5TH IRCMB
Jakarta, 1 - 2 August 2024
Fifth International Research Conference on Management and Business

CERTIFICATE OF APPRECIATION

This is to certify that

Syafika Noor Junaina

Universitas Teknologi Yogyakarta

has participated in the conference as **PRESENTER**

Dean
Prof. Usep Suhud, PhD
FE Universitas Negeri Jakarta

Dean
Assoc. Prof. Dr. Mohd. Rahimie bin Abd. Karim
FBEA Universiti Malaysia Sabah

Dean
Dr. Preatmi Nurastuti
FEB Universitas Pelita Bangsa

Dean
Towaf Totok Irawan, PhD
FEB Universitas Pakuan

Keynote Speaker
Prof. Bo Becker
Stockholm School of Economics

Keynote Speaker
Prof. Chotibhak (Pab) Jotikashtira
Southern Methodist University

5TH IRCMB

Jakarta, 1 - 2 August 2024

Fifth International Research Conference on Management and Business

PROCEEDINGS

ISSN: 2503-3131

HOST

Proceedings
The Fifth International Research Conference on Management and Business (5th IRCMB)

Published by:
Management Study Program Faculty of Economics Universitas Negeri Jakarta & Indonesian Financial Management Association
R.A. Kartini Building, 8th Floor, Jl.Rawamangun Muka, Jakarta, Indonesia, 13220
Email: s1-manajemen@unj.ac.id, secretariat@ ifma-online.org

This publication is in copyright, subject to statutory exception and to the provisions of relevant collective licensing agreements. No reproduction of any part may take place without the written permission of Management Study Program Faculty of Economics Universitas Negeri Jakarta & the Indonesian Financial Management Association

First published in 2024
Editor: Siti S. Azahra
Layout: Aji N. Ibrahim, Ananda K. Rizqalina, Ika M. Jannah, Wisnu
Design Cover: Amal A. Cahyadi

National Library: Cataloging in Publication (KDT)
ISSN: 2503-3131

Distributed by:
Management Study Program Faculty of Economics Universitas Negeri Jakarta & Indonesian Financial Management Association
R.A. Kartini Building, 8th Floor, Jl.Rawamangun Muka, Jakarta, Indonesia, 13220
Email: s1-manajemen@unj.ac.id, secretariat@ ifma-online.org

THE IMPACT OF REAL EARNINGS MANAGEMENT AND TRANSFER PRICING ON TAX AVOIDANCE IN MULTINASIONAL MANUFACTURING COMPANIES

Syafika Noor Junaina[1], Surifah[2]

Abstract

This research aims to determine and provide empirical evidence regarding the influence of real earnings management and transfer pricing on tax avoidance in multinational manufacturing companies listed on the Indonesia Stock Exchange in 2018-2022. The dependent variable in this research is tax avoidance as measured by the Effective Tax Rate. Meanwhile, the independent variables in this research are real earnings management and transfer pricing. The real profit management variable is proxied by real profit management of operating cash flow, real profit management of production costs, and real profit management of discretionary costs, and is measured by the Modified Roychowdhury Model. Transfer pricing is measured by Related Party Transactions. This research also uses size and leverage as control variables. The data used in the research is secondary data obtained from the annual financial reports of multinational manufacturing companies listed on the IDX for 2018-2022. The population used in this research was 79 companies. The sample selection used a purposive sampling method to obtain a final sample of 237 samples. This research was conducted using quantitative methods and multiple linear regression models to test hypotheses. The research results show that real operating cash flow profit management and size have a significant negative effect on tax avoidance. On the other hand, real profit management, discretionary costs, transfer pricing, and leverage have a significant positive effect on tax avoidance. Meanwhile, real profit management of production costs has no effect on tax avoidance.

Key words: real earnings management, transfer pricing, tax avoidance.

1. BACKGROUND

Early in 2023, the world of taxation was shocked by the Rafael Alun Trisambodo case. Starting from showing off a luxurious lifestyle on social media. Rafael, who previously served as Head of the General Section of the South Jakarta II Tax Directorate, had to appear before the Corruption Eradication Commission (KPK) as a suspect in receiving gratuities and money laundering (Kompas.com, 2023). In November 2023, the Corruption Eradication Commission (KPK) also named two suspects in the bribery case, namely Yulmanizar and Febrian, as two examiners of the Directorate General of Taxes and subordinates of Angin Prayitno Aji, former Directorate of Taxes. The two suspects are suspected of receiving indirect orders and directions from Angin to manipulate the calculation of a number of companies' tax obligations and receive billions of rupiah in gratuities from several taxpayers. Apart from tax officials, this case also involved the names of company tax consultants. Among them, two PT Gunung Madu tax consultants, namely Ryan Ahmad Ronas and Aulia Rahman, one PT Jhonlin tax consultant, and PT Bank Panin's taxpayer attorney (Cnbcindonesia.com, 2023). In some of the cases above, it can be seen that criminal acts in the field of taxation are not only committed by taxpayers, but also by tax consultants and even tax officials.

Tax avoidance by taxpayers is one of the causes of not achieving state revenue targets. The Tax Justice Network reported the discovery of losses caused by tax evasion efforts worth US$ 4.86 billion or the equivalent of Rp. 68.7 trillion, these losses were caused by corporate taxpayers who carried out tax evasion in Indonesia. The total loss caused reached US$ 4.78 billion or the equivalent of Rp. 67.6 trillion. Meanwhile, the remainder came from individual taxpayers with an amount reaching US$ 78.83 million or the equivalent of Rp. 1.1 trillion (Cobham et al., 2020).

Many cases of tax evasion have occurred in Indonesia. In 2014, PT Toyota Motor Manufacturing Indonesia utilized transactions between affiliated companies at home and abroad to avoid paying taxes by transferring excess financial burdens from one country to another with lower tax rates (Wijaya & Loppies, 2014). PT Rajawali Nusantara Indonesia (RNI) is suspected of carrying out tax evasion efforts. In PT RNI's 2014 financial report, debt was recorded at IDR 20.4 billion. Meanwhile, the company's turnover was only IDR 2.178 billion and there was a retained loss in the same year's report of IDR 26.12 billion (Kompas.com, 2016). PT Coca Cola Indonesia is suspected of committing tax evasion through transfer pricing activities amounting to IDR 49.24 billion. This case occurred for the 2002, 2003, 2004 and 2006 tax years (Kompas.com, 2014). In 2019, PT Adaro Energi Tbk was also suspected of carrying out transfer pricing practices, namely by transferring large amounts of profits from Indonesia to its subsidiary in Singapore, so that the company could pay taxes of US$ 125 million or Rp. 1.75 trillion less than the amount paid. should be paid in Indonesia (Datikfinance.com, 2019).

Several phenomena above indicate that a company has the possibility of tax avoidance. Companies will carry out efforts that can lighten their tax burden, including by reducing tax liabilities through earnings management, as long as the profits generated exceed the costs incurred (Putri, 2015). Transfer pricing practices can also influence tax avoidance. Transfer pricing is an effort carried out by companies, especially for multinational companies that carry out international transactions (Putri & Mulyani, 2020). Tax avoidance with transfer pricing can be done by setting transaction prices between related companies in different countries or by taking advantage of economic, financial and regulatory differences between different jurisdictions (Taylor & Richardson, 2012). As with real profit management, the practice of transfer pricing is not an illegal practice, even though this practice violates ethical principles. Another factor that can influence a company in avoiding tax is size and leverage.

The aim of this research is to examine the effect of real earnings management and transfer pricing on tax avoidance. This research is important to carry out because there are still many cases of tax avoidance in multinational companies in Indonesia. Apart from that, research related to real earnings management in multinational companies has not received much attention from previous researchers. Increasingly rapid economic development without recognizing national boundaries has indirectly encouraged a number of companies to expand their markets both within and outside the country, which refers to the formation of multinational companies. One of the reasons for the development of multinational companies is the difference in tax rates that apply in each country. According to Putri & Syofyan (2023), this is what causes many multinational companies to move their profits to countries with lower tax rates, so as to reduce the company's tax burden.

2. LITERATURE REVIEW

Tax avoidance can be explained using several theories, including agency theory and positive accounting theory. Agency theory is a theory used by companies to base their practices. Jensen & Meckling (1976) state that an agency relationship is a contract between one or several people (principals) who employ other people (agents) to perform a number of services and provide authority in decision making. In the relationship between the agent and the principal, problems will arise if there is asymmetric information. Information asymmetry can be in the form of information that is distributed unevenly between the agent and the principal, and it is impossible for the principal to directly observe the efforts carried out by the agent. This causes agents to tend to engage in inappropriate behavior (dysfunctional behavior). One of the dysfunctional behaviors carried out by agents is manipulating data in financial reports to match the principal's expectations. Manipulation of data in financial reports can take the form of earnings management practices to minimize the company's tax burden (Febriyanti, 2023).

Belkaoui (2001) in Hariseno & Pujiono (2021), states that positive accounting theory is a theory consisting of a set of concepts or principles that explain existing accounting practices and predict related phenomena that are occurring when this accounting is applied. Watts & Zimmerman (1989) in positive accounting theory have three hypotheses which are used as benchmarks to explain the phenomenon of earnings management in accounting. One of the three hypotheses, namely, the political costs hypothesis, is the manager's actions to manipulate profits to be lower so as to minimize political costs. Political costs are related to the government, government subsidies, tax rates, and so on. The existence of income tax as a political cost causes companies to tend to take opportunistic actions in choosing accounting policies to reduce taxable income (Arizoni et al., 2020).

2.1 Real Profit Management and Tax Avoidance

Real profit management is management actions that deviate from normal business practices which are carried out with the main aim of achieving profit targets. Real earnings management is manipulation carried out by management through daily company activities during the accounting period (Roychowdhury, 2006). Real profit management can be done through sales manipulation, reducing discretionary costs, and excessive production (Suhesti, 2015).

Previous research results found inconsistent results regarding the relationship between earnings management and tax avoidance. Accrual earnings management does not have a significant relationship with tax avoidance. The greater it is *income decreasing* by the company, then the company is not indicated to be committing tax evasion (Henny, 2019). Discretionary accrual earnings management has a significant negative effect on tax avoidance in multinational companies in Nigeria (Yeye & Egbunike, 2021). There is a significant positive relationship between accrual earnings management and tax avoidance on the Ghana Stock Exchange (MacCarthy, 2021). The differences in results from many previous studies have encouraged researchers to conduct research on the influence of earnings management from another perspective, namely real earnings management. Profit management through real activities is an alternative that companies can use to reduce the amount of tax owed by reducing the amount of taxable income (Hidayat & Wijaya, 2021). The implication is that the higher level of real earnings management carried out by companies will lead to an increase in tax avoidance by companies. The research hypothesis is:

H1a: Real operating cash flow profit management has a positive effect on tax avoidance
H1b: Real profit management of production costs has a positive effect on tax avoidance

H1c: Discretionary cost real profit management has a positive effect on tax avoidance

2.2 Transfer Pricing and Tax Avoidance

According to the Organization for Economic Cooperation and Development (OECD) transfer pricing is the price determined in transactions between group members in a multinational company where the transfer price determined deviates from the fair market price. As the most popular and increasingly global tax issue, *transfer pricing* become the main scheme used by companies especially *Multinational Company* in the practice of diverting profits which leads to tax avoidance. Scheme *transfer pricing* used by management to reduce the company's tax burden, either through transactions with special parties, carrying out transactions with companies in countries with low tax rates or in tax-free countries. In line with research conducted by Panjalusman *et al*. (2018); Hidayat & Wijaya (2021); Asriani *et al*. (2023); Dewi et al. (2023); Kramarova (2021); MacCarthy (2021); Barker *et al.* (2017); and Nguyen (2020) prove that there is more and more practice *transfer pricing* carried out by a company, the greater the possibility that the company will be indicated as carrying out tax evasion. The research hypothesis is:

H2: *Transfer pricing* positive effect on tax avoidance

3. METHODOLOGY

This research was conducted on all multinational manufacturing companies listed on the Indonesia Stock Exchange, with an observation period from 2018 to 2022. This quantitative research uses secondary data in the form of financial reports and annual reports. This data is taken from the Indonesian Stock Exchange website, company website, or the Indonesia Capital Market Directory (ICMD). The sample for this research was selected using a purposive sampling method based on certain criteria, namely: 1) Multinational manufacturing companies listed on the Indonesia Stock Exchange from 2018 to 2022. 2) The sample company did not experience losses during 2018 to 2022. 3) The company has publish consecutive financial reports and complete annual reports on the Indonesian Stock Exchange and/or company website during 2018-2021. 4) The company has complete data regarding the variables that will be used in the research.

3.1 Operational definition

Tax avoidance is the dependent variable, while the independent variable consists of real earnings management and *transfer pricing*. The control variables are size and leverage.

Dependent Variable

The dependent variable is tax avoidance. Tax avoidance is an effort made by a company to minimize or even eliminate the tax burden in a legal manner and does not violate applicable laws and regulations (Noviyani & Muid, 2019). In this research, tax avoidance is calculated using the Effective Tax Rates (ETR) model used by Panjalusman et al. (2018). ETR is obtained from the total income tax expense divided by profit before tax.

Independent Variable

3.2 Real Profit Management

Real profit management is proxied into three, namely abnormal cash flow operations, abnormal production costs, and abnormal discretionary expenses. Real earnings management has been developed by Roychowdhury (2006). However, in this research real earnings management is measured using the formula used by Ningsih (2015) where the company's total assets are logged. The formula is as follows:

1. Abnormal cash flow operation

   The following is the formula for measuring abnormal operating cash flow:

   $CFO_t / A_{t-1} = a_0 + a_1 (1/\log.A_{t-1}) + b_1 (S_t/A_{t-1}) + b_2 (\Delta S_t/A_{t-1}) + e_t$

   Information:

   CFO_t = operating cash flow of company i in year t
   A_{t-1} = Total company assets at the end of year t-1
   S_t = Company sales at the end of year t
   ΔS_t = Change in company sales at the end of year t compared to sales at the end year t-1
   a, b = Regression coefficient
   e_t = error

2. Abnormal production cost

   The following is the formula for measuring the costs of abnormal production activities:

   $PROD_t / A_{t-1} = a_0 + a_1 (1/\text{Log. } A_{t-1}) + b_1 (S_t/A_{t-1}) + b_2 (\Delta S_t/A_{t-1}) + b_3 (\Delta S_{t-1}/A_{t-1}) + e_t$

   Information:

   $PROD_t$ = cost of goods sold plus changes preparations
   ΔS_{t-1} = Change in sales in year t-1 compared to sales at the end of year t-2

3. Abnormal discretionary expenses

   The following is the formula for measuring abnormal discretionary costs:

   $DISC_t / A_{t-1} = a_0 + a_1 (1/\text{Log. } A_{t-1}) + b (\Delta S_{t-1}/A_{t-1}) + e_t$

   Information:

   $DISC_t$ = research and development costs plus advertising costs, sales costs, administration, and general

3.3 Transfer Pricing

Transfer pricing is proxied by the presence or absence of sales to related parties or those who have a special relationship, which is measured by Related Party Transactions (RPT). Transfer pricing will be measured using the formula used by Ginting & Machdar (2023). RPT is obtained from total receivables from related parties divided by total receivables.

3.4 Variable Control

This research uses size and leverage as control variables. The calculation model used in this research uses the natural logarithm proxy of total company assets to determine company size (Gupta & Newberry, 1997). Leverage is measured using the Debt to Equity Ratio (DER). This ratio reflects the extent to which the capital owned is able to pay off the company's debts to external parties. Leverage is measured using the formula used by Alam & Fidiana (2019). DER is obtained from total liabilities divided by total equity.

3.5 Analysis Techniques and Mathematical Models

This research uses multiple linear regression analysis methods to test the influence of real earnings management and transfer pricing on tax avoidance. The data in this research were processed and analyzed using the Statistical Program for Social Science (SPSS) version 25 application. The multiple linear regression formula is described by the following equation:

$$AND_{it} = a + b_1 MLRCFO + \beta_2 MLRPROD + b_3 MLRDISK + \beta_4 TP + \beta_5 SIZE + b_6 LEV + e$$

Information:

a	= constant
b	= regression coefficient of each independent variable
AND_{it}	= Tax Avoidance of company i in year t
MLRCFO	= Real profit management operating cash flow
MLRPROD	= Real profit management production costs
MLRDISK	= Real profit management discretionary costs
City	= Transfer Pricing
SIZE	= Size
LEV	= Leverage
e	= Error

4. RESULTS

The population in this study was 79 companies. This research uses a purposive sampling method. Based on the criteria mentioned, 237 samples were obtained in 2018-2022. The following is a detailed table of sample selection used in this research:

Table 1. Research Sample Selection Criteria

Information	Amount
Multinational Manufacturing Company listed consecutively on the Indonesia Stock Exchange (BEI) in 2018-2022.	79
Number of samples of annual financial reports in 2018-2022 (79 companies x 5 years).	395
The company's annual financial report experienced a loss and there is no complete data regarding the variables used in the research in 2018-2022.	(91)
Data Outlier	(67)
Total Research Sample	237

Based on these 237 samples, tests were then carried out using descriptive statistical tests and classical assumption tests (normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test), and hypothesis testing in the form of coefficient of determination, stimulant test (F statistical test), and partial test (t statistical test).

4.1 Descriptive statistics

Descriptive statistical analysis in table 2

Table 2. Variable Descriptive Statistics

Descriptive Statistics					
	N	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
ETR	237	0.0898	0.3504	0.24158	0.02457
MLRCFO	237	-0.4427	0.6414	0.01343	0.12958
MLRPROD	237	-1.2066	2.4227	0.05050	0.52947
MLRDISK	237	-0.6031	0.8093	0.01561	0.18219
City	237	0.0000	1.0000	0.20693	0.30496
SIZE	237	24.1550	33.6551	29.01243	1.84692
LEV	237	-7.1759	5.4266	0.79355	1.00061
ValidN (listwise)	237				

ETR = Effective Tax Rate
MLRCFO = Real Profit Management Operating Cash Flow
MLRPROD = Real Profit Management Production Costs
MLRDISK = Real Profit Management Discretionary Costs
City = Transfer Pricing
SIZE = Company Size
LEV = Leverage

Table 2 shows the maximum, minimum, standard deviation and average values of all the variables studied. Table 2 shows that the average ETR and size values are higher than the standard deviation. This means that these variables are homogeneous. Meanwhile, the variables real profit management, operating cash flow, real profit management, production costs, real profit management, discretionary costs, transfer pricing, and leverage are smaller than the standard deviation. This means that these variables are heterogeneous.

4.2 Classic assumption test

The classical assumption test is carried out to determine and test the feasibility of the regression model used. All data meets four classical assumptions, namely normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test. The following are the results of the classical assumption test and their explanations:

Table 3. Classic Assumption Test Results

Model	**Collinearity Statistics**		**Uji Park**
	Tolerance	**VIF**	**Say.**
MLRCFO	0.953	1.049	0.173
MLRPROD	0.974	1.027	0.532
MLRDISK	0.913	1.096	0.675

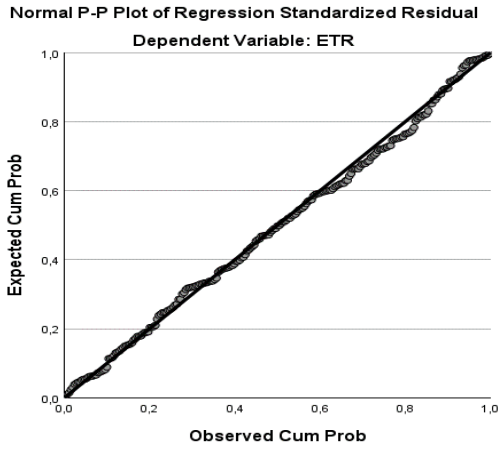
City	0.957	1.045	0.260
SIZE	0.976	1.025	0.773
LEV	0.964	1.037	0.194
Asymp. Sig. (2-tailed)	0.200[d]	**Durbin-Watson**	1.919

MLRCFO = Real Profit Management Operating Cash Flow
MLRPROD = Real Profit Management Production Costs
MLRDISK = Real Profit Management Discretionary Costs
City = Transfer Pricing
SIZE = Company Size
LEV = Leverage

Normality test

The normality test was carried out using the P-Plot graph (see Figure 1) and the Kolmogrov Smirnov (K-S) parametic statistical test. Based on the K-S test, it is known that Asymp. Sig (2-tailed) has a value of more than 0.05, thus indicating that the data is normally distributed (see table 3). Figure 1, the P-Plot graph shows the points spread around the diagonal line and following the direction of the diagonal line, which means the model has met the normality assumption.

Figure 1. Graphic P-Plot



Multicollinearity Test

The multicollinearity test was carried out to test whether the regression model found a correlation or relationship between the independent variables. The multicollinearity test (see table 3) shows that all independent variables have a tolerance value > 0.1, and a VIF value > 10. This means that there are no symptoms of multicollinearity in the independent variables in the regression model.

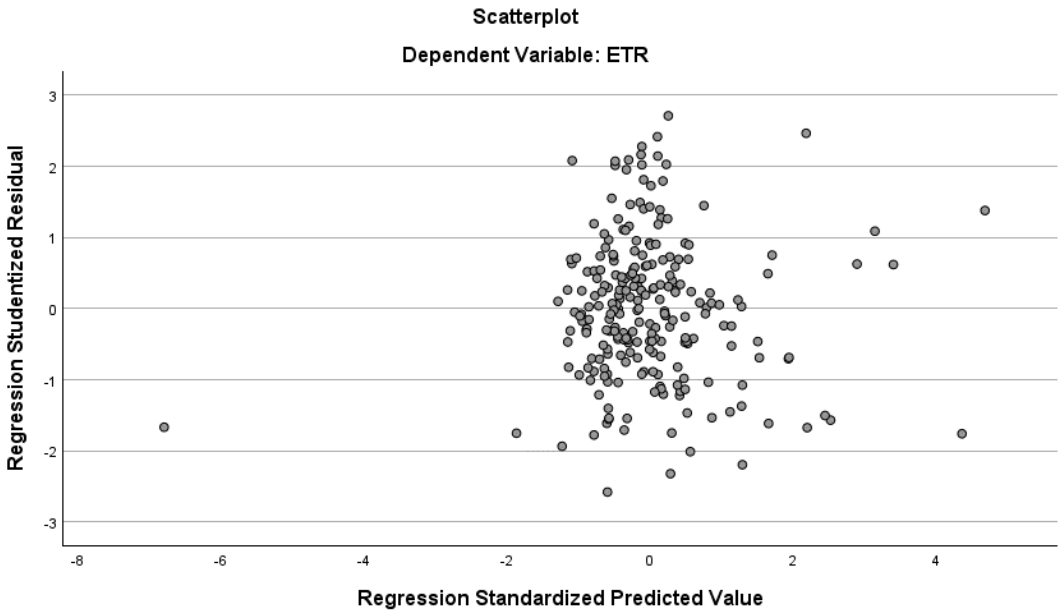
Autocorrelation Test

Durbin-Watson (DW) numbers were used to test autocorrelation (table 3). The data is said to have no autocorrelation if the dU < DW < (4-dU) value. The results of the autocorrelation test explain that the DW value is 1.919. The table value of dU is 1.828 and the value of 4-dU is 2.172. So the comparison is 1,828 < 1,919 < 2,172, so it can be concluded that there is no autocorrelation in the regression model.

Heteroscedasticity Test

The heteroscedasticity test uses 2 tests, namely a graphic test using a scatterplot (see Figure 2) and a statistical test using the Park test. Based on Figure 2, it can be seen that the points form a clear pattern and spread above and below zero on the Y axis. Park test results (see table 3) show that all independent variables have a significant value of more than 0.05. So it can be concluded that this did not happen
symptoms of heteroscedasticity in the regression model.

Figure 2. Heteroscedasticity Test



4.3 Hypothesis Test Results

The analytical method used in this research is multiple linear regression analysis. This method aims to see the influence of independent variables on the dependent variable. Based on Table 4, the regression equation used is obtained, along with the explanation as follows:

ETR = 0.265 – 0.039MLRCFO + 0.002MLRPROD + 0.037MLRDISK + 0.012TP – 0.001SIZE + 0.016LEV + ε

The Adjusted R Square value shows the number 0.160 which means 16% of the tax avoidance variable is proxied by *Effective Tax Rate* (ETR) can be explained by the independent variables in this research. Meanwhile, the remaining 84% is explained by other variables that are not in this study.

The F value is 58.273 with a significant value smaller than 0.05, so it can be concluded that the regression model is suitable for use or that all independent variables together have an effect on tax avoidance which is proxied by *Effective Tax Rate* (ETR).

Table 4. Hypothesis Test Results

Hypothesis	Analysis	Coefficients[a]			Decision
		Unstandardized Coefficients B	t	Say.	
	(Constant)	0.265	16,199	< 0.001	
H1a	MLRCFO	-0.039	-4.845	< 0.001	Significant negative
H1b	MLRPROD	0.002	1.067	0.287	No significance
H1c	MLRDISK	0.037	6.329	< 0.001	Significant positive
H2	City	0.012	3.578	< 0.001	Significant positive
	SIZE	-0.001	-2.384	0.018	Significant negative
	LEV	0.016	15.630	< 0.001	Significant positive
R Square		**0.182**	**Adjusted R Square**		**0.160**
F		**58.273**	**Say.**		**< 0.001[b]**

DISCUSSION

Real Profit Management and Tax Avoidance

Based on hypothesis testing, the results found that real operating cash flow earnings management has a significant negative effect on tax avoidance, so hypothesis H1a is rejected. The results of this research are supported by research belonging to Hidayat & Wijaya (2021) which states that this can happen because of *trade-off* between reporting aggressiveness decisions and tax aggressiveness. Reporting aggressiveness refers to a company's efforts to manipulate reported profits to make them look better than real profits, while tax aggressiveness refers to the strategies used by a company to minimize its tax liabilities. If
The company carries out real profit management of operating cash flow to increase reported profits (reporting aggressiveness), then the company will have high taxable profits, causing the tax burden borne by the company to be higher. Therefore, companies will be faced with *trade-off* between increasing reported profits or minimizing tax burden.

The research results state that real profit management production costs have no effect on tax avoidance, so hypothesis H1b is rejected. Real profit management is carried out through

manipulation of production costs, where the company has production costs that are higher than the normal level (Roychowdhury, 2006)
The results of this research show the opposite, where real profit management of production costs has no influence on tax avoidance because production costs are lower than normal levels, causing the company's net profit to be higher and the tax burden borne by the company to be higher. The high tax burden indicates that the companies sampled in this study did not make any efforts to avoid taxes.

The results of the research state that real profit management at discretionary costs has a significant positive effect on tax avoidance, so that H1c is accepted. Decrease in discretionary costs such as research and development expenses, advertising costs, sales costs, administrative and general costs, especially in the current period where these expenses do not directly result in revenue and profits. This strategy is used to reduce cash flow in the coming period (Suhesti, 2015). Thus, with the increasing value of abnormal discretionary costs, real profit management through decreasing discretionary costs will lead to a higher risk of tax avoidance by companies (Surahman & Firmansyah, 2017).

Transfer Pricing and Tax Avoidance

The results in table 4 show that transfer pricing has a significant positive effect on tax avoidance, so hypothesis H2 is accepted. H2. *Transfer pricing* seen from whether or not sales are made to related parties or those with a special relationship if the related party is in a different country. This is because there are differences in tax rates in various countries which trigger companies to shift their tax obligations to countries with lower tax rates, resulting in higher value *transfer pricing* then it shows the higher the tax avoidance efforts made by the company (Ginting & Machdar, 2023).

5. CONCLUSIONS

The results of this research indicate that real operating cash flow earnings management has a significant negative effect on tax avoidance as proxied by the effective tax rate. This can happen because there are *trade-off* between reporting aggressiveness decisions and tax aggressiveness. Another result obtained is that real profit management, discretionary costs and transfer pricing have an effect on tax avoidance. This means that the higher the level of real profit management, discretionary costs and transfer pricing, the greater the potential for tax avoidance. However, there are variables that have no influence on tax avoidance, namely real profit management of production costs.

The implication of this research for the world of taxation is that the state revenue target is not achieved as a result of tax evasion by taxpayers, tax consultants, and even tax officials. By knowing the development trend patterns of tax avoidance, the government can evaluate and improve the effectiveness of regulations and policies related to these issues. This can help regulators or policy makers, namely the Directorate General of Taxes (DJP), Ministry of Finance, and related government parties in making new policies or regulations that are better and firmer. In addition, it is hoped that it can provide empirical evidence of corporate tax avoidance practices carried out through real and practical earnings management *transfer pricing*. Thus, this research can help reduce the negative impact of these actions on state revenues and national development.

The limitation of this research is that the dependent variable in the form of tax avoidance is only measured using the Effective Tax Rate (ETR) ratio which compares the total tax burden and profit before tax for each company only. For future research, tax avoidance should be measured using the Relative ETR ratio which is obtained from the comparison value between the company's ETR value and the industry average ETR. Apart from that, the transfer pricing variable is only measured using one proxy, namely using Related Party Transactions (RPT) which compares total receivables from related parties with total receivables. Future research can use other measurements, for example debt to related parties. Companies that have debt to related parties must pay interest costs. The higher the interest costs borne by the company, the lower the company's tax burden will be. Therefore, debt to related parties can be one of the efforts made by companies to avoid tax.

REFERENCES

Alam, M. H., & Fidiana. (2019). The Influence of Profit Management, Liquidity, Leverage and Corporate Governance on Tax Avoidance. *Journal of Accounting Science and Research, 8*(2), 1–22.

Arizoni, S. S., Ratnawati, V., & Andreas. (2020). The Influence of Accrued Profit Management, Real Profit Management and Inventory Intensity on Tax Aggressiveness: The Moderating Role of Foreign Operations. *Bilancia: Scientific Journal of Accounting*, *4*(1), 35–47. http://www.ejournal.pelitaindonesia.ac.id/ojs32/index.php/BILANCIA/index

Asriani, S., Mediaty, M., & Indrijawati, A. (2023). The Influence of Deferred Tax, Capital Intensity, Transfer Pricing, and Leverage on Tax Avoidance. *Scientific Journal of Educational Sciences*, *6*(9), 6744–6753. https://doi.org/10.54371/jiip.v6i9.2816

Barker, J., Asare, K., & Brickman, S. (2017). Transfer Pricing As A Vehicle In Corporate Tax Avoidance. *Journal of Applied Business Research*, *33*(1), 9–16. https://doi.org/10.19030/jabr.v33i1.9863

Cnbcindonesia.com. (2023). *Check! 5 Facts Behind the Corruption Case of 2 Tax Civil Servants*. https://www.cnbcindonesia.com/news/20231110105842-4-487995/cek-5-fakta-di-balik-kasus-korupsi-2-pns-pajak

Cobham, A., Bernardo, J. G., Palansky, M., & Mansour, M. B. (2020). The State of Tax Justice 2020 : Tax Justice in the time of COVID-19. *Tax Justice Network*, 1–83. https://www.taxjustice.net/reports/the-state-of-tax-justice-2020/

Detikfinance.com. (2019). *Get to know the matter of tax evasion accused of Adaro*. https://finance.detik.com/berita-ekonomi-bisnis/d-4612708/mengenal-soal-penghindaran-pajak-yang-dituduhkan-ke-adaro

Dewi, R., Kusumawati, N., Afiah, E. T., Nurizki, A. T., Bangsa, U. B., & Capitalization, T. (2023). The Effect of Thin Capitalization and Transfer Pricing on Tax Avoidance by Using Country Tax Havens as a Moderating Variable. *Revenue Journal Accounting Journal*, *4*, 342–353.

Febriyanti, N. (2023). The Effect of Profit Management on Tax Avoidance Moderated by Sales Growth. *Diponegoro Journal of Accounting*, *12*(1), 2337–3806.

Ginting, S., & Machdar, N. M. (2023). The Effect of Transfer Prices and Special Relationship Transactions on Tax Avoidance with Profitability as a Moderating Variable in Infrastructure Companies Listed on the Indonesia Stock Exchange for the 2016-2021 Period. *Pearl of Accounting Science Journal*, *1*(2), 184–203.

Gupta, S., & Newberry, K. (1997). Determinants of the variability in corporate effective tax rates: Evidence from longitudinal data. *Journal of Accounting and Public Policy*, *16*(1),

1–34.

Hariseno, P. E., & Pujiono. (2021). The Influence of Profit Management Practices on Tax Avoidance. *Journal of Computer Science, Economics and Management (JIKEM)*, *1*(1), 101–111.

Henny, H. (2019). The Influence of Profit Management and Company Characteristics on Tax Avoidance. *Muara Journal of Economics and Business*, *3*(1), 34–36. https://doi.org/10.24912/jmieb.v3i1.4021

Hidayat, H., & Wijaya, S. (2021). The Influence of Profit Management and Transfer Pricing on Tax Avoidance. *Economic Development*, *25*(2), 155–173. https://doi.org/10.26593/be.v25i2.5331.61-79

Jensen, M. C., & Meckling, W. H. (1976). Theory of firms: Managerial Behaviour, Agency Cost, and Ownership Structure. *Journal of Financial and Economics*, *3*(4), 305–360.

Kompas.com. (2014). *Coca-Cola Suspected of Cheating Tax Payments*. https://amp.kompas.com/money/read/2014/06/13/1135319/coca-cola-diduga-akali-setoran-pajak

Kompas.com. (2016). *Revealed, Tax Avoidance Method of Singapore Health Services Company*. https://bisniskeuangan.kompas.com/read/2016/04/06/203829826/Terkuak.Modus.Penghindaran.Pajak.Perusahaan.Jasa.Kesehatan.Asal.Singapura

Kompas.com. (2023). *Rafael Alun and his wife are said to have received gratuities of IDR 16.6 billion and money laundering of up to IDR 58 billion*. https://www.kompas.id/baca/polhuk/2023/08/30/rafael-alun-trisambodo-samarkan-aset-dengan-nama-ibu-istri-anak-dan-pegawainya

Kramarova, K. (2021). Transfer Pricing and Controlled Transactions in Connection with Earnings Management and Tax Avoidance. *SHS Web of Conferences*, *92*, 1–9. https://doi.org/10.1051/shsconf/20219202031

MacCarthy, J. (2021). Effect Of Earnings Management and Deferred Tax On Tax Avoidance: Evidence Using Modified Jones Model Algorithm. *Corporate Ownership and Control*, *19*(1), 272–287. https://doi.org/10.22495/cocv19i1siart5

Nguyen, T. (2020). Related Party Transactions, State Ownership, the Cost of Corporate debt, and Corporate Tax Avoidance: Evidence from Vietnam. *Thesis*, 1–137. https://eur-lex.europa.eu/legal-content/PT/TXT/PDF/?uri=CELEX:32016R0679&from=PT%0Ahttp://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52012PC0011:pt:NOT

Noviyani, E., & Muid, D. (2019). The Influence of Return on Assets, Leverage, Company Size, Fixed Asset Intensity, and Institutional Ownership on Tax Avoidance. *Diponegoro Journal of Accounting*, *8*(3), 1–11.

Panjalusman, P. A., Nugraha, E., & Setiawan, A. (2018). The Effect of Transfer Pricing on Tax Avoidance. *Journal of Accounting & Financial Education*, *6*(2), 105–114. https://doi.org/10.17509/jpak.v6i2.15916

Putri, & Mulyani, S. D. (2020). The Influence of Transfer Pricing and Foreign Ownership on Tax Avoidance Practices with Corporate Social Responsibility (CSR) Disclosure as a Moderating Variable. *Proceedings of the National Expert Seminar 3*. https://doi.org/http://dx.doi.org/10.25105/pakar.v0i0.6826

Putri, R. K. (2015). The Influence of Family Management on Tax Avoidance. *Accounting journal*, *7*(1), 60–72. https://doi.org/10.26740/jaj.v7n1.p60-72

Putri, & Syofyan, E. (2023). The Influence of Tax Avoidance, Multinationality, and Profitability on Companies' Decisions to Conduct Transfer Pricing. *Journal of Accounting Exploration*, *5*(2), 801–815. https://doi.org/10.24036/jea.v5i2.742

Roychowdhury, S. (2006). Earnings Management Through Real Activities Manipulation. *Journal of Accounting and Economics*, *42*(3), 335–370. https://doi.org/10.1016/j.jacceco.2006.01.002

Suhesti, N. (2015). Earning Management Through Real and Accrual Activities. *Journal of Accounting and Tax*, *16*(1), 55–66.

Surahman, & Firmansyah. (2017). The Influence of Real Profit Management and Corporate Governance Disclosure on Tax Aggressiveness. *Journal of Accounting & Finance*, *19*(2), 125–142.

Taylor, G., & Richardson, G. (2012). International Corporate Tax Avoidance Practices: Evidence from Australian Firms. *The International Journal of Accounting*, *47*(4), 469–496. https://doi.org/https://doi.org/10.1016/j.intacc.2012.10.004

Watts, R. L., & Zimmerman, J. L. (1989). Positive Accounting Theory. *Prentice Hall*.

Wijaya, A., & Loppies, S. (2014). Prague Tax King Automotive. *Tempo Data Science*, *08*(43), 90.

Yeye, O., & Egbunike, P. A. (2021). Transfer Pricing, Accruals Earnings Management and Corporate Tax Avoidance of Listed Multinational Corporations in Nigeria. *Journal of Global Accounting*, *7*(1), 63–79. https://journals.unizik.edu.ng/joga