

## THE INFLUENCE OF TRANSFER PRICING AND MANAGEMENT COMPENSATION TOWARD TAX AVOIDANCE OF FOOD AND BEVERAGE COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

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### ABSTRACT

Food and beverage industry has been a major player in Indonesia economic, constituting up to 6% of Indonesia GDP. This lead companies involved in the sector to expand from national to multinational companies. In the previous research, transfer pricing and CEO compensation were observed partially in relation to the tax aggressiveness while this research focuses on transfer pricing and management compensation partially and simultaneously toward the tax avoidance.

The purpose of this research is to observe the influence of transfer pricing and management compensation toward tax avoidance of food and beverage companies listed on Indonesia Stock Exchange (IDX) from 2020 to 2022. There are two independent variables used in this research, such as transfer pricing and management compensation. The dependent variable of this research is tax avoidance. There are 12 samples out of 122 companies that were chosen in this quantitative research utilizing purposive sampling technique and secondary data collection method.

The result of this research shows that transfer pricing has a non-significant influence towards tax avoidance and management compensation has a non-significant influence towards tax avoidance. Furthermore, transfer pricing and management compensation simultaneously have a significant influence towards tax avoidance.

**Keywords:** Tax Avoidance, Transfer Pricing, Management Compensation

### ABSTRAK

*Industri makanan dan minuman telah menjadi pemain utama dalam perekonomian Indonesia, menyumbang hingga 6% PDB. Hal ini menyebabkan perusahaan-perusahaan yang bergerak di sektor tersebut berkembang dari perusahaan nasional menjadi perusahaan multinasional. Pada penelitian sebelumnya, transfer pricing dan kompensasi CEO diamati secara parsial terhadap agresivitas pajak, sedangkan penelitian ini fokus pada transfer pricing dan kompensasi manajemen secara parsial dan simultan terhadap penghindaran pajak.*

*Tujuan dari penelitian ini adalah untuk mengamati pengaruh harga transfer dan kompensasi manajemen terhadap penghindaran pajak industri makanan dan minuman yang terdaftar di Bursa Efek Indonesia (BEI) dari tahun 2020 hingga 2022. Terdapat dua variabel independen yang digunakan dalam penelitian ini, yaitu harga transfer dan kompensasi manajemen. Variabel dependen dari penelitian ini adalah penghindaran pajak. Sebanyak 12 sampel dari 122 perusahaan yang dipilih dalam penelitian kuantitatif ini menggunakan teknik purposive sampling dan metode pengumpulan data sekunder.*

*Hasil dari penelitian ini menunjukkan bahwa harga transfer memiliki pengaruh tidak signifikan terhadap penghindaran pajak dan kompensasi manajemen memiliki pengaruh tidak signifikan terhadap penghindaran pajak. Selain itu, harga transfer dan kompensasi*

*manajemen, secara bersama-sama, memiliki pengaruh signifikan terhadap penghindaran pajak.*

**Keywords:** *Penghindaran Pajak, Harga Transfer, Kompensasi Manajemen*

## 1. INTRODUCTION

The growth of food and beverage industry is strongly related with the basic human need. Its business often runs in line with other industries such as retail and distribution, farming, plantation, fishery, etc.

Published by (Badan Pusat Statistik, 2023), the food and beverage industry contributed up to 6% of Indonesia Gross Domestic Product (GDP) in 2022. This is the third highest contributing industry after ‘wholesale and retail trades, except of motor vehicles and motorcycles industry’ and ‘construction industry,’ which contributed 13% and 10% of Indonesia total GDP, respectively.

In 2022, (Badan Pusat Statistik, 2023) reported that Indonesia has tax revenue amounted Rp 2,990 trillion or equal to around \$124 billion using the 31 December 2021 closing rate. However, (Tax Justice Network, 2023) reported that Indonesia suffers tax loss around \$2.8 billion due to global tax abuse each year. This amounted to around 2.3% of Indonesia annual tax revenue.

The tax loss that each nation suffers may be due to global tax violation of multinational corporations that utilize the tax rate difference of each jurisdiction in which they are located. It is related with the fact that companies within food and beverage industry often develop from national to multinational scale companies.

According to (Barker et.al., 2017), utilizing transfer pricing policy may allow corporations to transfer their income and expenses from high-tax jurisdictions to low-tax jurisdictions. The transfer pricing policy may be conducted through the purchase and/or sales of goods to affiliate parties located in different tax jurisdictions.

Besides transfer pricing, there is another factor presumed impacting tax avoidance, which is management compensation. As a tool by the management, tax avoidance is done to increase as much profit as possible, the management compensation paid out may be increased as it is categorized as the deductible expense. In the research conducted by (Armstrong et.al., 2015), is found that management compensation has a positive effect on tax avoidance. In contrast, the research conducted by (Pujiningsih & Salsabyala, 2022), (Nurfauzi & Firmansyah, 2018), (Zulma, 2016), and (Asih & Setiawan, 2022) resulted that management compensation has negative effect on tax avoidance.

Thus, with the background of study explained above, this research is conducted with the title of “**The Influence of Transfer Pricing and Management Compensation Toward Tax Avoidance of Food and Beverage Companies Listed on Indonesia Stock Exchange**”.

## 2. LITERATURE REVIEW

### 2.1 Agency Theory

Agency theory, as proposed by (Jensen & Meckling, 1976), is defined as a relationship in which one or more persons engage with another person. There are 2 parties involved in the agency theory, which are the principals (shareholders) and agent (management) in the corporate environment. The principal will assign tasks to the agent and have the agent act in the best interest of the principal. However, the agent may not

always act in accordance with the principal favor. This will cause conflicts between principals and agents.

In this research, the agency theory will be implemented to explain the management decisions in conducting tax avoidance. The main objective of a business is to earn profit as high as possible. This will not only benefit the owners as the principle, but the management as the agent. Higher profit is often used as the indicator of how much compensation such as bonuses and incentives paid to the employee. To maximize the profit, the management may implement several methods, such as conducting tax avoidance.

(Zulma, 2016) explained that the management often decides to conduct tax avoidance when the opportunity arises to gain as much bonus as possible. On the other hand, the owners often chose the sustainability of the company. This is because tax avoidance poses the possibility of being misconducted which will ruin the reputation of the company. To prevent it, higher compensation management may be given out to reduce the management tendency of conducting tax avoidance.

In addition to the discussion above, (Humaira, 2021) explained that the agency problem may also exist in the government environment. (Waluyo et.al., 2023) also pointed out that there is a different objective between tax authorities and business entities.

## 2.2 Tax Avoidance

Tax, according to (Nathanson, 2015), is a special exemption and exclusion through credits, deductions, deferrals based on preferential tax rate of corporations and/or individuals' income to support federal policy goals. Tax expenditures will result in the revenue forgone of the tax subject. In this discussion, the corporate tax is chosen as variable discussed.

As the tax is classified as the burden or expense of the corporation, they will often attempt to reduce the tax portion need to be paid. The statement is supported with the theory previously discussed, about the management decision to conduct tax avoidance to maximize the profit.

In the book by (Beer, et.al., 2018), tax avoidance is the use of technique to minimize the overall tax burden legally without breaking any tax rules and regulations. In the opposite, tax avoidance may turn into tax evasion when it is misconducted resulting in breaking the tax law. The issue of tax evasion by multinational companies (MNCs) has been a prominent concern on the policy agenda since the global crisis. This is related to the technique used in the tax avoidance act, such as transfer pricing.

This study uses the Effective Tax Rate (ETR) to measure tax avoidance, considering that this formula covers the deferral strategies by the firm.

## 2.3 Transfer Pricing

Regarding the transactions of multinational level corporations, transfer pricing has not been an uncommon topic to be discussed. (Barker et.al., 2017) explained that the price which different entities of the same corporation trade at is known as transfer pricing. Furthermore, (Mooij & Liu, 2018) point out that MNCs may manipulate the transfer pricing to shift their profit.

MNCs often utilize the difference in tax rate of the countries they are operating in. (Barker et.al., 2017) explained that the MNCs may sell their goods and/or services to other related entities located in low tax-jurisdictions at a lower price. In instance, this will result in lower costs for the entities located in low-tax jurisdictions and lower revenues for the entities located in the high-tax jurisdictions.

Transfer pricing is regulated in Indonesia by Directorate General of Tax (DGT) Law No. Per-32/PJ/2011. The legislation pertains to the use of the arm's length principle in

establishing the pricing of transactions between affiliated entities. The related parties can be between Indonesian Taxpayers and Foreign Taxpayers.

This study uses the proxy of account receivables from related parties to measure transfer pricing, as the sales transactions is considered at the later stage impacting the tax payment by the company.

## 2.4 Management Compensation

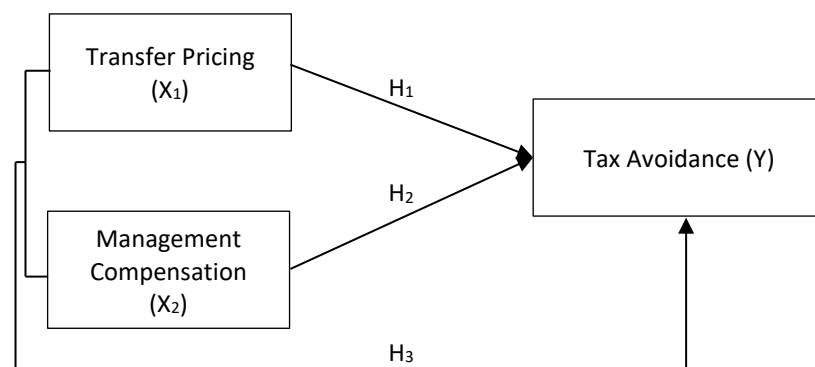
According to (Armstrong et.al., 2012), management compensation can be defined in the form of allowances, salaries, benefits and bonuses given to parties involved in the management, which includes the directors and commissioners. In relation to the agency theory, compensation is one of the important aspects to submerge the emergence of conflict of interest. This may lead to the agent, in this case the management, conducting risky managerial practices.

(Armstrong et.al., 2015) suggested the level of tax avoidance activity may lower when management receives sufficient compensation. In the occasion that management receive low compensation, they may turn to conduct practices to increase the company's performance or net income. This is based on the idea that compensation is based on the company's or net income. To measure management compensation, the ratio between salaries, benefits, welfare, and bonuses to total sales is used.

In this research, management compensation is calculated based on its portion to total revenues.

## 2.5 Research Model

The relationship between independent and dependent variables can be expressed in the following scheme:



**Figure 1 Research Model**

Based on the research model above, three hypotheses are proposed as follows:

- H<sub>1</sub>: Transfer pricing has a significant impact on tax avoidance in food and beverage companies listed on the Indonesia Stock Exchange partially.
- H<sub>2</sub>: Management compensation has a significant impact on tax avoidance in in food and beverage companies listed on the Indonesia Stock Exchange partially.
- H<sub>3</sub>: Transfer pricing and management compensation have a significant impact on tax avoidance in food and beverage companies listed on the Indonesia Stock Exchange simultaneously.

### 3. RESEARCH METHODOLOGY

#### 3.1 Research Design

Quantitative research, according to (Creswell & Creswell, 2018), is a method used to assess objective theories by exploring the connections between variables. These variables are usually measurable, often through instruments, allowing for the analysis of numerical data using statistical methods. The purpose of using the quantitative research approach is to analyse the correlation between dependent and independent variables.

#### 3.2 Population and Sample

According to (Sugiyono, 2018), population consists of the generalized objects or subjects based on its qualities and characteristics that was determined by researcher. This research focuses on the population of firms in the food and beverage companies that are listed on the Indonesia Stock Exchange (IDX).

The following are the criteria of the research samples:

1. Companies in the non-cyclical consumer products category that are listed on the IDX.
2. Food and beverage companies within the non-cyclical consumer goods category listed consistently on the IDX between 2020 and 2022.
3. Companies that do not suffer loss from 2020 to 2022.
4. Companies that have receivables from related parties from 2020 to 2022.

#### 3.3 Data Collection and Analysis Method

The data used in this study is derived from secondary sources obtained from the official website of the Indonesia Stock Exchange ([www.idx.co.id](http://www.idx.co.id)). The data gathered pertained only to the financial reports and annual report of food and beverage sector businesses listed on the Indonesia Stock Exchange, covering the years 2020 to 2022.

#### 3.4 Operational Variable Definition and Variable Measurement

The study examines the relationship between tax avoidance (Y) as the dependent variable and two independent factors, namely transfer pricing (X1) and management compensation (X2).

**Tabel 1 Operational Variable**

Variable	Definition	Indicator	Scale
Tax Avoidance	Tax avoidance is an attempt to minimize the tax burden legally without breaking any tax rules and regulations, in which was measured utilizing 36 samples from the food and beverage companies listed in Indonesia Stock Exchange from year 2020 to 2022	$ETR_{Current} = \frac{Current\ Tax\ Expense}{EBT}$	Ratio
Transfer Pricing	Transfer pricing is conducted through transactions with related parties' companies. Transfer pricing often used by MNCs to reduce their tax burden, in which will be measured utilizing 36 samples from the food and beverage companies listed in Indonesia Stock Exchange from year 2020 to 2022.	$TP = \frac{AR_{Related\ Parties}}{Total\ Receivables}$	Ratio
Management Compensation	Management compensation is a form of reward paid to the employees to motivate them more to achieve the company goals. It often can be reflected from the BOC and BOD remunerations, in which will be measured utilizing 36 samples from the	$\frac{Management\ Compensation}{BOC\ and\ BOD\ Remunerations} = \frac{Total\ Revenue}{Total\ Revenue}$	Ratio

	food and beverage companies listed in Indonesia Stock Exchange from year 2020 to 2022.		
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Source: Prepared by Writer (2024)

## 4. RESULT

### 4.1 Sample Size Determination

The sample criteria are as follow:

**Table 2 Determination of Sample**

No.	Criteria	Total
1	Non-cyclical consumer goods sector companies listed in Indonesia Stock Exchange	122
2	Non-food and beverage companies that are still part of the non-cyclical consumer goods sector companies listed consistently on Indonesia Stock Exchange from the year 2020 to 2022	(102)
3.	Companies that suffered loss during 2017 to 2022	(3)
4.	Companies that do not have the related parties' receivables from the year 2020 to 2022	(5)
Total companies that meet the criteria		12
Research years		3
Total research samples		36

### 4.2 Descriptive Statistics

The results of descriptive statistics tests are as follows:

**Table 3 Descriptive Statistics**

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Tax Avoidance	36	0.168	0.309	0.221	0.031
Transfer Pricing	36	0.012	0.998	0.372	0.327
Management Compensation	36	0.003	0.064	0.019	0.014
Valid N (listwise)	36				

Source: Data Processing from SPSS 29 (2024)

Based on Table 3 above, we found that tax avoidance (Y) has the minimum value of 0.168 from PT. Sekar Laut Tbk in 2021 and the maximum value of 0.309 from PT. Multi Bintang Indonesia Tbk in 2020. The mean value is 0.221 and the standard deviation value is 0.031.

Transfer Pricing variable ( $X_1$ ) has minimum value of 0.012 from PT. Delta Jakarta Tbk in 2020 and the maximum value of 0.998 from PT. Sari Guna Primatirta Tbk in 2022. The mean value is 0.372 and the standard deviation value is 0.327.

Management Compensation variable ( $X_2$ ) with the total data sample (N) of 36 has the minimum value of 0.003 from PT. Sekar Laut Tbk in 2021 and the maximum value of 0.064 from PT. Indofood Sukses Makmur Tbk in 2020. The mean value is 0.019 and the standard deviation value is 0.014.

### 4.3 Classical Assumption Test

#### 4.3.1 Normality Test

Normality test is done by Kolmogorov-Smirnov test which result is as below:

**Table 4 Result of Normality Test Using Kolmogorov-Smirnov Test**

One-Sample Kolmogorov-Smirnov Test		
		Tax Avoidance
N		36
Normal Parameters <sup>a,b</sup>	Mean	0.221

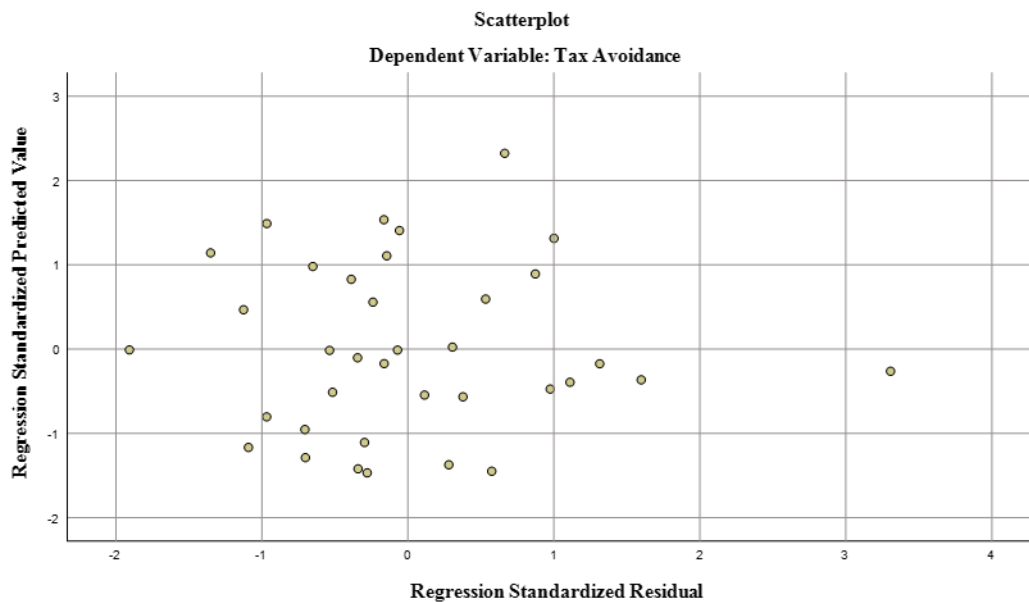
	Std. Deviation		0.031
Most Extreme Differences	Absolute		0.115
	Positive		0.115
	Negative		-0.048
Test Statistic			0.115
Asymp. Sig. (2-ss)			<b>.200<sup>d</sup></b>
Monte Carlo Sig. (2-tailed) <sup>e</sup>	Sig.		<b>0.262</b>
	99% Confidence Interval	Lower Bound	0.251
		Upper Bound	0.274
a. Test distribution is Normal.			
b. Calculated from data.			
c. Lilliefors Significance Correction.			
d. This is a lower bound of the true significance.			
e. Lilliefors' method based on 10000 Monte Carlo samples with starting seed 2000000.			

Source: Data Processing from SPSS 29 (2024)

Table 4 shows that the Asymp. Sig (2-tailed) is 0.2 which is higher than the lower bound of 0.05 significant value. Thus, it can be concluded that the variable is normally distributed based on the Kolmogorov-Smirnov test.

### 4.3.2 Heteroscedasticity Test

To test whether there is a heteroscedasticity in a regression model, the scatterplot graph of the standardized predicted value dependent variable (ZPRED) and standardized residual value (ZRES) is used. The following is the result:



**Figure 2 Result of Heteroscedasticity Test using Scatterplot**

Based on Figure 2, the scatterplot graph shows that the dots are scattered across the graph, both above and below the 0 line of X and Y axis. This can be interpreted as no heteroscedasticity exists in the regression model.

In addition, other method of testing the heteroscedasticity is required. Thus, Breusch-Pagan Test is applied (Breusch & Pagan, 1979). The result is as below:

**Table 5 Result of Breuch-Pagan Test**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.00000	2	0.00000	0.459	.636 <sup>b</sup>
	Residual	0.00007	33	0.00000		
	Total	0.00007	35			
a. Dependent Variable: RES_SQR						
b. Predictors: (Constant), Management Compensation, Transfer Pricing						

Source: Data Processing from SPSS 29 (2024)

Based on the Table 5, the significant value of Breuch-Pagan Test is 0.656 which is higher than 0.05. It means there is no heteroscedasticity issue with the data.

#### 4.3.3 Multicollinearity Test

The multicollinearity test is performed for the purpose of determining whether there is significant inter-correlation and inter-association between the independent variables of this research. A good regression model should not have any multicollinearity found between the independent variables. The following is the result:

**Table 6 Result of Multicollinearity Test**

Coefficients <sup>a</sup>			
Model		Collinearity Statistics	
		Tolerance	VIF
1	Transfer Pricing	0.854	1.171
	Management Compensation	0.854	1.171
a. Dependent Variable: Tax Avoidance			

Source: Data Processing from SPSS 29 (2024)

Based on Table 6, the transfer pricing and management compensation shows the same tolerance value of 0.854 and VIF value of 1.171. The criteria for passing the multicollinearity test are by having a tolerance value higher than 0.1 and VIF value lower than 10. Since both transfer pricing and management compensations passed the criteria, it can be concluded that there is no occurrence of multicollinearity in the regression model.

#### 4.3.4 Autocorrelation Test

To test whether the data is free of autocorrelation, the Durbin-Watson (DW) is used for the test. The result of the Durbin-Watson test is as follows:

**Table 7 Result of Autocorrelation Test using Durbin-Watson Test**

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.492 <sup>a</sup>	0.242	0.196	0.027783	1.570
a. Predictors: (Constant), Management Compensation, Transfer Pricing					
b. Dependent Variable: Tax Avoidance					

Source: Data Processing from SPSS 29 (2024)

Based on Table 7, the Durbin-Watson (DW) test resulted in its value of 1.570. With the number of sampled data (N) of 36, independent variables (k) of 2, and significant level



( $\alpha$ ) of 0.05, the lower bound (dL) of the DW test is 1.3537. while the upper bound (dU) is 1.5872. As the result value is 1.570, it is within the criteria range of  $dL \leq DW \leq dU$ , which is  $1.3537 \leq 1.570 \leq 1.5872$ . This means that there is no positive correlation in the regression. This also means that there is yet any result whether there is any negative correlation. Thus, there is yet any decision that can be made.

As the previous result cannot be used to determine whether any autocorrelation exists in the regression model, an additional procedure of the Cochrane Orcutt is used in the test. The result of the additional method is as follows:

**Table 8 Result of Autocorrelation Test using Cochrane-Orcutt Test**

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.423a	0.179	0.128	0.02703	2.007
a. Predictors: (Constant), LAG_X2, LAG_X1					
b. Dependent Variable: LAG_Y					

Source: Data Processing from SPSS 29 (2024)

Based on Table 8, the Durbin-Watson value is now 2.007. This value fall between the criteria of  $dU < DW < 4 - dU$ , which is  $1.5872 < 2.007 < 2.4128$ . This means there is no positive or negative correlation in the regression. Thus, the regression model is accepted.

**4.4 Multiple Linear Regression Analysis**

A regression model is developed to ease the interpretation process of determining how the independent variables work to affect the dependent variable partially and simultaneously. The result of multiple linear regression is as follows:

**Table 9 Multiple Linear Regression Analysis**

Coefficients <sup>a</sup>						
Model				Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.220	0.012		18.701	<.001
	Transfer Pricing	-0.029	0.016	-0.309	-1.886	0.068
	Management Compensation	0.645	0.374	0.283	1.724	0.094
a. Dependent Variable: Tax Avoidance						

Source: Data Processing from SPSS 29 (2024)

From Table 9, multiple linear regression is formulated as below:

$$Y = 0.220 - 0.029X_1 + 0.645X_2$$

The followings are the explanation of the regression model above:

1. The constant value is 0.220, which means that the value of tax avoidance will be 0.220 if all other independent variables have the value of zero.
2. The coefficient of transfer pricing is -0.029, which means the value of tax avoidance will decrease by 0.029 if the value of transfer pricing increases by one unit.
3. The coefficient of management compensation is 0.645, which means that the value of tax avoidance will increase by 0.645 if the value of management compensation increases by one unit.

#### 4.5 Partial Hypothesis Test (t-test)

To test whether each independent variable (partially) significantly influences the dependent variable, a t-test is conducted by observing the significant value and the coefficient of regression from the output.

The result of partial testing can be seen as follows:

**Table 10 Result of Partial t-test**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.220	0.012		18.701	<.001
	Transfer Pricing	-0.029	0.016	-0.309	-1.886	0.068
	Management Compensation	0.645	0.374	0.283	1.724	0.094

a. Dependent Variable: Tax Avoidance

Source: Data Processing from SPSS 29 (2024)

Based on Table 10, the result of the partial significant test is explained as follows:

1. Transfer pricing has the significant value of 0.068, which is higher than 0.05. In addition to it, the t-value of the research is -1.886, which is greater than the t-table value of -2.032. As for the coefficient of the regression model, it shows a negative value of -0.029. This means that there is a negative non-significant influence of transfer pricing, partially, towards the tax avoidance of the food and beverage companies listed on Indonesia Stock Exchange from 2020 to 2022.
2. Management compensation has the significant value of 0.094, which is higher than 0.05. In addition to it, the t-value of the research is 1.724, which is lower than the t-table value of 2.032. As for the coefficient of the regression model, it shows a positive value of 0.645. This means that there is a positive non-significant influence of management compensation, partially, towards the tax avoidance of food and beverage companies listed on Indonesia Stock Exchange from 2020 to 2022.

#### 4.6 Simultaneous Hypothesis Test (f-test)

To test whether all independent variables, simultaneously, significantly influence the dependent variable, a f-test is conducted by observing the significant value and f-value from the output.

The following is the result of f-Test analysis:

**Table 11 Simultaneous Significant Test**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.008	2	0.004	5.277	.010 <sup>b</sup>
	Residual	0.025	33	0.001		
	Total	0.034	35			

a. Dependent Variable: Tax Avoidance

b. Predictors: (Constant), Management Compensation, Transfer Pricing

Source: Data Processing from SPSS 29 (2024)

Based on Table 11, the significant value of the simultaneous test is 0.01, which is lower than 0.05. The result also shows that the f-value is 5.277, which is higher than the f-table value of 4.130. This means that both transfer pricing and management compensation, simultaneously, have a simultaneous significant influence towards the tax avoidance of the food and beverage companies listed on Indonesia Stock Exchange for the year 2020 to 2022.

#### 4.7 Coefficient of Determination Test

The coefficient of determination defines how effective the model explains the dependent variable's variance. The coefficient of determination has the range of  $0 \leq R^2 \leq 1$ . The result of the coefficient of determination is as follows:

**Table 12 Coefficient of Determination Test**

Model Summary <sup>b</sup>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.492 <sup>a</sup>	0.242	0.196	0.027783
a. Predictors: (Constant), Management Compensation, Transfer Pricing				
b. Dependent Variable: Tax Avoidance				

Source: Data Processing from SPSS 29 (2023)

Based on Table 12, the value of the Adjusted R<sup>2</sup> is 0.196. This indicates that the multiple linear regression accounts for 19.6% of the overall variability. In summary, the independent factors, namely transfer pricing and management remuneration, have a significant impact on just 19.6% of the dependent variable, tax avoidance. Furthermore, the remaining 80.4% of the dependent variable is subject to the effect of additional factors that have not been considered in this study.

#### 4.8 Discussion

##### 4.8.1 The Influence of Transfer Pricing Towards Tax Avoidance

The research results show that transfer pricing has coefficient of regression model of -0.029 and the significant value 0.068, which is higher than 0.05. The negative value of the coefficient of regression model indicates that there is a negative relation between AR from related parties and current ETR. Thus, it can be concluded that transfer pricing has a non-significant influence towards tax avoidance. Thus, H<sub>1</sub> is rejected with the support of the research data while H<sub>0</sub> is accepted.

In the context of the agency theory, the government and the companies can be viewed to have the relation between principle and agent. Government has their source of income from the tax paid by companies for the income they earned. However, such payments to the government are the burden that will reduce their net income. This conflict of interest causes the agent, in this case companies, to conduct tax avoidance utilizing the difference in tax rate between tax-jurisdictions through transfer pricing. However, considering that the transfer pricing activities being regulated in the tax regulation of each country to avoid tax loss, MNCs may pose difficulties to conduct transfer pricing. Furthermore, this research utilized 36 samples from the food and beverage companies listed on Indonesia Stock Exchange. Indonesia government may sign a tax treaty with another ASEAN country to minimize the possibility of MNCs abusing the loophole in the tax regulations.

This research is in accordance with the research conducted by (Irawan et.al., 2020) and (Nadhifah & Arif, 2020) who concluded that the transfer pricing has a negative

influence towards the tax avoidance. In addition to the direction of the hypothesis, (Irawan, et.al., 2020) added that the transfer pricing has a significant influence towards the tax avoidance. On the other side, (Humaira, 2021) found that the transfer pricing has a positive significant influence towards the tax avoidance.

#### **4.8.2 The Influence of Management Compensation Towards Tax Avoidance**

The research results show that transfer pricing has coefficient of regression model of 0.645 and the significant value 0.094, which is higher than 0.05. The positive value of the coefficient of regression means that there is a positive relation between management compensation proxy with the current ETR. Higher compensation paid means higher current ETR. Thus, it can be interpreted as that the management compensation has a nonsignificant influence towards tax avoidance. Thus,  $H_2$  is rejected with the support of the research data while  $H_0$  is accepted.

In the context of the agency theory, management compensation is one of the factors that affect the management, who act as the agent, to conduct tax avoidance. Conducting tax avoidance poses the risk of turning into illegal activities resulting in tax evasion. The owner, who acts as the principle, will choose to protect the company reputation. In such a case, higher management compensation will be paid to the management with the purpose of avoiding overly conducted tax avoidance.

This research is in accordance with the research conducted by (Simanjuntak & Julianta, 2023) and (Hermi & Petrawati, 2023) who concluded that the management compensation has a positive influence towards the tax avoidance. On the other hand, (Nurfauzi & Firmansyah, 2018), (Zulma, 2016), and (Pujiningsih & Salsabyala, 2022) founded that the management compensation had a negative influence towards the tax avoidance. This is in contrary to the earlier two research.

#### **4.8.3 The Influence of Transfer Pricing and Management Compensation Simulatenously toward Tax Avoidance**

The research results show that transfer pricing and management compensation have an f-value of 5.277, which is higher than the F-table value of 3.270. The significant value from the test is also 0.010, which is lower than 0.05. This can be interpreted as that the transfer pricing and management compensation, simultaneously, have a positive significant influence towards tax avoidance. Thus,  $H_3$  is accepted with the support from the research result while  $H_0$  is rejected.

In this research, the adjusted R2 value from the coefficient of determination shows that only 19.6% of the dependent variable, which is tax avoidance, was influenced by the independent variables, which are transfer pricing and management compensation. This means that the rest 80.4% of the dependent variable is influenced by other variables such as foreign activity, sales growth, profitability, etc. The research conducted by (Ikhsan, et.al., 2022) found that tax avoidance, as the dependent variable, has 55.9% person of it being influenced by the independent variables such as foreign activity, sales growth and profitability. In addition to the possibility of tax avoidance being more influenced by other variables, the 19.6% person adjusted R2 value may also be due to the economic sectors and research period determined for this research, considering that this research is only limited to 36 samples.

The following table summarizes the result of hypothesis tests:

**Table 13**  
**Summary of Hypothesis Tests Results**

No.	Hypothesis	t or f count	Sig	Result
H <sub>1</sub>	The transfer pricing has a significant influence on the tax avoidance of the food and beverage companies listed on Indonesia Stock Exchange	-0.029	0.068	Rejected
H <sub>2</sub>	The management compensation has a significant influence on the tax avoidance of the food and beverage companies listed on Indonesia Stock Exchange	0.645	0.094	Rejected
H <sub>3</sub>	The transfer pricing and management compensation, simultaneously, have a significant influence on the tax avoidance of the food and beverage companies listed on Indonesia Stock Exchange.	5.277	0.010	Accepted

Source: Data Processing from SPSS 29 (2024)

## 5. CONCLUSION

Based on the hypothesis testing, the following conclusions can be drawn:

1. Transfer pricing has a partial non-significant influence towards the tax avoidance of the food and beverage companies listed on Indonesia Stock Exchange for the year 2020 to 2022. This means that H<sub>1</sub> is rejected and H<sub>0</sub> is accepted.
2. Management Compensation has a partial non-significant influence towards the tax avoidance of the food and beverage companies listed on Indonesia Stock Exchange for the year 2020 to 2022. This means that H<sub>2</sub> is rejected and H<sub>0</sub> is accepted.
3. Transfer pricing and management compensation, simultaneously, have significant influence towards the tax avoidance of the food and beverage companies listed on Indonesia Stock Exchange for the year 2020 to 2022. This means that H<sub>3</sub> is accepted and H<sub>0</sub> is rejected.
4. The coefficient of determination (Adjusted R<sup>2</sup>) of this research is 0.196 which indicates that only 19.6% of the tax avoidance (dependent variable) is influenced by transfer pricing and management compensation (independent variable).

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