could be explained by other variables. The results of the random effect model test were 0.121240 or 12.12%, this value indicated that the transfer pricing and profit management variables were able to explain 12.12% of tax avoidance, and the remaining 86.86% was explained by other variables.

DISCUSSION

Effect of Transfer Pricing on Tax Avoidance

Based on the table that has been tested in the common effect model, it is known that the transfer pricing variable hypothesis H1 is rejected because it obtains a significance value of 0.2286 which is greater than the predetermined significance value of 0.2286 > 0.05. These results indicate that the transfer pricing variable has no significant effect on tax avoidance in a negative direction. The negative coefficient value of the transfer pricing variable is -0.012019.

The research results are not following the hypothesis which states that transfer pricing harms tax evasion but the research results show that transfer pricing does not affect tax evasion. This is because manufacturing companies in the consumer goods industry sector in 2019-2021 have low levels of receivables or have no receivables from related parties at all. The results of this study are not following agency theory, namely the higher the level of sales, the higher the receivables from related parties. because the higher value of transfer pricing will increase the level of sales that generate higher income. With higher income, companies are indicated to be doing tax evasion by doing transfer pricing. Conversely, the lower the transfer pricing or the transfer pricing value is close to 0, the lower the level of sales with related parties. With that, the company is not indicated to do tax evasion because the company will pay taxes as they are without carrying out transfer practices as tax avoidance behavior.

Based on the results of this study, it is not in line with previous research conducted by (Nadhifah & Arif, 2020) which stated that transfer pricing harms tax avoidance, while this study states that transfer pricing has no negative effect on tax avoidance because the amount of change for each individual is not linear, where every change made is not the same and not all companies that do transfer pricing have good value.

Based on the results of this study it is not following the data, where the data shows an average value (mean) of 0.200876. This shows that the company conducts transfer pricing behavior below 0.5 or close to 0, meaning that the lower the transfer pricing value, the lower the level of buying and selling transactions which cause receivables from related parties. The smaller the level of receivables from related parties, the lower the level of transfer pricing behavior to avoid paying taxes. This shows that the company is not indicated to do tax evasion.

Effect of Profit Management on Tax Avoidance

Based on the table that has been tested in the common effect model, it is known that the earnings management variable hypothesis H1 is accepted because it obtains a significance value of 0.0145 which is smaller than the predetermined significance value of 0.0145 <0.05. These results indicate that the earnings management variable has a significant effect on tax avoidance in a negative direction. The negative coefficient value of the earnings management variable is -0.126002.

The results of this study are following the hypothesis which states that earnings management harms tax evasion and the results of this study indicate that earnings management harms tax evasion. This is because manufacturing companies in the consumer goods industry sector in 2019-2021 have behaviors that reduce the value of ETR, which means companies practice tax evasion by carrying out profit management by reducing company profits.

The results of this study are following agency theory, namely the agency relationship which explains the contract or agreement between (principal) as a tax officer and (agent) as company management in managing earnings in preparing financial reports. Earnings management behavior occurs as a result of encouragement from agents who can manage earnings for personal gain or from principals who have the goal of making the company's financial performance look good. The higher the level of earnings management in a company, the more influential it is on the level of minimizing costs. So that the greater the tax burden reported in the financial statements, the lower the tax rate payable (Irawan et al., 2020).

Based on the results of this study, it is following research conducted (Nadhifah & Arif, 2020) which states that earnings management harms tax evasion. That is because the changes in each individual are linear and every change made by the company has a good value.
Based on the results of this study, it is following the data, where the data shows an average value (mean) of 0.000547. This shows that the company practices tax avoidance by reducing the value of profits. With a decrease in profits, the company expects that tax payments are relatively low.

IMPLICATIONS

Judging from the results and discussion that the transfer pricing variable H1 is rejected because it obtains a significance value of 0.2286 which is greater than the predetermined significance value of 0.2286 > 0.05. The research results are not following the hypothesis which states that transfer pricing harms tax evasion but the research results show that transfer pricing does not affect tax evasion. The results of this study are inconsistent with agency theory, namely the higher the level of sales, the higher the receivables from related parties. The results of this study are not in line with previous research conducted (Nadhifah & Arif, 2020). This study states that transfer pricing does not harm tax avoidance because the amount of change for each individual is not linear, in which every change made is not the same and not all companies that carry out transfer pricing have good value. Based on the results of this study it is not following the data, where the data shows an average value (mean) of 0.200876. This shows that the company is not indicated to do tax evasion.

Judging from the results and discussion that the earnings management variable is H1 is accepted because it obtains a significance value of 0.0145 <0.05. The results of the study are following the hypothesis which states that earnings management harms tax evasion. The results of this study are following agency theory, namely the agency relationship which explains the contract or agreement between (principal) as a tax officer and (agent) as company management in managing earnings in preparing financial reports. Based on the results of this study, it is following research conducted by (Nadhifah & Arif, 2020) which states that earnings management harms tax evasion.

CONCLUSION

Transfer pricing does not affect tax avoidance. These results indicate that manufacturing companies in the consumer goods industry sector almost do not use the transfer pricing method for tax evasion, because the transfer pricing value is close to 0 or below 0.5, the company does not indicate doing tax evasion because the lower the transfer pricing value, the smaller the level of sale and purchase transactions that cause receivables from related parties. The smaller the level of receivables from related parties, the lower the level of transfer pricing behavior to avoid paying taxes. This shows that the company is not indicated to do tax evasion.

Earnings management harms tax avoidance. These results indicate that the manufacturing sector companies in the goods and consumption industry use earnings management methods for tax avoidance. This is because the old management practiced tax avoidance by reducing the value of profits, in which companies manufacturing the goods and consumption industry sector expect that tax payments will be relatively low. The results of this study are following the data, which the data shows an average value (mean) of 0.000547. This shows that the company practices tax avoidance by reducing the value of profits. With a decrease in profits, the company expects that tax payments are relatively low.

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